

“Day Trading” My Way to Retirement



[Editor's Note: This is a guest post from a physician and a long-time WCI reader with whom I have no financial relationship, who wishes to remain anonymous, and who posts as NapoleonDynamite on the site. The subject matter is controversial, at best, and while not a true Pro/Con post, I did make some lengthy comments at the end. Despite disagreeing with a significant portion of what is in this post, I thought it would be a good discussion to have on the site as this subject has never been hit very hard by me or any guest poster.]

“Day Trading” My Way to Retirement

Let me start by stating that I expect this to be an inflammatory post for many people who read WCI. I will also admit that the title is meant to be an attention getter but not entirely true. Given the passive investment recommendations on this website many of you will blow me off. In the past, I too would have ignored this post, or considered the idea heretical. But before telling you about my decision to actively trade stocks, I will back up a step and explain my

financial situation and a little about myself.

About Me

I am a private practice physician and part owner of a small practice. Our practice owns our surgery center. I am in my late 30s and 7 years out of residency, so that places me in a similar age range as WCI. The first 2 years out of residency my income averaged \$150 K. I have steadily grown my practice and this year my income will likely be around \$1.1 million. I have taken my practice very seriously and done very well with it. Growing my practice has been the best investment I could pursue following medical school. I cannot overstate this enough as it is what the vast majority of readers should be doing to grow wealth. Invest in yourself prior to all other ventures.



Don't blame me, I voted for Pedro

From a financial planning perspective, I max out my 401K, HSA and Roth IRA. My wife maxes out her solo 401K and Roth IRA based on her income. She works part-time and her income is about \$25K. If her chosen profession was higher paying or if she had a desire to change professions, she could work and earn more.

We have 2 children under the age of 6 who currently have \$100K

and \$50K in their 529 accounts respectively. I have significant term life policies on myself and my wife along with significant long-term disability insurance on myself. In addition, we have a large taxable account which is our largest investing account. We have a couple real estate ventures and an oil royalty. I also have about \$500K invested in my practice buy in which is like a stock option that will grow or shrink based on how the company does in the future.

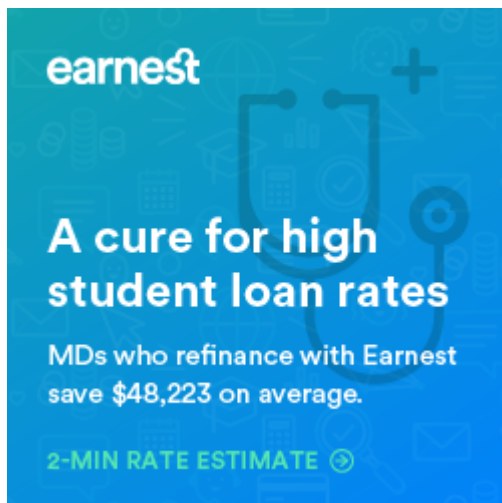
My wife and I currently have \$300K left on our home mortgage which has an interest rate of 3% and about \$120K of student loans which have an interest rate of 1.75%. Although I could have paid both of these off by now, the interest rates are low and I haven't been motivated to do so (I don't want to argue this point as it is an entire 1-2 blog posts worth of writing). I will probably pay these off fully in the next 2-3 years. My current net worth is about \$2 million.

I'm Not A Day Trading Wacko

My point in discussing my background is that despite the title of this post, I would still qualify as fairly conservative in my investments. I found WCI through the Boglehead forum about 6-7 years ago and continue to maintain many of the values expressed in both of these arenas.

While my income has increased over the past 2-4 years, I have searched for different avenues for investment income outside of passive stock market investing. For tax purposes, I have started to venture into real estate although this is definitely not my talent or my passion. From an ROI perspective, I have done okay with these ventures, but I continued to search for something more stimulating for me.

