

How Much Money Can I Make As a Day Trader?



Let's face it, this is what traders and potential traders want to know—"How much money can I make as a day trader?" Obviously there is a massive range of income potential when it comes to day traders. It is quite possible that some will still need to work another job, but manage to pull a little money of the market each month through day trading. There are those who can live comfortably on what they make day trading, and there is the small percentage that make a lot.

How much money you make as a day trader will be largely determined by:

–*Which market you trade.* Each market has different advantages. Stocks are generally the most capital intensive asset class, so if you trade another asset class such as futures or forex you can generally start trading with less capital.

–*How much money you start with.* If you start trading with \$2000 your income potential is far less than someone who starts with \$20,000.

–*How much time you put in to your trading education.* To get to the level of trading discussed in the scenarios below—where you have a solid trading plan and are able to implement it—it will likely take a year or more if you dedicate yourself to it full-time. If you can only apply yourself to trading part time, it may take several years to get to this level (examples below).

Your income potential will also be determined by your personality—are you disciplined, patient, etc—and the strategies you use.

Now, let's go through a few scenarios to answer the question, "How much money can I make as a day trader?"

For all the scenarios I will assume that you never risk more than 1% of your account on a single trade. Risk is the potential loss on a trade, defined as the difference

between the entry price and stop price, multiplied by how many units of the asset you are holding.

There is no reason to risk more than 1% of your account. As I will show, even with keeping risk very low, you can earn an income from day trading.

How Much Money Can I Make Day Trading Stocks?

Day trading stocks is probably the most well-known day trading market, but it is also the most capital intensive. To day trade stocks you'll need more than \$25,000 to effectively day trade. And in the USA you are required to have *at least* that much in your day trading account, otherwise you can't trade.

So assume you start trading with \$30,000. And you are leveraged at 4:1, which gives you \$120,000 in buying power. You utilize a strategy that makes you \$0.18 on winning trades and you lose \$0.12 on losing trades. With slippage or being forced to exit some trades early due to news coming out or the market closing, let's assume over the course of a month, your average winning trades actually end up being \$0.16 and your average losers actually end up being \$0.13.

With a \$30,000 account, the absolute most you can risk on each trade is \$300. Since your stop is \$0.12, you can only take a position of 2300 shares, even though you could purchase more with your current buying power (but we want to risk less than 1% of account). To get these sorts of figures, you'll likely need to trade stocks that are \$30+, with some volatility and lots of liquidity.

A good trading system will win 60% of the time. You average 5 trades per day, so if you have 20 trading days in a month, you made 100 trades.

60 of them were profitable: $60 \times \$0.16 \times 2300 \text{ shares} = \$22,080$

40 of them were unprofitable: $40 \times \$0.13 \times 2300 \text{ shares} = (\$11,960)$

You make \$10,120, but you still have commissions and possibly some other fees. While this is likely on the high end, assume your cost per trade is \$15. Therefore, your commission costs are: $100 \text{ trades} \times \$15 = \$1500$. If you pay for your charting/trading platform, or exchange entitlements then these fees must be added in as well.

Therefore, with a decent stock day trading strategy, and \$30,000 (leveraged), you can make roughly:

$$\$10,120 - \$1500 = \mathbf{\$8,620/\text{month}}$$

As your account grows slowly, so can your share positions (in proportion to the account growth) and thus the larger your income will become.

Remember, you are actually utilizing about \$75,000 to \$100,000 in buying power on each trade since you are leveraged. This means your monthly return is about 8.5% based on your buying power. Some will consider this very high, and for a hedge fund which needs to find places to invest billions of dollars this is a huge return. But for a day trader that can slip into and out of opportunities with ease, and with a disciplined strategy, this is an attainable return.

How Much Money Can I Make Day Trading Futures?

To trade an Emini S&P futures contract you only need \$500. That is the minimum of course, to actually take a trade you'll need more than that since once you open a trade the price will fluctuate and you need money in your account to accommodate for this. Let's assume you have \$15,000 to start your trading account. Once again you only risk 1% of your capital, or \$150, on any single trade.

