

Day trading and other DIY investing

Day trading and other types of do-it-yourself investing are often mentioned in the press.

On the face of it, DIY looks like an attractive proposition – and it's certainly described in glowing terms by enthusiasts such as those who write books, run websites or market software programmes on the subject. However, that's probably not surprising, as they are the ones who tend to have done well out of it.

At the same time, there are those who end up with little or nothing to show for their time and money. So, before you're tempted to abandon your financial adviser and fund managers, let's look at the case for DIY and examine some of the issues.

Do-it-yourselfers often contend that most fund managers fail to beat the benchmark index. In fact, it seems to be one of those things that's said so often, many people accept it without question. However, the people making this claim often struggle to produce any evidence to back up their allegations. How fund managers fare against their benchmark indices varies considerably, depending on the investment assets being considered, the market and the timeframe.

But even supposing that some do struggle to beat the index, the more important questions to ask are: a) is the manager adding value – for example, compared with bank rates or by reducing volatility and therefore risk; and b) how can you be sure that day traders and other DIYers will do any better?

The savings that can be made on funds management and advisory fees are often mentioned as well. It's a competitive market, and managers and advisers generally realise they need to offer value for money these days. Don't just look at the fees you're paying; ask what you're getting in return, and then make up your mind if that represents value for money.

Essentially, while some DIYers can and do make a killing on shares that rise strongly, others lose a lot of money. Either way, running concentrated portfolios with a small number of holdings is a high-risk strategy, and one not everyone is comfortable with.

Finally, and perhaps most significantly, serious DIY investing is hard work. A typical day involves long hours, constant access to a wide range of market data feeds and newswires, knowledge of technical analysis software, worksheeting and stock monitoring – not to mention the stress and worry of making important decisions, often with no one else to seek advice from.

So, for those who like to have a life outside of their investments, paying professionals to look after their money is a wise course of action.

ENDS