



Technology not only allows traders greater access to the markets than ever before, it also gives them more choices about how they trade. One of the most

Home Away?



basic decisions for the active trader is whether to trade at home or at a trading office. We look at the pluses and minuses of each option.

BY KIARA ASHANTI



OK, you're ready to start trading. You've read numerous books on the subject and attended a few trading seminars. You've researched your markets, tested your strategy and paper traded for a while to get a better feel for how your approach works. In other words, you have your game plan mapped out. Perfect. Now comes a big decision: Will you trade from an office, or will you trade from home?

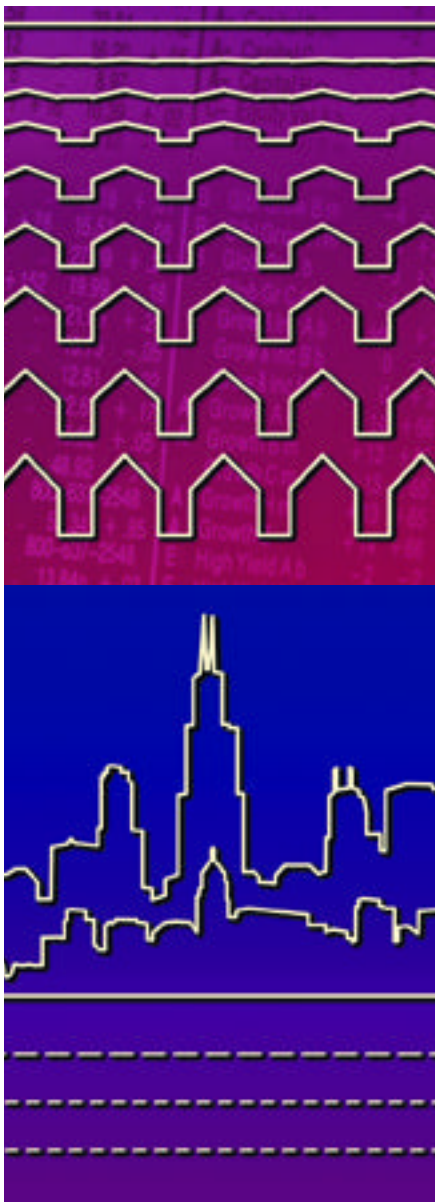
With today's high-speed computers and direct Internet connections, and the abundance of information on the Web, it seems like the decision to trade from home is a no-brainer. In fact, for many would-be traders, one of the single biggest attractions of trading is the potential to work for themselves in the "comfort" of their own homes. However, the fantasy of trading at home in your boxer shorts should not be indulged lightly. The reality is that trading at home or from an office has positives and negatives.

So-called "day-trading" firms that provide complete

communications, hardware, software and brokerage services (and sometimes training and education) for active traders have become a hallmark of the burgeoning digital trading community. They account for a relatively small portion of the trading world (there are 60 or so trading firms nationally, operating more than 280 offices and accommodating approximately 15,000 to 20,000 traders). However, for some active traders, these offices offer a greater level of support and market "connectedness" than a home trading setup. To other traders, they are an unnecessary distraction.

Before you choose, examine both options thoroughly. In some cases, though, it is not really an issue. For example, if you trade only infrequently (i.e., part-time) or on a longer time frame, it makes little sense to spend your days in a trading office. However, for active, essentially full-time traders making use of direct-access trading technology, where you trade is an important part of your overall trading plan.

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"You have to have enough money to survive your learning curve," says Nelson Polite, a trader and former manager of a Florida day-trading firm.

Of course, not every beginning trader has that much capital. While adequate capitalization is a crucial component of successful trading, some traders (especially when they begin trading) may choose to trade in smaller amounts or on a more limited basis until they become more acclimated to the markets and comfortable with executing their strategies. In recent months, minimum account balances for direct-access brokers, which have traditionally been significantly higher than those of Web-based brokers such as E-Trade or Ameritrade, have dropped. Many direct-access firms now allow you to open an account with as little as \$10,000.

However, the key is not having enough money to start, but having enough to survive. By staying at home, you can start trading without depleting your savings or begging your aunt for the money to meet the capital requirements of an office. However, you may not last long — not because of dramatic flaws in your strategy, but because you simply do

home should not look at potentially lower account requirements as a financial break, but as an additional risk.

