Fast, Yes. Easy? No.

Meet the day traders—financial guerrillas behind much of the Internet stock frenzy. By Michael Meyer

Marc McCord has it all. Nice house, car, boat. Works when he wants and says he makes "in the high six figures." He's 33 and never went to college. How does he do it? Every morning he goes off to a trading room in Syosset, on New York's Long Island, plops down at a computer—and begins to buy and sell stocks. A couple of dozen other guys (and the word is "guys") are there, too. Most are under 30; many wear T shirts and baseball caps, and all gaze at their monitors with the rapt intensity of kids at a video arcade. Torrents of brightly colored graphs and trading information stream across their screens. Their fingers dance over their keyboards, filling the room with a faint, rapid-fire rattling. Jokes, curses, whoops of triumph now and again punctuate the air. Six hours later, typically, McCord says he's a couple of thousand dollars richer. He drives a few miles home for dinner with his family, just as his friends, back at the bank in New York where he used to work, are hitting the trains for their hour-and-a-half commute.

Yes, indeed. The Internet has come to Wall Street. Thanks to some market reforms and the spread of powerful data networks that were once confined to big financial institutions, a new breed of young financial guerrillas has sprung up to challenge such giants as Merrill Lynch and Goldman Sachs. They're known as day traders—individual investors, trading online, who move quickly in and out of stocks, hoping to profit from split-second variations in price. Probably no more than 15,000 earn a living by day trading. But millions are playing part time. Some do it from home, linking into the Nasdaq over-the-counter market via a modem and turning a couple of trades a day. Others churn through several hundred trades, frequently working from trading rooms where they use the hardware, software and up-to-the-second market info that not long ago were accessible only to institutional trading desks. This most aggressive day trading is played almost as sport. Blood sport.

To set up shop, these stock jocks need only a computer and a pot of cash—say, $30,000 to $75,000. That's not a lot on Wall Street. But in the casino of global finance, day traders are not only playing the markets but moving them. Exhibit A: the craze for Internet stocks. Day traders have taken over these rocketing stocks, says David Cushman at ITG Inc., an electronic broker for large financial institutions. ITG's research shows that small investors—most online—account for three quarters of all trading volume in two of the hottest Net properties, Amazon.com and Yahoo!

As the go-go stock market keeps go-going, day trading looks powerfully seductive. "Who wouldn't want to work at home in front of their computers and retire at 40?" says Philip Feigin, executive director of the North American Securities Administrators Association, noting that Amazon offers no fewer than three best-selling how-to books on day trading. The problem, he says, is that a deluge of largely unskeptical media coverage has so "glamorized" day trading that people are ignoring its dangers. Fewer than one in 10 actually make money doing it, according to some experts. "If you want to gamble," Feigin advises, "go to Las Vegas. The food is better."
McCord knows the risks. He started trading when he was 15, losing his grubstake (earnings from his newspaper route) on gold and copper futures. When he was older he raised a $200,000 investment pool and built it into $1.7 million—only to lose all in the 1987 market crash. Nowadays he trades his own money while running the Long Island branch of Broadway Trading, a small Internet securities firm in Manhattan. (Broadway offers members the gear that links them to electronic securities exchanges and charges two cents a share in commissions.) Dozens of such outfits have opened up, from Boston to Seattle.

McCord thinks of his work as something of a game, played by cashing in on small differences between the prices at which securities are bought and sold. On one recent day, for instance, he noticed a major Wall Street house offering Yahoo at $199 7/8. Flitting across his screen, at the same moment, was a bid to buy for $200. With a couple of quick taps on his keyboard, he bought 1,000 shares from the one and resold them to the other at slightly less than $200. The twin transaction took barely a second and netted perhaps $80.

This is called "breaking the spread." A few years ago, before Nasdaq changed its rules to become friendlier to small investors, the difference between these "bid" and "offer" prices could range to a point or more—money that was pocketed by professional market makers. Nowadays, day traders are jumping in, posting bids to buy a stock for a bit more than the market makers are bidding, and offering to sell it for a bit less than they are, cutting the spread to as little as 1/16th of a point (a "teenie") or even less. They might not make a lot on any particular deal—but they make up for it in volume. Traders like McCord routinely make anywhere from 50 to 400 such trades a day. And with day traders accounting for an estimated 12 percent of all Nasdaq volume, they're putting pressure on the big market makers to trim their spreads, saving other investors billions. Besides playing spreads, day traders also take positions in stocks, buying shares and betting that the upward trend will continue for a couple of "ticks," or fractions of a point, whereupon they sell and take their profits (or losses, if they bet wrong). Only rarely do they hold a stock longer than a few minutes. "Get in, get out," says McCord. "Get in, get out."

He worries about the newbies who are flocking around. "The Internet is the masses," says McCord. "And the masses lose their asses." Heaven forbid that he might be talking about the 60-or-so hopefuls who sat recently in a classroom at the Manhattan offices of Broadway Trading, just across from the New York Stock Exchange. They had paid $1,495 for a five-day training course, taught by some of Broadway's most successful traders, and ranged in age from their early 20s through 70. They were teachers, construction workers, stockbrokers, accountants. "Every day is a struggle," a twenty-something trader named Eric Opperman told them. Like most of his peers, he had lost money for his first six months and only recently broke into the black—making all of $600 in November.

None of this seems to faze Sean Boyle, a 45-year-old carpenter and father of four from New Hampshire. "I could bang nails for another 10 years, or I can change my life," he said recently as he sat in one of Broadway's training sessions in New York. Given the odds, though, maybe he should move to Vegas instead.

© Newsweek, January 11, 1999.