Day Trading

Martin Sewell
Department of Computer Science
University College London

2007

- Harris and Schultz (1998) found that Nasdaq day traders made money at the expense of market-makers, despite having less information.
- As part of Shellenberger, *et al.* (1999)'s report into day trading, randomly selected short-term trading accounts which existed within the period 1997–1998 were analyzed. Seventy percent of the accounts lost money and were traded in a manner that realized a 100% risk of ruin (loss of all funds), whilst only 11.5% of the accounts reviewed evidenced the ability to conduct profitable short-term trading.
- In 1999 Mark Barton, a daytrader who had lost $105 000, shot and killed nine people at two day trading firms in Atlanta, US. Barton committed suicide hours later.
- Jordan and Diltz (2003) considered US day traders and found that approximately 20 percent were more than marginally profitable.
- Barber, *et al.* (2005) analyzed the performance of day traders in Taiwan. They found that in the typical six month period, more than eight out of ten day traders lose money; however, there is strong evidence of persistent ability for a relatively small group of day traders.
- Linnainmaa (2005) examined the complete trading records of day traders in Finland. He found that only 3 out of 10 day traders earned positive profits in a typical month, individual day traders are reluctant to close losing day trades, and day trading profits and long-term performance are *negatively* related.
- Lo, Repin and Steenbarger (2005) performed a clinical study of day traders and found that "subjects whose emotional reactions to monetary gains and losses were more intense on both the positive and negative side exhibited significantly worse trading performance, implying a negative correlation between successful trading behavior and emotional reactivity".

In conclusion, 70%–80% of day traders lose money.

References

BARBER, Brad M., *et al.*, 2005. Do individual day traders make money? evidence from taiwan. Working paper available from SSRN eLibrary.

HARRIS, Jeffrey H., and Paul H. SCHULTZ, 1998. The trading profits of SOES bandits. *Journal of Financial Economics*, **50**(1), 39–62.

JORDAN, Douglas J., and J. David DILTZ, 2003. The profitability of day traders. *Financial Analysts Journal*, **59**(6), 85–94.

LINNAINMAA, Juhani, 2005. The individual day trader. Working paper, The Anderson School at UCLA, Los Angeles, CA.

LO, Andrew W., Dmitry V. REPIN, and Brett N. STEENBARGER, 2005. Fear and greed in financial markets: A clinical study of day-traders. *American Economic Review*, **95**(2), 352–359.

SHELLENBERGER, Esq., David E., *et al.*, 1999. Report of the day trading project group. Technical report, North American Securities Administrators Association, Washington, D.C.