Home overhead vs. office expenses

The other financial issue to consider is the costs of trading at home vs. the expenses of a trading office. At a trading firm, you already have everything you need. Most firms provide at least two monitors per trading station as well as access to direct-order routing, Bloomberg machines, secure Internet connections through T1 or T3 lines (the fastest connections available) and trading platforms that offer news, charting, Level II quotes, stock alerts and basic technical analysis tools. Most also have at least two or three TVs tuned in to CNBC.

Additional services might include access to chat rooms or advanced technical analysis tools. All a trader needs to do is bring his or her capital, take a training course and start trading. The only expenses incurred are the cost of commissions. (Of course, firms can require that you make a minimum number of trades over a given period. They may not appreciate you taking up valuable

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Ultimately, the goal is to select the environment that gives you the best competitive edge in the market. Your decision will include such factors as your level of trading experience, your trading style, your personality, your level of comfort with technology and your geographical location.

Minimum requirements

The first issue to deal with is the cost difference between trading at home vs. an office. This starts with your trading capital. Most day-trading offices require a minimum balance of at least \$50,000, with a suggested starting capital of \$75,000. These firms want to make sure the beginning trader is well capitalized.

not have enough money to survive the apprenticeship period and the natural risk and volatility of the market.

"The problem with a lot of day traders is their capital is limited," says Sandi Lynne, a columnist for Jagfn.com and publisher of WallStreetinAdvance.com. "If I lost \$10,000 today, it is not going to affect my life."

Polite agrees.

"As a new trader your account will take some hits. Traders with lower capital cannot take too many before they are out of business," he says.

So in a roundabout way, trading from an office can keep you in business by forcing you to have a larger cushion. Traders who choose to operate from

space if you're only putting on two trades a month.) There are generally no additional fees for the various services and software used in the office. Having a comparable setup at home can be pricey.

Of course, every trader needs to do a thorough inventory of the systems and services a trading office supplies to know whether the accommodations suit his or her needs. Find out about the trade entry and analysis platforms the firm uses, and what trading choices they offer (connections to different ECNs, access to various trading instruments, etc.). Also, does the firm offer on-site training and trader support? If you're not comfortable with the setup or services, you're starting off on the wrong foot.

TABLE 1 COMMUNICATIONS OPTIONS*Traders who choose to stay at home have several choices when it comes to connections to the Internet.*

	Dial-up	ISDN	Cable	DSL	T-1/T-3
Monthly service fee	\$14.95 to \$24.95	\$30 to \$100	\$39.95 to \$50.00	\$39.95 to \$189.95	\$300 to \$1000
Speed	56K	64 Kbps or 128 Kbps	128 Kbps to 50 Mbps	144 K to 1.5 Mbps	256 K to 1.5 Mbps/44.7 Mbps
Reliability	Good, but depends on ISP company and traffic	Frequent disconnections possible	Excellent, but increased traffic may slow it down	Excellent, but speed degrades with distance from central office	Excellent

The costs of a home office can vary. Professional traders often have elaborate home trading setups. Lynne has five computers — one for each bit of information she looks at, including charts, news and quotes — and a separate computer containing her research database. Additional equipment comes in the form of power backups for each computer. Lynne's hardware costs are about \$7,000.

Lynne, whose success as a trader has led her to run her own hedge fund, is closer to the extreme high-end of the spectrum. David Halperin, a trader with On-Site Trading, has a setup that merely consists of one PC and four 21-inch monitors. The total hardware cost you are likely to incur depends on how much information you want available to you at one time — and, of course, your budget. Nonetheless, if you plan to trade at home, expect to pay \$3,000 to \$5,000 for your PC, monitors, surge protectors and other basic hardware. (Also keep in mind that it is prudent to have backup hardware, software, communications lines and brokerages you can turn to in case your primary systems go down.)

Hardware costs, however, are just the beginning. When trading from home you must add in the costs of your software packages, news services and, most importantly, Internet service provider (ISP). A fast, secure Internet connection is crucial to trading. 56K modem connections are tempting because of their low costs, typically between \$15-\$25 a month. Many active traders, however, believe that 56K modems are not fast enough. When engaged in extremely short-term, direct-access trading, for example, a half-second delay can be the

difference between making and missing a trade.

"The one major difference between trading at home and on the floor is the floor is faster," says Blair Hanes, who trades mostly from home.

"Trading on 56K is not even worth your effort because you can't take full advantage of the speed of execution direct-access provides," says Ronnie Davidovic, manager of Broadway Trading in Miami.

More important than speed is the stability of your Internet connection. Nothing is more potentially costly than losing your Internet connection in the middle of a trade. Better choices for active traders are either a DSL line or a cable service such as RoadRunner or At-HOME.

