

OPENING STATEMENT OF
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CHAIRMAN

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

DAY TRADING: EVERYONE GAMBLES BUT THE HOUSE

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Today, the Permanent Subcommittee on Investigations holds its third oversight hearing into day trading. After a general hearing on the issue last fall, the Subcommittee began an in-depth investigation into the business practices of 15 day trading firms, focusing particularly on three companies: All-Tech Direct, Momentum Securities, and Providential Securities.

During the course of its eight-month investigation, the Subcommittee uncovered some potentially illegal conduct, such as forgery and unauthorized trading. The most disturbing and prevalent evidence we gathered, however, relates to business practices that are, for the most part, entirely legal under the current regulatory framework. Perhaps our most important finding is that many firms encourage unsuitable customers, with limited financial means and even less knowledge of the markets, to engage in day trading.

Yesterday, we heard testimony from and about such individuals who were enticed to day trade with their meager life savings or, worse yet, with borrowed funds -- money that they could not afford to lose. Yet, lose they certainly did. Not understanding how risky day trading is and believing the false promises of deceptive ads or slick salesmen, these customers lost tens of thousands of dollars, not to mention their pride.

We learned that some day trading firms disregard their own requirements for minimum deposits, net worth, and income, and opened accounts for individuals

who clearly should not have been accepted as clients. The desire for more customers and more commission revenue has produced "a race to the bottom" as firms have lowered or ignored their own standards.

While day trading is rarely profitable for the customer, it generates huge commissions for the firms. At the firms surveyed by the Subcommittee, the average day trader would have to generate a trading profit of more than \$111,000 annually just to pay commissions. It is not surprising that the best evidence we have indicates that more than 75 percent of day traders lose money, and in some day trading branch offices, not a single trader is profitable over the long run. Yet, day trading firms do everything possible to encourage a customer to keep on trading, despite losses, including arranging for loans from other customers to cover margin calls.

Today, we will hear from a panel of state and federal regulators as well as from the regulatory arm of the National Association of Securities Dealers. The presidents/ chief executive officers of All-Tech, Providential, and Momentum will also testify. I look forward to hearing our witnesses.

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