

Day Trading versus Swing Trading – Which is Better?

Day trading or swing trading that is the question.

If you are an active trader, day trading and swing trading will feel like second cousins. At the end of the day, both trading methodologies seek to make short-term profits based on price fluctuations in the market. In this article, I will provide 7 key differentials that will assist you in determining if one is better suited for your risk profile.



#1 Level of Effort Required

Day Trading

Day trading requires that you practically give your first born during trading hours. You'll be hard pressed to even take a bathroom break. You are required to analyze the market each and every day and make quick decisions.

You will likely trade during specific time frames (e.g. morning or afternoon). There are the brave few who are able

to trade all day and still turn a profit but let me tell you from experience the headaches from staring at the screen all day are excruciating.

Without a doubt when you are [day trading](#) you should not be multitasking with the television or talking on the phone.

Swing Trading

Swing trading at least allows you to take a breath.

While you still have to watch your stocks to ensure key levels are not breached, you do not have to hawk the tape like a mad person.

Without offending the swing traders of the world, I would dare to say you can swing trade on a part-time basis and still turn a [profit](#). You may have fewer trade decisions to make, but you are expected to develop a thorough [trading plan](#) with entry and exit points.

#2 Per Trade Profit Expectations

Day Trading

Day trading is on a much smaller time frame. You are generally trading the 1-minute, 3-minute, [5-minute](#) or 15-minute charts.

As a result of using smaller time frames, your profit expectations should be aligned with this approach.

I am of the belief that you need to make more than a few pennies per trade if you want to be [successful](#) over the long haul. Of course, there are high-frequency trading systems make thousands of trades per day only looking for pennies each way.

I get it; I get it, but remember the Tradingsim blog is for the everyday person looking to get into day trading who do not

have access to MIT engineers. So, your profit targets should be sizable enough that your risk-reward ratios make sense and you can turn a healthy profit after commissions.

The one thing I want to make clear about day trading is that you should have a target in mind. With the number of price reversals in the market due to [automated](#) systems, you have to book your profits when your targets are hit. The odds of a stock [trending](#) hard in one direction for 3 or 4 hours straight may occur 20% of the time. You should aim to nail the other 80% that reverse on a dime.

Day Trading Chart Example

Below is a chart of Apple. Notice how the stock bounces around from peak to valley. There are times when stocks will trend pretty hard, but this is likely in the morning after reacting to some news event. For me personally, the morning is my preferred time to trade for that reason alone. But if you are going to day trade throughout the day, the price action in Apple below will be your likely scenario. So, don't get cute, book your profits on a consistent basis and don't worry about the home run trades.



Swing Trading

Swing trading provides for a much larger profit potential than day trading. On average you can shoot for a few percentage points all the way up to 20% and beyond.

Because your time frame for trading is larger your profit targets are also greater. This is where swing trading becomes fun. For example, you can have a set profit target, but because your holding period is much longer than day trading you actually can let your profits run a bit.

I like real-life examples, so here goes one. Below is a chart of FSLR over a 5-day trading period. The stock almost increased by a full 100%. As you can see in the chart, if you were day trading, you would have tried to time the swing points at A, B, C, D and E. In these rare cases the profit potential for swing trading is as sweet as they come.



#3 Number of Trades per Day

Day Trading

Day trading means you open and close trades during the same day. You could trade as few as once per day all the way up to a hundred or more trades. I am of the opinion that if you are manually trading, the more you trade, the greater chance you

have of losing money over time. Therefore I only like to place 3 to 5 trades per day.

How many trades are you planning to execute on any given day?

Swing Trading

Swing Trading does not require you to place trades daily.

Generally, trades are placed every 2 to 3 weeks. The lengthier time is because you need to provide the stock the ability to “swing” from one price point to the next. Now, there are times when a stock will just have a breakaway [gap](#) and you will, of course, hold off on the 2 to 3-week timeline and just let the stock run.

#4 Money Management

Day Trading

Day trading allows you to use up to 4 times your available cash to buy and sell securities. This means as a small-time trader with a 100k in capital you can now trade up to 400k during the day. I personally do not use all of the money available because of how great it increases my risk profile.

You are required to make quick decisions on how much money you will allocate per trade. This requires you to track how much of your money is in float and also have an understanding of the margin requirements of your brokerage firm.

Unlike you who are willing to [risk](#) your money quite freely, brokerage firms have specific maintenance requirements for some stocks based on their volatility. To read more about money management and day trading with margin check out one of our most popular articles: [How to Day Trade with Margin](#).