Depending on your location and level of service, DSL can run from \$39.95 to \$189.95 per month. DSL offers great connection speed, but that speed will depend on how far away you are from the Telco vendor. Also, DSL is not available in all areas.

Cable service is also a good higher-speed option in many cases, but it has one critical drawback: The more people that use the service, the slower the connection becomes. When cable Internet access becomes available in a particular area, the first users can enjoy lightning speed. However, as more users crowd on to the limited bandwidth, the quality of the connection can degrade. At a monthly cost of about \$50, it is quite possible these services could be as slow as regular dial-up one day. In addition, cable access has the dubious distinction of containing wires reputed to be the least

secured in the business.

The fastest connection available is a T1 (or T3) line. They are widely available, secure and fast. But they are also very expensive. A T1 line will cost you around \$300 to \$1,000 a month. Table 1 (above) compares the different connection types. For more information on communications options, see "Getting connected," *Active Trader*, April, p. 20.

Once you have chosen your ISP, the next step is getting the information you will need to trade. This includes price data and news services, and charting and analysis software.

John Godbee, a trader in Seattle, is a good example of how much the average home trader might expect to spend on a monthly basis. His expenses include At-HOME cable, a data feed for quotes, TC2000 software for charting and an annual subscription to *Investors Business Daily*, all of which total \$355 per month.

Of course, costs will vary depending on the type of Internet connection and use of other miscellaneous trading services. If you want to set up your home to closely mirror a trading office, you will need the following equipment, at the very least: one PC, two monitors (21 inches or larger), surge protectors, a T1 line, data feed for quotes, software subscriptions for charting/technical analysis/market information and a TV for watching CNBC. Total hardware costs: \$2,000 to \$3,000. Total monthly costs: \$800 to \$1,500, for starters. That's before you've made trade one — before you know whether or not you'll be profitable as a trader.

One advantage the home trader has is

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Home field advantage

“If I was only trading, then I might stay in the office. But I do other things, so the convenience of being at home is too good.”

Those are the words of Blair Hanes, and they epitomize one important reason people trade from home: Whether it is full-time or part-time, trading from home offers flexibility that few “jobs” can. Hanes, who previously traded at a trading office, uses that flexibility to the max. Besides trading, he runs his own video production company. “I really cannot afford the time costs. I have another business, so I have to have time to work on that as well.”

Hanes also believes doing other things helps his trading, and does not distract him.

“Being on the trading floor (in an office) keeps you trading,” he says. “At home, doing other things can keep you from making trades you shouldn’t. It’s good to walk away for a while.”

Hanes began his trading in an office but switched to a home office within a few months. The transition was initially a little tough.

“I felt a tad isolated at first,” he says. “I was used to the trading floor atmosphere, and I was still relatively new. But now I love it.”

Apart from the flexibility, trading at home gives Hanes the ability to customize his trading environment. Trading floors give traders cookie-cutter systems that, while excellent resources, do not allow traders to use their own technical tools, charting, etc.

“At home I have two PCs, two 21-inch monitors, a laptop, a DSL connection and CNBC right in my face,” he says. “That alone has made me money. Every time I am in the office I find the TV is too far away. Whether you need the TV closer to you, or charting with customizable studies, trading at home gets you that ability. Office trading does not.”

Nonetheless, there are things Hanes misses — namely, the speed of execution. “The floor is faster,” he says. “As a momentum trader, a few seconds faster can mean hundreds of dollars either made or lost.”

Read more about Hanes’s trading style in *The Face of Trading*, p. 66



the ability to customize his or her trading setup. In an office, you have limited choices regarding the order entry, analysis and data systems you use — you either like the setup or you don’t. At home, you can select the precise software programs and services you want (as long as they fit into your budget).

The remote option

One way to cut down on costs is to trade at home as a “remote trader” with a trading firm in your area. Remote traders get the same software used in the office. Typically, this software offers charting, technical analysis tools and other services, and it is provided at no charge to the remote trader. This reduces expenses dramatically. As a remote trader with On-Site, Halperin incurs costs of only about \$50 a month, basically the cost of his Internet connection. Some remote traders, however, choose to sub-

scribe to other services. Godbee trades through the Attain trading platform, which has charting and basic technical tools, but subscribes to TC2000 charting for additional charting and technical analysis capabilities. Subscribing to other services will, of course, increase your monthly expenses. However, you will still come out ahead of someone who is not going the remote route. Nonetheless, whether you use only the tools your chosen firm provides, or add some extra services if you go remote, you will still have to meet the account minimum set by your firm.

