



Trading stocks

By CK Wong 2006.07.07

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Introduction

To trade or not to trade. This is a lot of wise people asking when they try to make a few quick dollar from the stock market volatility. This is a very valid question and worth to take a look.

Optimization

When we look at the chart of stocks, there are cycles and trend lines. For well behaved stocks, they are traded within a channel (price range bounded by two straight lines that could run level, up or down). If you sell the stock when it hits the high watermark and buy back at the low watermark, you gain the spread. Sometime the spread could be tens of dollars, sometimes it is just a few pennies. Every stock could be different. When you optimize the gain and the lost of all these difference, on the book it could be a huge number. This is the foundation of day trading and also being used by many stock dealers to make some profit because they are watching the market and respond to a small movement.

This is a decision one has to make. I just would like to explore what factors one would consider.

Cost

The cost to do quick transaction has the commission as the highest overhead. You could have many options to lower the cost. Nonetheless you have to pay the cost to do the trading in the form of one or the other. If the number of shares trade is sizeable, you could recover that. However, I just would like to look at the two difference costs for the Canadian and American friends.

	Shares	C\$	U\$	Break even	Break		
Buy price	Traded	C\$ comm	overhead	C\$ sell price	even U\$		
\$1.00	1000	\$30.00	3.0%	\$7.00	0.7%	1.06	\$1.01
\$10.00	1000	\$30.00	0.3%	\$7.00	0.1%	10.06	\$10.01
\$100.00	1000	\$30.00	0.0%	\$7.00	0.0%	100.06	\$100.01

The table above showing that for those playing with penny stock, they must need 1%-6% price change if they want to break even. The reason to trade penny stock is of course due to their high volatility. If you do 1 trade each day and 200 day a year, you are paying a very high fee.

Timing

To make money, it is obviously have very good timing. You can have covered short sell and do day trade all the time. Many day traders are very successful. But the timing is not easy to figure out. Take the FOMC rate hike as example. The rate gone up but the market responded differently from previous raise by responded positively. If you can catch the wind of wrong direction, remember, you have to do 200% to cover the lost.

Health

Trading would not be trading if you do one or two transactions in one year. Consider the situation that you have to make the quick decisions several times a day with large amount of money, it get the adrenaline and cortexol running which results hypertension. Should it carry on for a prolong period, the hypertension could be come permanent which is definitely no good to your health.

Financial

To make the money for small price difference, you need a lot of money. This means you have to leverage by borrowing money. Borrowing intensifies the need to trade to cover the interest. As the result, it could become a vicious circle of downward. The following is the example of the stock price for Central Gold Trust in C\$ and U\$:

GTU.U	U\$23.00 +1.00 @ July 7, 2006 9:30 last price
GTU.UN	C\$26.19 -0.05 @ July 7, 2006 10:53 last price

When you look at this could you tell whether you should buy or sell?

Another example:

G/TSX	C\$34.70 +0.05 @ July 7, 2006 11:30 last price
GG/NYEX	U\$31.16 -0.12 @ July 7, 2006 11:30 last price

The trends of the same stock move into two directions. Which way to choose? However, they all rise since the bottoming of the gold price in June.