



They're Back: Day Traders Thrive in Volatile Market

DAY TRADING, INVESTING, TRADING, VOLATILITY, VIX, VOLATILITY INDEX, DOW CHEMICAL
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After largely fading from public consciousness following the dot-com bubble, day traders are back with a vengeance.

A prolonged spike in market volatility has been a bonanza for day traders, who buy and sell positions often on a minute-by-minute basis depending on rapid swings in stock prices.

The **CBOE Volatility Index**, which is one of the benchmarks that day traders use to gauge the potential for rapid price changes, has held at about double what is normally considered a high level.

That has presented opportunities for day traders in stocks across the board.

"There was nothing worse for a trader than when nothing happens," says Andrew Wilkinson, senior market analyst at Interactive Brokers in Greenwich, Conn. "Day traders aren't people who necessarily fall in love with a particular stock, but try to scalp the market. Conditions in that regard have been favorable."

Some in the industry expect a new influx of day traders amid the rash of layoffs on Wall Street. Experienced traders with the proper capital position—\$25,000 is required by law to start a day-trading account, and many brokerages require more—will add another element to a profession that has used the unpredictability of the stock market to its advantage.

Indeed, day traders today are a different breed from those in the dot-com era of the late 1990s, when the image was of someone in sweatpants trading at a desktop computer at home.

Day traders now are federally regulated and use sophisticated computers and software that can cost tens of thousands of dollars. And instead of using retail brokers, day traders buy and sell stocks through direct-access brokers who can execute trades instantly to electronic communication networks.

Still, the potential for major profits—and losses—remains.

"We're seeing our second-best revenue year since 1994," says Greg Hold, CEO of Hold Brothers online investment service. "We're seeing paychecks for traders that we haven't seen since 2000...We're seeing record pay this year."

Earlier in the year, day traders were capitalizing on the instability in the financial sector and helping cause massive shifts in bank stock prices.

But the volatility has spread throughout the market, and day traders have been targeting large-cap companies that once were immune from the vagaries of intraday trading swings.

Rapid-Fire Investing

Once upon a time, **Dow Chemical** was considered one of the stock market's steadiest buys as a darling of buy-and-hold investors who could count on strong returns and a solid dividend.

But last Friday it was in the crosshairs of day-traders, who capitalized on a 10 percent swing in the stock price that occurred even on a normal-volume day. As the stock has lost half its value over the past six months, it has gone from an investment staple to a trading vehicle.

And Dow Chemical is far from alone.

The quick-trading trend is about more than picking on weak stocks. Even retail investors are switching to strategies that, while not involving moves quite as rapid as employed by day traders, move much more quickly in and out of trades than customary in long-term planning.

"We've been very quick to take gains, get out of positions and move on, and that's just a function of what we're seeing in the marketplace right now," says Bob Acri, president of Chicago Investment Group. "We're seeing stocks like Dow Chemical—now it's a trading stock where typically it was a buy-and-hold."

Day traders are targeting similar large-cap Wall Street mainstays, whereas the last day-trading boom in the early part of the decade focused primarily on small- and mid-cap companies because of how easy it is to move their prices.

Sector plays have become less popular, with both day traders and investors more than ever sifting for companies outperforming their peers.

"Being in the right sector is not necessarily correct anymore," Acri says. "Stock selection is extremely important right now. I think for the first time you have to watch when you're buying, and where the entry points are."

Running With the Big Dogs

As day trading grows in popularity, participants will need to learn the finer points or risk losing a lot of money in a hurry.

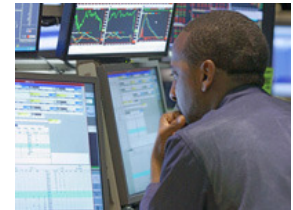
John McLaughlin offers several trading tools through his Daytraderswin.com Web site based in Laguna Niquel, Calif., that offers protection from getting victimized by larger traders who try to buck trends employed by traditional trading software.

"The people that make the most money are the people that are in control of the game," McLaughlin says. "It was a great trading game in 2000, 2001. All you had to do was show up for the game and you could win. Not so today. Today you need to learn to trade stocks new-school."

He says his technique takes a broader view of the market than much of the software in the marketplace, and asserts that anyone in the day-trading venue not making \$100,000 would be better off getting a job through a traditional brokerage.

"They ride the elephant to the jungle," McLaughlin says of the big day traders. "We trade in a helicopter looking for elephants."

Video: CNBC market mavens talk about where the market is heading.



To be sure, though, the gravy train could come to an end quickly enough should the market take a deep plunge and drive volume down even further, or if the market stabilizes and takes out volatility.

"Volatility is our frienemy," says Hold, the Hold Brothers CEO. "It makes us money in the short term but is a parasite killing our markets. So we'll pay the price in a few months when the volatility goes down and the market's battered."

"The extreme swings that we've had of course could be potentially damaging," adds Wilkinson of Interactive Brokers. "You've got to be very open-minded as a day trader. What I thought three minutes ago maybe doesn't hold and I need to move with it. You have to be able to cut losses."

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