The last consideration has to do with your own goals. If you plan to trade part-time or do not trade on an active, short-term basis, you can get away with a slower Internet connection and less extensive hardware and software. One computer, a 56K modem and an account with an online broker can get you start-

ed. If you want to be a professional, however, and make a career out of trading, you have two options: Put up about \$50,000 to get into an office, or spend a few thousand dollars to set up your home properly and then incur monthly costs for your Internet connection and data or analysis services.

Atmosphere and support

The next important choice concerns the trading environment. It’s a decision between the atmosphere and support of an office vs. the solitude and potential serenity of trading at home. This is where your personality comes into play.

Trading firms typically accommodate anywhere from 20 to 100 traders, lined up at rows of computer terminals. Few things equal the electricity that buzzes through the room as traders yell out the symbols of stocks that are really moving. It’s an environment that many believe plugs traders into the markets more directly and gives them (particularly new traders) a better chance of success.

“I have to believe that the average person will be better off in an office, especially in the beginning,” Halperin says.

Davidovic agrees.

“Someone will definitely have a more reasonable chance at succeeding in a real trading environment vs. doing it at home because of the support systems in place,” he says.

Such support systems encompass both trade mentoring and technological expertise. The firm is responsible for maintaining the hardware, software and communications. If something goes down, they should have someone on site to take care of it — you’re not left to your own devices. Also, in many trading offices you’ll have access to trainers and will have other traders available to help you, which can be especially welcome if you get into a bad trade and need help getting out. And since you have more eyes watching the market, you may also learn about stocks and trades that were not on your personal watch list. Some traders find this kind of interaction and feedback tremendously helpful. Others, however, consider it a distraction — a potentially dangerous one. Good trading requires discipline and focus, and the

energy and commotion of a trading room can pull some traders out of their game.

For example, as exciting as jawing about the market and hearing stocks being shouted out can be, jumping on them can be a mistake. Kevin Greene, a trainer and mentor for the Online Trading Academy, believes trading floors are distractions.

"As a new trader, you must be comfortable and disciplined with your own style of trading," he says. "When you have 20 different people trading a different way, and you see them making a grand or two off of Internet stocks, the greed factor kicks in and you start trading things you should not be trading at the beginning level."

Godbee started trading at home for that very reason.

Good trading requires discipline and focus, and the energy and commotion of a trading room can pull some traders out of their game.

"What worked for me was not to trade on the trading floor so I could find my own trading style," he says. "If I had not done that first, I would have found open-floor trading a distraction."

While trading at home may allow you to concentrate better, most traders' homes are not entirely free of distractions. Polite recalls his trials while trading at home.

"The distractions are numerous. I've had my son hit the keyboard and buy 1,000 shares of a stock going the wrong direction," he says. Other distractions include phone calls, mail, neighbors, family members and so on. "At least in an office, all the talk is related to trading," Polite notes.

Also, trading at home can be a lonely, isolating endeavor for some. Hour after hour, day after day of solitude in a single room, staring at a computer screen can be a downer for some traders. It can take a toll on the psyche and negatively

impact trading. Some home traders find it necessary to break up their routine with other activities to prevent trading from becoming a grind. Furthermore, home traders can be lulled away from the markets by the convenience of having their TV, stereo, refrigerator, couch and backyard within easy reach. A trading office removes these temptations. Some traders, however, thrive on the solitude and the ability to focus on the markets undisturbed.

An important consideration here is your trading style and how it fits into (or clashes with) your home routine. For example, swing traders may not be as concerned with potential distractions, because they're operating with slightly longer-term, predetermined trade points.

"I know where I am getting in," Lynne says. "I don't watch 40 different

stocks, and I'm not trying to grab a quarter-point. I pick one to three high-percentage plays and look to get eight to 12 points."

Shorter-term momentum trading or scalping, on the other hand, requires you to constantly watch the screens because you never know when a stock is going to take off. If it makes its move when your kids walk in or the phone rings, you may miss an opportunity.

Best of both worlds?

One overlooked, and potentially disastrous, distraction that can impact the home trader more than the office trader is the lure of chat rooms, message boards and "expert" stock pickers. The Internet has a wealth of information, and not all of it good or true. Yes, traders in an office may use this information, but home traders, with little or no support, can be more tempted to rely on such resources.

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Both sides of the fence

David Halperin is very familiar with the differences between trading at home and trading on the floor. He has done both.

"I traded on the floor for two years, before I moved 50 miles away," he says. "Then I had to get a home office."

