

FTC FACTS for Consumers

Day Trading Ads: Cutting Through the “Bull”



Advertisements for some day trading systems or advisory services make investing look like a virtual bonanza where everyone's a winner.

But if one thing's certain about stocks, commodity futures, options and similar investments, it's that they're *uncertain*. Any company that guarantees huge earnings is feeding you a load of “bull.”

Day traders spend their time at computer screens, quickly buying and selling investments within a single day — sometimes within just a few hours or minutes — and reacting to continual market swings. They trade in the hope that their investments will soar in value in the short time they hold them, and net them quick profits. Often they use computerized systems or advisory services that claim to be able to predict the markets.

Facts for Consumers

No doubt about it, this is a risky business. Despite the picture of investing success painted by some day trading companies' ads, far more day traders lose money than make it. Some traders lose big, forfeiting their student loan money, second mortgages or retirement funds. In addition, people who trade on margin or sell short risk losing much more than their investment.

Every time investors make a trade, they pay a commission. That's true whether they buy or sell and whether they make money or lose their shirt.

Read Between the Lines

Learning the language of day trading can help you separate fact from fantasy when reading an ad or listening to a commercial.

If the ad promises... *"The potential to make a six or seven figure annual income from trading is at the ends of your fingertips."*

Remember that... It's dangerous to fall for extravagant profit claims. Many are based on hypothetical performance, meaning that no trades were ever really made. And it's far from certain that a bona fide trader will be able to place the same trades as the hypothetical trader. Actual results may not match the hypothetical performance — and even trading advisors with a long track record of success can lose a fortune suddenly.



If the ad promises... *"The absolute best trading system with a profit-to-loss ratio of 12-to-1 and an average return better than 18 percent per trade..."*

Remember that... Even if the system really has had such successes, past performance is no guarantee of future results and nobody — not even financial experts — can guarantee what the market is going to do from day to day or even minute to minute. No matter how strong the market may seem and how solid a particular company may appear, prices can skyrocket or plummet faster than you can say "Wall Street."



If the ad promises... *"Our software signals precisely when to buy and when to sell a particular security, allowing you the opportunity to make money regardless of the market going up or down..."*

Remember that... As tempting as it might be to leave your investment decisions in the hands of a software program, the ultimate responsibility for protecting your investment belongs to you. No matter how sophisticated a system for evaluating investments might sound, there's no way to guarantee the future performance of investments. If there were, you can be sure that the software developers would be making their money using their programs themselves, not promoting it to others!



If the ad promises... *"Our recommendations returned an average annual return of 250 percent. If you can just follow our recommendations, you will make money."*

Remember that... There's no fail-safe way to invest without any risk. High-yield investments tend to involve high risk. Be particularly suspicious of sales pitches that play down risk or portray written risk disclosures as routine formalities. Believe the risk disclosures that say you could lose your whole investment. Jumping on a "hot" investment tip is a good way to get "burned."



If the ad promises... *"Timothy Smith, who used our system wrote to us, '... at night I work with your trading system for a few hours and am averaging more than \$500 a day.'"*

Remember that... Everyone loves a good testimonial, but it's smart to be wary of them. The story may or may not be true. And it's highly unlikely that the testimonial reflects the actual experiences of other people using the system or advisory service — or the result you're hoping for.

Invest Carefully

Whether or not you're a day trader, your best protection as an investor is to know what you're buying, what the ground rules are when you buy and sell, and what level of risk you're assuming.

If you decide to do business with a company offering day trading systems or advisory services, it's important to check it out before putting your money on the line.

- If the trading system involves stocks, call your state securities regulator to find out whether the company has ever been disciplined or has complaints against it. Look in the government section of your phone book or visit the North American Securities Administrators Association's website at www.nasaa.org. You also can get a firm's disciplinary history by calling the National Association of Securities Dealers-Regulation Public Disclosure Program at 1-800-289-9999 or by visiting its website at www.nasdr.com/2000.htm.
- If the trading system involves commodity futures or options, call the National Futures Association toll-free at 1-800-621-3570 or 1-800-676-4NFA (4632).

In addition:

- Look carefully at the basis for any claims the company makes.
- Talk to other traders who have used the company.
- Check out the company with the Better Business Bureau and the local consumer protection agency.

To File a Complaint

The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit www.ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

To file a complaint regarding a commodity futures or options investment, contact the Commodity Futures Trading Commission toll-free at (866) 366-2382, complete an online complaint form at www.cftc.gov, or write: Commodity Futures Trading Commission, Division of Enforcement, Three Lafayette Centre, 1155 21st Street, NW, Washington, DC 20581.

To file a complaint regarding a stock investment, contact the Securities and Exchange Commission by phone at (202) 942-7040; online at www.sec.gov/invkhome.htm; or by writing: Securities and Exchange Commission, Office of Investor Education, 450 5th Street NW, Washington, DC 20549-0213.

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FEDERAL TRADE COMMISSION	1-877-FTC-HELP
WWW.FTC.GOV	FOR THE CONSUMER

Federal Trade Commission
Bureau of Consumer Protection
Office of Consumer and Business Education

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