Each tick, or the smallest movement, in an Emini S&P 500 contract is \$12.50. If you risk up to \$150 on each trade, that means you can trade 2 contracts and risk 5 ticks on each trade for a total risk of \$125 (we try to keep risk below 1% of capital). Your risk is 5 ticks, and you will try to make 8 ticks. Of course, sometimes we need to get out of a trades a little early, so assume the average winner only ends up being 6 ticks, and the average loss is 4 ticks (this would be a slightly different strategy then the one employed in the stock trading example above).

A 6 tick win is = \$75 for each contract.

A 4 tick loss is \$50 for each contract.

A good trading system will win 60% of the time. Assume you average 5 trades per day, so if you have 20 trading days in a month, you made 100 trades.

60 of them were profitable: $60 \times \$75 \times 2 \text{ contracts} = \9000

40 of them were unprofitable: $40 \times \$50 \times 2 \text{ contracts} = (\$4000)$

You make \$5000, but you still have commissions and possibly some other fees. While this is likely on the high end, assume your cost per trade is \$5/contract (round-trip). Therefore, your commission costs are: $100 \text{ trades} \times \$5 \times 2 \text{ contracts} = \1000 . If you pay for your charting/trading platform, or exchange entitlements then these fees must be added in as well.

Therefore, with a decent futures day trading strategy, and a \$15,000 account, you can make roughly:

$$\$5000 - \$1000 = \mathbf{\$4000/month}$$

As your account grows slowly, so can your position size (in proportion to the account growth) and thus the larger your income will become.

How Much Money Can I Make Day Trading Forex?

Forex is the least capital intensive market to trade in. Leverage up to 50:1 (higher in some countries) means you can open an account for as little as \$100. But I don't recommend this. If you want to make money, I suggest you start with at least \$5000. Once again, only risk 1% of your capital, or \$50, on any single trade.

Each pip in the forex market is \$10 if when you trade a standard lot (100,000 in currency). Each pip with a mini lot (10,000 in currency) is worth \$1—this will vary somewhat based on the currency pair you are trading, but is a good reference point. I recommend traders use mini lots since it offers more flexibility in position sizing.

Assume your strategy limits risk to 10 pips, and you attempt to make 17 pips. You find on average though at the end of the month that losses are actually 12 pips and winning trades are 16 pips.

With 10 pips of risk you can trade 4 or 5 mini lots—which equals \$40 to \$50 to respectively. We will only trade 4 mini lots since we want *less* than 1% of our account at risk.

A 16 pip win is = \$16 for each mini lot.

A 12 pip loss is \$12 for each mini lot.

A good trading system will win 60% of the time. You averaged 5 trades per day, so if you have 20 trading days in a month, you made 100 trades.

60 of them were profitable: $60 \times \$16 \times 4 \text{ mini lots} = \3840

40 of them were unprofitable: $40 \times \$12 \times 4 \text{ mini lots} = (\$1920)$

In forex you don't have to pay commissions, if you have a broker that offers competitively tight spreads. Although for very tight spreads and the possibly of slightly increasing your win rate, or increasing your average gain incrementally, you can use an ECN broker and pay a commission on each trade. If you pay for your charting/trading platform then these fees must be added in as well.

Therefore, with a decent forex day trading strategy, and a \$5,000 account, you can make roughly:

$$\$3840 - \$1920 = \mathbf{\$1920/month}$$

As your account grows slowly, so can your position size (in proportion to the account growth) and thus the larger your income will become.

How Much Money Can I Make As a Day Trader – Final Word

Notice how your winners were only slightly bigger than your losses, and you only win a bit more than you lost? Yet, when you add it all up at the end of the month it turns out to be a great income. Successful traders don't try to hit home runs when they trade. They trade a simple system that allows them a slight edge. Once you realize this, your account will grow and can exploit this slight edge with more shares, contracts or lots to increase your monthly income.

The problem is that most traders can't handle losing 40 to 45% of the time. They think they are doing something wrong and keep switching strategies. This constant lack of discipline and flip-flopping of strategies results in losing even more often.

Keeping risk in check is also imperative. Never place a trade right before a major news announcement, as your loss could end much bigger than anticipated—even if you have a stop in place.

Maintain discipline, keep your wins slightly bigger than your losses, and strive to win 55%+ of your trades. Do this, and you can make a livable income from day trading.

Winning 60% of the time is not as easy as it sounds though. And you may not be able to find 5 valid trades per day in all market conditions, like in the examples.