Halperin believes that if you trade from home, it is important to, as much as possible, set up your home office like a trading floor. His office is set apart from his home, above his garage. This keeps distractions to a minimum.

"If my wife or kids are running around the house, it does not affect me at all," he says. "I am isolated."

Halperin also makes sure his hardware is the same. This means four monitors on one PC — one each for quotes, charts, order entry and Web surfing. He does, however, miss the other resources an office offers.

"A trading floor has additional news sources that you cannot get at home," he says. "A Bloomberg machine, for instance, would cost you \$25,000 — if you could get it."

It is these resources, as well as the support of other experienced traders, that leads Halperin to believe new traders should be trading in an office.

"I don't see any reason for experienced traders not to trade at home, but new traders need guidance," he says.

If a new trader does decide to go it alone, Halperin repeats his caveat: Set the home up properly.

"If you are going to do this, it needs to be like a business, and separate from the home," he says.



TABLE 2 HOME OR AWAY*Choosing to trade at home or at an office is one of the most important decisions a trader can make.*

	Home	Office
Beginning costs	Starting capital \$10,000 and up Equipment costs \$2,000 – \$10,000 Monthly expenses \$50 – \$500	Typically \$50,000 None None
Advantages	Convenient Less distractions from other traders Lower beginning capital costs	Has all the tools you need training and support No monthly charges
Disadvantages	Beginning computer costs and monthly expenses Distractions from family, neighbors etc. Isolation No support	Higher beginning capital costs Distractions from other traders Less convenient

"One thing people have to be careful about is pulling information off the Internet, because it may not be accurate at all," Davidovic says. (If you doubt the truth of that statement, recall this summer's fiasco with Immunex.)

The problem with online stock pickers is that very often, the information is stale and, of course, some stock-picking services have been accused of manipulation and are under investigation by the SEC. It's only human nature to want a little reassurance that what you are doing is correct.

In an office, you have the option of consulting a trainer or experienced fellow trader. At home, you have no one but yourself. Traders who lack confidence in what they are doing may look to services like the ones mentioned for that reassurance.

To combat these pitfalls — and to mirror the more positive aspects of an office — the Online Trading Academy (OTA) began a "virtual trading floor" service. Through the use of software, you can work at home and have a trainer see what you have on your monitor and hear your questions. They can give you vital tips before you make a trade. You can also hear the questions of other traders using the service, allowing you to learn from their questions as well. The trainers do not pick stocks or make recommendations; the service is purely a

training tool.

The system has several benefits, Greene says.

"What may have taken a year and a half to learn at home by yourself will come faster in this situation," he says. "Because not only do you learn from asking your questions, you can hear the questions of other traders across the country and the world."

It might seem this service would have the same distractions of an actual office, with people continually talking over each other. However, Greene says that rarely happens.

"Since we are talking about day trading, most often everyone is looking at the same 20 or so stocks that are moving that day," he says. "Plus, we discuss them and why they may be good trades, not tell people to jump into them."

In this environment, you get all the convenience of staying at home with the benefit of getting some direction or confirmation through your PC. It's not a cheap service, however. OTA has two subscription levels. One allows you to get text of the chats and ask questions for \$250 a month. The second allows you to hear the other questions being asked and is priced at \$500 per month. Both are hefty add-ons to the costs a trader will incur at home.

Greene is philosophical about the price.

"If you are serious about trading, what's 500 bucks a month to possibly keep you from making a trade that will cost infinitely more?" Greene asks.

Making the decision

Ultimately, the choice between trading at home or in an office will come down to your own trading style, goals, personality and need for support and feedback. Table 2 (above) summarizes some of the primary pluses and minuses. Also, depending on where you live, the choice may be made for you. If you reside in an area that has no trading offices nearby, you have no option but to trade from home. Or, if you live in the North or Midwest, for example, you may want to escape the daily commute through sleet or snow during winter months. You may also decide that you want the routine of running to an office like a regular 9-to-5er.

Each choice has its positives and negatives. One thing that does seem clear, however, is that beginners benefit from mentoring. If the bottom-line costs and other considerations make office trading a viable option, novices can often benefit from the exposure to trainers and other traders. After time, it's possible to either go remote or have a setup at home for those days you just don't feel like driving to the office. If you take the home office approach, it's advisable to set your trading area away from the main traffic of the house. That way, family distractions will be minimized, if not eliminated. That's what Halperin did, and he loves it.

"I have the best of both worlds," he says. "If I want the comradeship of the office I can drive in. If I want to do something with my son, or the weather is bad, I can just go to my [home] office and trade from there. But, I have been trading for quite some time." 🗣️