

## FINANCE

# Look before you leap

ASIC Chairman **Tony D'Aloisio** examines the risks associated with online day trading.

KEEPING up with the latest technology can give you a strategic advantage over your competitors.

At first sight, day trading software can appear a great way to beat the market.

If you are thinking of buying a day trading software system or attending a seminar on day trading, there are some risks to consider. Don't rush to sign up. Invest *with* your head, not *over* it.

## What is day trading?

Day traders try to make money from making lots of trades within a short time frame. They do this by taking advantage of small price movements in shares and other investments.

Day trading systems are trading strategies, systems or computer programs that direct when traders should buy or sell shares and other investments.

Trading is a tough game. Millions of shares and investments are traded in Australia daily by corporations and private individuals, and there is a high failure rate among new traders.

In this respect, share trading operates like other businesses, like trading cars or antiques. It demands skill and ability.

A day trading strategy is not 'long-term investing'. Long-term investors buy shares and other investments with the goal of building wealth over time.

Spending lots of money on software does not guarantee success, regardless of what glossy sales brochures might suggest.

## The rules

1. Be cautious of promoters who encourage day trading or sell systems that advertise easy profits with minimal risk. Do your research and make sure you completely understand what it involves.
2. Watch out for 'churning'. Churning happens when the provider encourages you to make lots of trades. With every trade you pay a commission – so churning generates more commissions for the provider or broker. Be sure to understand how the provider makes money from your trades and how the trading system works generally.
3. Only commit if you have lots of time to devote to trading. Professional day traders spend many hours every day studying the



**Knowledge is power:** Day trading is touted as a way to make big money fast, but you can get badly burned along the way if you're not adequately prepared.

Photo by LAC Aaron Curran

market, and even then they find it difficult to consistently make profits. Ask yourself if you have the knowledge and time to compete with them.

4. Always keep track of the cost of trading. Day trading fees add up quickly.
5. Only use day trading systems if you can afford to lose the money you put in. These systems can cost thousands of dollars – can you really make that back?
6. Check the promises made to you by promoters. The advertised performance of day trading systems may be based on simulated or hypothetical trading, not actual trading results. Impressive looking graphs and projections may not factor in

costs such as commissions, spreads and real (actual) pricing, or the cost of buying the system or training.

## Investing between the flags

Before investing time and money in risky day trading software, it pays to remember the essential principles of smart investing.

Whether you're looking at day trading or any other type of investing, you'll be on the right track towards wiser investing if you:

- Identify your individual goals and time frame;
- Understand your investing style and tolerance for risk;
- Be aware of the trade-off between risk and return;

- Only invest in products you understand; and
  - Know the importance of diversification and asset allocation.
- You can download a copy of 'Investing between the flags' at [www.fido.gov.au/publications](http://www.fido.gov.au/publications)

## More information

See ASIC's consumer and investor website, FIDO, at [www.fido.gov.au](http://www.fido.gov.au), or call 1300 300 630 for warnings on scams and frauds, and for tips on what to consider before buying share trading software.

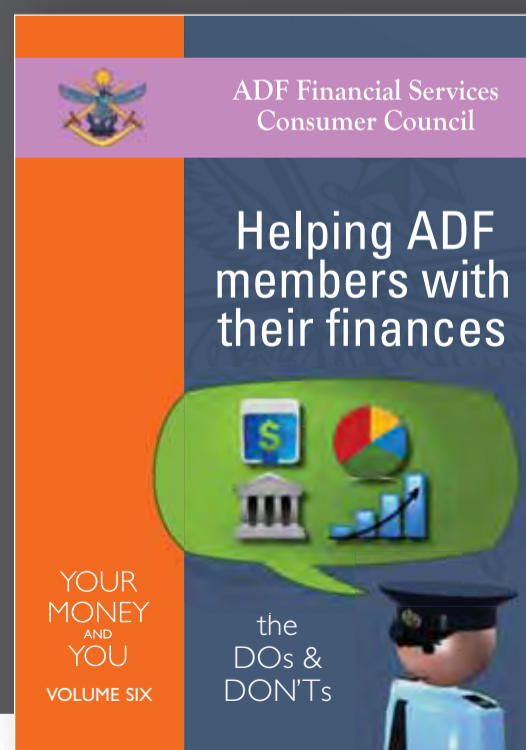
The Australian Securities Exchange website [www.asx.com.au](http://www.asx.com.au) also has useful guides explaining various investments.

E-mail ASIC with topics that interest you at [ADFcolumn@asic.gov.au](mailto:ADFcolumn@asic.gov.au)

# Finding it hard to help your people with financial issues?

## This film will help you.

Watch the video or order the DVD on the website [www.adfconsumer.gov.au](http://www.adfconsumer.gov.au)



ADF Financial Services Consumer Council