Initial Steps to Day Trading



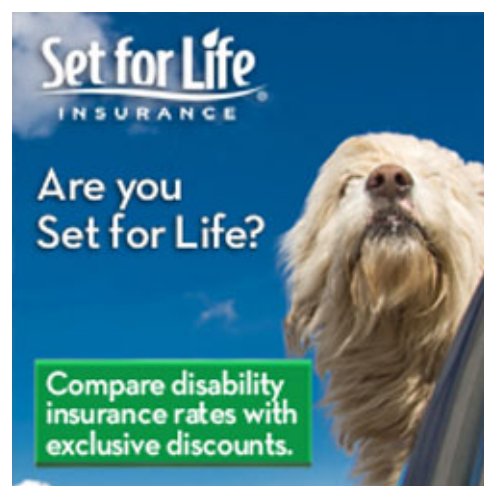
Let us fast forward to 2015/2016 when I started discussing “day trading” with an old college friend. We will call him “Jim” (Irony intended). He was a premed student like myself who started trading stocks in our University computer lab. Jim dropped the premed track in his sophomore year to spend time trading stocks and take additional business and psychology courses. He started with \$2K in 1999. We all made fun of him and told him he would lose his butt. Instead, he made his first million in less than 18 months trading stocks out of the computer lab!

I am still friends with Jim, and although I don’t know his net worth, he recently told me he has a goal of being a billionaire by age 40. I have no doubt he will get there. Realistically I will never be as good at trading stock as Jim and he refuses to trade with anyone’s money but his own so don’t ask me for his name. For good reason, he also does not give stock picking advice, especially to friends. However, he was nice enough to give me a good “starter kit” and a book to read if trading was something I wanted to pursue.

I read the book and did some research on my own about trading. I also started some basic research on publicly traded companies. In April of 2016 I placed \$50K of “gambling money” into a TD Ameritrade trading account. On June 1st, 2016 I placed my first ever trade. Given my age, current net worth, income and retirement path I decided \$50K was a small enough

amount of money that it would not affect my final retirement outcome if I were to lose it all but a large enough amount to make it worth my time if I did well. Note: I do not short sell, specifically so I cannot lose more than this \$50K.

I am not going to lie; making my first trade totally freaked me out! I had butterflies in my stomach even though I bought Walmart stock, which is possibly the most boring stock trade ever. Not much of the 50K was placed into the Walmart stock, but I ended up making about \$150 in a few weeks on my first ever trade. I continued gaining knowledge and practice while placing other small trades and watching the market closely.



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Now I will fast forward to June 1st 2017. I made it through 1 year of trading stocks. I traded through the Brexit vote where I lost about \$6,500 in stock value in two days as I made the wrong decision by going “all in” the night before the vote. Having “learned my lesson” from Brexit, I traded through the Hillary/Trump election where I again made a poor decision sitting on the sideline while the majority of the “Trump bump” occurred. Despite making two grandiose errors that cost me a lot of money, I also made some amazing trades during these 12 months. After one year my return on my \$50K investment was 23% after taxes and fees.

Comparing Returns

Some might say that this effort was in vain as the market was up about 20% in that same time frame. This is true, but I can tell you the correlation with the market was very little as it related to the timing of my gains. As mentioned I sat out the “Trump Bump” as I didn’t believe it could be happening. Most of the total market gains occurred during the “Trump Bump” when I had my money in a holding account. Instead, most of my gains occurred on 4 trades. 2 occurred very early during that year and 2 very late. During both of these time frames the market was either flat or down. I made many other trades with less effect on my outcome. I had more wins than losses, but did encounter both. I learned to weather some storms and gained some incredible knowledge as to how the market works and behaves. Most importantly, I was really enjoying this activity. Since June 1st, 2017 I have continued to trade and have done well. Not as well as my friend Jim, but well enough to keep me interested for another year.

I have asked myself, what is the point of this? Would it not be easier to just keep working and contributing appropriately to my retirement accounts? (I still do BTW) Why “risk” this extra money instead of fully paying off my loans or buying a boat like WCI? There are no simple answers for these questions, but in 3 short words: I enjoy it.

WCI Comments About Day Trading



I informed NapoleonDynamite that he was likely to get plastered in the comments on this article and that I wasn't going to hold back in my comments either. He assured me he has thick skin. I will explain why I don't day trade nor recommend that you do.