Swing Trading

Swing trading allows you to trade with a maximum of two times your available cash. No matter what time frame or style of trading you prefer, the [money management](#) principles are the same:

1. Never have too much money in one position
2. Use margin sparingly
3. Always have a [stop loss](#) open or at least in your mind of when you pull the trigger
4. Take Money out of the market. If you never pull out money, it will never find its way to your wallet.

#5 Risks

Day Trading

Since everyone that reads Tradingsim knows I prefer day trading, I'm guessing you know what I'm going to say here.

Day trading on the surface sounds riskier, but in actuality, day trading provides you far more control over your trading activity.

When I am in a position, I am literally in a position. I have my monitors going, [time and sales](#) streaming and are watching the stock go through its gyrations. This level of monitoring means I gain a feel for how hard the stock is trending and can quickly [pull the trigger](#) if things go to the left.

Where day trading gets riskier is when it comes to your money management principles covered under #4 above. Because you have more leverage there is a greater chance you can get yourself in trouble.

My golden ratio was to never use more than 10% of my available margin on any trade. As your account value increases in size and therefore your per trade profits, you should naturally reduce the amount of margin you use to improve your risk profile. That is unless [greed](#) gets a hold of you and you

start to believe there is always more.

Swing Trading

Swing trading has the exact opposite risk profile. Since you have less margin to use per trade, this naturally reduces your risk; however, swing trades expose you to holding positions overnight.

For me, this introduces too much risk relative to day trading. Most news events such as earnings, public relations announcements or analyst recommendations occur outside of normal trading hours. I cannot risk waking up and seeing my stock has gapped down 20% from the previous days' close.

Just writing that last sentence made my stomach turn.

#6 Instant Gratification

Day Trading

I like to do work around the house and in the yard when it comes to small jobs. When I say small, I'm talking about cutting the grass or changing the light bulb.

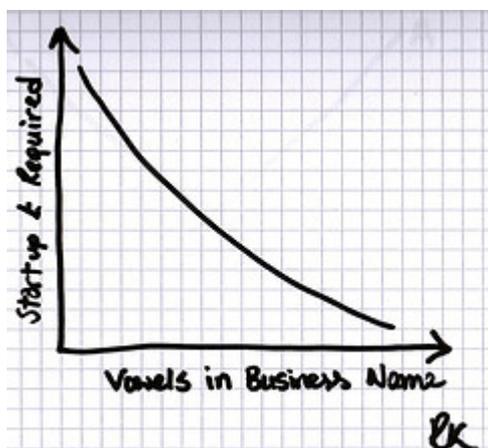
The reason being, I get an immediate sense of accomplishment. I set out to perform a task and I can quickly see the results of my efforts. This is another reason I am a fan of day trading. I can measure my [performance](#) on a daily basis.

There is no ambiguity around how much I can make this month or quarter. I know each and every day whether I was a winner or not.

Swing Trading

Swing trading requires you to have more patience, which I clearly do not like to wait on things. You may hold your trade for a few days or 8 weeks. It really depends on how well the stock trends. The periods of time where it is

unknown whether I will close the trade out with a profit increases my anxiety levels to a point outside of my comfort zone. Are you willing to hold positions for weeks or a few months?



#7 Startup Capital Required

Day Trading

I say this every article to make sure my readers understand this point clearly. You need starting capital of 50 to 1, cash to expenses to begin a career as a day trader. The only reason this rule bends at all is if you have supplemental income which you can use to offset your monthly expenses.

Therefore, if you have 3k a month in bills, you need \$150k cash to day trade. This sounds like a lot and it is. The end goal here is to ensure you are able to make it in day trading over the long haul and not go broke.

Swing Trading

Since you can swing trade and still hold down a full-time job, the amount of money required is really up to you and your own financial responsibilities. If you are planning on [swing trading for a living](#) I would say you need 100 to 1 cash to expenses. The reason for the increase is you may be in a trade for longer than one month and are unable to use trading profits to pay your living expenses. With this ratio you are only losing 1 percent of your trading capital per month in the event you are in a position a little longer than expected.

In Conclusion: Day Trading or Swing Trading

Whether you decide to day trade or swing trade really comes down to the following:

1. Are you [trading for a living](#)?
2. How much money do you have to trade?
3. What is your appetite for risk?
4. Are you an action junkie?

If you answer these questions truthfully and reread this article you will have your answer.

If after reading this article, you are still unable to make a decision on swing trading vs day trading, please visit Tradingsim.com. We have a trading simulator that you can use to test drive both approaches until you know for sure which best fits your trading profile.

All the Best.

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Photo Sources

Working from Home – [ishane](#)

Startup Capital Graph – [Silent Solutions](#)