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Finance

Fri, Jan 14, 00

Give up day trading and hit Las Vegas - the odds are better

Casino can be a more satisfying place to risk money

By NIALL MCKAY

Every day, it seems, investing on the Nasdaq gets a little more like laying a bet in the casino or bookmakers. There is no rhyme or reason to the crazy valuations of the Internet stocks. Even worse, shares suddenly dip or soar according to some mystical economic laws.

So trying to day trade (buying stocks in the morning and selling them before the close of the market) your way to an early retirement is like playing roulette.

Recently when I met my editor at the Red Herring (a Silicon Valley technology investment magazine) I suggested that he get out the company cheque book and bankroll a little experiment. "Give me \$2,000 to invest in Internet and \$2,000 to gamble in Las Vegas. I will spend 48 hours on each and see which one nets the most money," I suggested. "Have you ever gambled before," he asked. "Nope," I grinned. "Have you ever invested money in the stock market," he asked. "Never," I replied. "My employment contract usually prohibits it."

He went for it and two weeks later I found myself on a plane to Vegas with \$2,000 and a lot of advice from friends on how to beat the system. City of sin. Great. I booked into the Luxor and started my gambling experiment. The best bet seemed to be Blackjack (also known as 21).

But I was nervous. Despite the fact that it was not my money I really didn't want to go back empty-handed. I spent the Saturday losing money and by the end of the

day I was thoroughly depressed. I had lost \$900. However, the following day I left the Luxor and went to the Bellagio (Las Vegas's newest and most glamorous casino). If I was going to blow \$1,100 then I might as well do it in style. But my luck changed. Steadily I began to recoup the previous day's losses and by 9 p.m. I had broken even. By midnight, I was up \$300.

I returned to San Francisco a happy man. On the Monday I began the Internet day-trading section of the experiment. I registered with E-Trade.com - a site designed to make investing easy for the novice. I was disappointed to find that after I had completed my online registration form I had to print out the document and post it to their head office. I had been under the impression that all I would have to do is punch in my credit card number and begin trading.

Three days later I was registered and ready to go. Now, had I been investing for a longer period than 48 hours it would have been easy to make money. But day trading is different. Despite the stories of bar tenders and taxi drivers giving up the day job to earn a year's wages in a couple of weeks, most day traders don't turn profits, according to a recent study conducted by the University of California at Davis.

The object of the game is to jump into stocks that are rising rapidly and out of them before the share price goes down. I decided to opt for Internet infrastructure stocks because they tend to be achieving the highest valuations at present. Apart from that I bought shares in an auction site called Ubid.com just to have a token e-commerce company. I spent the next two days trading UBid, Digital Impact, a firm that offers Internet direct marketing software; Vignette, and electronic commerce software application company.

I lost money on UBid and made money on Digital Impact and Vignette. By the end of the first day I was up \$225 but by the end of the second day that profit had dropped to \$103. A 5 per cent return on an investment in two days is not bad, but not that good either considering that at the time the market was going nuts.

However, it's very difficult to know exactly how well you are doing on any given day. Share trading activities don't show on E-trade's website for three days. So much for interactivity. So Las Vegas was the better investment.

That is not to say that I recommend that everybody sell their Telecom shares and head for Leopardstown race course. Of course, that would be foolish. That said, at least you know you're gambling. The problem is that

many who are putting their money into high-tech stocks actually think that they're investing. Not so, at least in today's overvalued financial climate.

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