

Friday, June 6, 2008

### **What is wrong with this picture?**

Ad from Craigslist:

Pro Day Trader (Millions\_) (Toronto)

Pro Day Trader Looking for venture capital  
High return possible (potential Millions) Glad to negotiate  
Several years experience in equities, futures  
Only serious inquires !200k to do it right  
Thank You Don

I've seen ads like this many times. It begs a few obvious questions:

Why seek outside capital to daytrade? The risk premium to the investor would make the cost-of-capital quite prohibitive. If these daytraders are so good, where is their own pile of cash that they've taken out of the market? And why aren't they using that to stake themselves?

What kinds of gains are these guys promising? I've talked to daytraders advertising on Craigslist, some of whom claimed consistent, repeatable returns of 20% per month but couldn't explain to me why they weren't several orders of magnitude wealthier than Warren Buffet or George Soros who have managed 15-20% annual returns for decades (and who eschew daytrading like the plague, btw)

I have been following a couple of high-end daytraders (Wall St. Window and The Informed Trader) over the course of this last bear market after the credit markets locked up. They are both saying the same thing: this has been one of the toughest markets to trade that they have ever seen. They've both spent most of their time sitting on the sidelines, in cash watching the market for some feel of where it's going.

As professional daytraders know, "cash is a position" - often the best trade is no trade.

My suspicion when I see ads like this is that I'm reading the ad from a guy who's addicted to daytrading, gone bust and looking for somebody else to stake him so he can wipe out again.

I've come to the conclusion that the only way to become a successful daytrader is to do it fulltime. You can't run a business and daytrade on the side. So personally I don't daytrade (anymore). But I do highly recommend *The Investor's Quotient: The Psychology of Successful Investing in Commodities and Stocks* - which teaches us that the most important aspects of trading are having a coherent system one sticks to, mental discipline and other psychological factors. In other words, becoming a successful trader is not about conquering the markets, it's about mastering oneself.

In a couple weeks I'm off to the *The Search for Value* seminar at Western for a week where I hope to hone my acumen at fundamental analysis and value investing.

Posted by Mark Jeftovic in This is not investment advice at 09:33