The Stock Market Is No Fun When Student Loan Payments Are About to Restart

Another bucket of cold water threatens the once-hot trend of amateur day trading

By Amina Niasse

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Playing the stock market no longer has the appeal for newbie investors it once did. The latest reason? Many would-be day traders are about to start paying their student loans again.

The retail-trading fire of 2020 and 2021 has been just smoldering for months now. Drops in crypto and stocks in 2022 turned off many amateur traders. High inflation left many with less cash to play with. The resulting jump in interest rates gave them lots of options for relatively risk-free ways to earn returns.

Now, student loan payments, set to restart in October, are another bucket of cold water on the fire.

Emanuel Rodriguez, who is 22 and graduated this year from the University of Southern California with a communications degree, has enjoyed some success in his nascent investing foray. In 2021, he said, he cashed out a profit of about $4,500 after investing in dogecoin.

But now, Rodriguez says he's being more cautious. He's still keeping some money in cryptocurrencies, but he deleted the Robinhood app from his phone and focuses more on saving. The recent Supreme Court ruling, which knocked down President Biden's student-debt forgiveness plan, helped seal his decision.

"My loans have been looming over me," said Rodriguez, who is working as a page at NBC in Los Angeles and said he has about $5,000 in student loans. "If they were wiped, I would feel more comfortable investing."

He hopes to re-enter active investing someday, but only after paying off his debt and learning more about investing outside of crypto.

Loan payments have been paused since March 2020, when the Covid pandemic hit the U.S.

The restart could have implications across the economy. Retailers, for one, could be hurt as potentially billions of dollars each month start flowing back to student debt.

The impact on the stock market itself might be limited. Young adults who have lost money during their short trading careers could feel particular pressure to pull back.

A lot of amateur investors have "probably been losing money to more sophisticated traders in the market over time," said Benjamin Edwards, a law professor at the University of Nevada, Las Vegas. "The only way they're able to keep trading is by continuing to put money in. It's going to be players who get hot at the table but Vegas still wins."

People of all ages embraced day trading in the depths of the pandemic, when they were stuck at home and the market mostly zoomed higher. The pause in student loan payments didn't hurt either. Many of the younger new traders have never known a world in which trading can't be done with a few clicks on an app—or, for that matter, a world where they have to pay money toward their student loans each month.

A survey released this year by the Financial Industry Regulatory Authority and the CFA Institute found that 56% of Gen Zers in the U.S., ages 18 to 25, had at least one investment. That included workplace-sponsored plans such as 401(k)s. The median amount invested was $4,000.

Gen Z investors tend to favor cryptocurrencies and individual stocks, according to the survey.

Of course, staying in the market through both good times and bad is the best way to build long-term wealth, financial advisers say. But that doesn't always help people who need money right away.

The return of student-loan payments could mean a big hit to many people's monthly cash flow. The Bank of America Institute estimates that it will cost the median affected household about $180 a month.

People who were able to save up during the student-loan moratorium are now going to have to spend down some of their savings, said David Tinsley, senior economist at the Bank of America Institute. They might also have to put off saving for a home or storing up for retirement.

"People need to start saving for retirement relatively young," Tinsley said. "These are quite impactful decisions on individuals."