

Financial Analysts Journal > Volume 59, 2003 - Issue 6

259 5

Views CrossRef citations to date Altmetric

EOUITY INVESTMENTS

The Profitability of Day Traders

Douglas J. Jordan & J. David Diltz Pages 85-94 | Published online: 02 Jan 2019

https://doi.org/10.2469/faj.v59.n6.2578 **S** Cite this article



References

66 Citations

Metrics

Reprints & Permissions

Read this article

Abstract

We used two distinct methodologies to examine the profitability of a sample of U.S. day traders. The results show that about twice as many day traders lose money as make money. Approximately 20 percent of sample day traders were more than marginally profitable. We found evidence that day-trader profitability is related to movements in the Nasdag Composite Index.

A detailed study of the profitability of day traders is important for several reasons. First, day trading sparks widespread public interest because it is often perceived as an easy there are conflicting claims about day-trader profitability. way to make mone

Governr About Cookies On This Site

trading learning

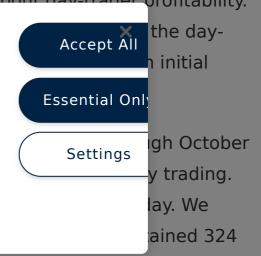
We s

1999 for

The orig

extracte

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy



individual day traders. We used two analytical techniques.

In the "trade-matching" methodology, we matched daily buy and sell trades (also buy and short-sell trades) by the number of shares of a given order number. In the "flat-stock" technique, we sorted data for a given trader by stock, then by date, and by time. A "trade" was defined any time the trader had a "flat" position (zero net position) in the stock. The premise behind both methodologies was that price times number of shares bought is a cash outflow and price times shares sold is a cash inflow.

We found that 116 traders (35.8 percent) had a net profit greater than zero after commissions and 208 traders (64.2 percent) had a net profit less than zero after commissions. Therefore, we found almost twice as many losing traders as winning traders in the data set. The most profitable trader made more than \$197,000, and the least profitable trader lost more than \$748,000. The average gross profit for all traders was more than \$8,000, whereas the average net profit was about -\$750. Thus, transaction costs apparently preclude earning an excess profit in most cases.

The results also showed that 35.8 percent of traders made a positive net profit, 19.4 percent made more than \$5,000, and 14.2 percent made more than \$10,000. These figures contrast with the 64.2 percent of traders who had negative net profits, the 25.0 percent who lost at least \$5,000, and the 13.0 percent who lost more than \$10,000. More than 35 percent of sample traders at least broke even, and about one out of five made more than \$5,000. The implication is that, in spite of the fact that making a profit by day trading is indeed difficult, the odds against being profitable are not overwhelming.

Conventional Wall Street wisdom holds that day traders, in general, are profitable when the overall market is up (or, more specifically, when the Nasdaq Composite is up, because the vast majority of the trades in the study involve technology stocks) and lose money when the market (the Nasdaq) is down. To test this idea, we regressed

lose money when the market (the Nasdaq) is down. To test this idea, we regressed overall traces in the study involve technology stocks) and found, ween we and our partners use cookies to enhance your website

The r

About

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy

Accept All Ween

Essential Only

Settings

• Statistical evidence supports the notion that day-trader profitability is related to movements in the Nasdaq.

The fact that at least 64 percent of the day traders in this study lost money suggests that being a profitable day trader is more difficult than the industry maintains. The implication is that aspiring and novice day traders should give careful consideration to why they think they will be among the 20 percent of day traders who make at least \$5,000 day trading. At a minimum, novice day traders should make sure they have enough initial capital to survive the three- to five-month learning period that the industry suggests is necessary to become successful.



People also read

Recommended articles

Cited by

About Cookies On This Site



We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Only

Settings

Information for

Authors

R&D professionals

Editors

Librarians

Societies

Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

Open access

Overview

Open journals

Open Select

Dove Medical Press

F1000Research

Help and information

Help and contact

Newsroom

All journals

Books

Keep up to date

Register to receive personalised research and resources by email



Sign me up











Copyright © 2024 Informa UK Limited Privacy policy Cookies Terms & conditions

Taylor & Francis Group an informa business

Accessibility

Registered in England & Wales No. 3099067 5 Howick Place | London | SW1P 1WG

About Cookies On This Site



We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy



Essential Onl

Settings