#1 Day trading is a job, and not one I'm interested in

Day trading generally has to be done during the day. As noted above, this requires watching the market closely, doing research, putting in trades, and learning all about it. I have other things I'd rather do than watch the market closely, both for work and recreation. That includes practicing medicine (which pays me well and I can do outside banker's hours), running the WCI Empire (which pays me well and I can do mostly outside of banker's hours), going on trips, and spending time with my family. Adding a job as a day trader would have a significant impact on every thing else I'm doing, and I'm not willing to drop anything out of my life to do this. If I had wanted to spend a large portion of my time on stock trading, I would have done something very different with my education and my life. I suspect this is the case for most readers.

2 Day trading works out poorly for the vast majority

The investing literature is rife with data showing that, on average, the more you trade the worse off you are. Does that mean every trader loses? Absolutely not, but it takes a great deal of confidence to put yourself in a place where you believe you're smarter than the guys doing this full-time on Wall Street with better access to information and faster computers. Because that's who you're trading against. This fellow who's going to be a billionaire by 40 from stock trading- he's on the other side of the table from you. Good luck. I'm not that confident in my ability.

Let's consider NapoleonDynamite's case. He made 23% on \$50K, or \$11,500. Hopefully he wasn't doing this in a taxable account, but if he was, taxes, fees, and commissions, (bear in mind that in the highest bracket he is in, short-term gains are taxed at 39.6% Federal + State) could easily reduce his gains by 50%, down to 11.5%.

If he had simply bought Vanguard TSM and gone about his life, he would have bought it at \$52.36 on June 1, 2016. On June 1, 2017, he could have sold it for \$60.82, an increase of 16.16%. Add in the yield of around 1.92%, and that works out to a little over 18% a year. He would lose 23.6% in taxes, reducing his return to 13.8%, ahead of the more impressive initial day trading return. But even if you ignored taxes and other investing costs, he basically came out 5% ahead of just buying an index fund. 5% of \$5K is \$2,500. Maybe \$2,500 changes your life, but it certainly doesn't change his.



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But wait, there's more. NapoleonDynamite makes \$1.1 Million per year. His time is extremely valuable. You have to add in that opportunity cost, which in this case, is very high. Let's say he spends 10 hours a week, 52 weeks a year doing research, watching the market, and putting in trades. That's 520 hours. If he makes \$1.1 Million per year working 50 hours a week 50

weeks a year, that works out to \$440/hour. 520 hours x \$440 = \$229K. Now, surely he's really trading some of his recreational time for day-trading, so you can't hold all of that time against him. But what if you only held 10% of it against him? That's still \$23K. He spent \$23K of his time to make an extra \$2500. Not sure that's a good trade-off. Sounds more like a very expensive hobby.

3 It doesn't pass the sniff test

Any time someone suggests to me that they want to purchase individual securities or do any sort of trading, I always recommend they keep very good records of their actual returns including all costs, taxes, and the value of their time. That's enough to convince most of us it isn't worth it. But for those who come out ahead, they then have to ponder the eternal question of whether they are lucky or good. If lucky, their outperformance isn't likely to persist. If good, what the heck are they doing messing around with \$50K or \$500K, or even \$5M? They should be running at least hundreds of millions if not billions. It doesn't pass the sniff test, and that's assuming the person actually knows how to calculate their return (they usually don't) and isn't lying about their performance (which happens surprisingly often.) I'm not saying that there aren't people out there who through their skill can trade stocks profitably over the long run. I'm saying those people are pretty darn rare and the chances that you are one of them AND good at your main profession seems too low to risk it.

4 If you're rich, do whatever you want with your money

Finally, it's worthwhile pointing out that it doesn't matter all that much what you do with a small portion of your money, particularly if you're a multi-millionaire making \$1 Million a year. NapoleonDynamite could simply light \$50K on fire every

year and will still have an estate tax problem in the end. If trading stocks is truly something you enjoy and are willing to pay (money and time) to do, then knock yourself out. But I can list several dozen things I'd rather do than track the market closely every day and that cost much less than what it would likely cost me to be a day trader.

What do you think? Do you day trade? Why or why not? Do you think it is a good idea for a high-income professional? Comment below!