

Where losses and gains are fun and games

Stock-trading simulators are a great tool for students, do-it-yourselfers and those of us who aspire to be hotshot traders



ROB CARRICK, May 2, 2009

I am *loving* those crazy new triple-the-market ETFs they have in the United States.

Here in Canada, we have a series of exchange-traded funds that give you twice what the market does on the up or downside in a given day. You know the Americans - if double is good, triple is better. Enter the new Direxion family of 3x bull and bear ETFs.

I invested close to \$100,000 (U.S.) in four 3x bull ETFs on Tuesday and a little more than 48 hours later I sold to lock in a profit of 9.3 per cent. Not bad, eh? Too bad it was all in a virtual world where both gains and losses are nothing more than fun and games.

We're talking here about online stock-trading simulators, where you trade stocks with imaginary money and then monitor your results. These simulators are the best toys ever if you are:

A student of investing who wants to explore different ideas with zero risk of losing money; A new do-it-yourself investor who wants to practise trading before getting into the real markets; An aspiring hotshot trader who wants a low-stress way to test ideas and strategies, and to match wits with other investors.

Don't confuse trading simulations with the online portfolio trackers that most financial websites offer. Whereas you input the stocks you own into a portfolio

tracker like an accountant, with a simulator, you start by making actual trades. That means thinking about what type of order to place and whether you'll buy on margin, which means you'll borrow to pay part of the cost.

I set up my portfolio of 3x ETFs on Wall Street Survivor (wallstreetsurvivor.com), which claims to supply U.S. business schools with stock-trading simulations for MBA students to use. The website is designed to work just like an online brokerage account, and that's exactly what it does (truth be told, it works better than some online brokers I've tried).

Wall Street Survivor's mission: Help users learn to trade stocks like a professional. Good luck with that, all you wannabe stock jocks. A more sensible approach would be to use the site as your own personal investing laboratory. Go ahead, blow yourself up. Then hit that "reset portfolio" button, which Wall Street Survivor does in fact offer on its Dashboard page.

Canadian stocks aren't available on Wall Street Survivor unless they're cross-listed on U.S. exchanges. On Investopedia (investopedia.com), there's a stock-trading simulator where you can use both Canadian and/or U.S. stocks. To find it, click on the Simulator tab and select Trade Stock on the pull-down menu. Investopedia offers its simulator through a series of stock-trading games. You can either join one of the many existing games or create your own. Note: Investopedia's own games offer U.S.-dollar trading only. If you join one of the public games, or create your own, you can specify which currencies you want to use.

Whereas Wall Street Survivor gives you \$100,000 to play with, Investopedia starts you off with \$500,000 in U.S. or Canadian dollars - your choice. For my portfolio, I chose five 2x ETFs from the Horizons BetaPro family that are listed on the Toronto Stock Exchange.

Warning: These ETFs are not for long-term investors. They're a way for aggressive, savvy traders to get magnified exposure to the ups or downs of a particular stock index, commodity, bond or currency over a short period, ideally a single day. The HBP ETFs give you double the move of the underlying index, compared to three times for the afore-mentioned Direxion ETFs. Because they allow you to make (or lose) more than you would with a conventional investment, the NBP and Direxion ETFs are considered to be leveraged.

Stock-trading simulators are an ideal way to familiarize yourself with leveraged ETFs. If you guess the market direction correctly, as I did with the four Direxion ETFs I bought through Wall Street Survivor, then you can generate returns that are well in excess of what you'd make through conventional means.

Consider Direxion's Daily Small Cap Bull 3x Shares as an example. They rose 10 per cent over a 24-hour period this week, while the index they're based on - the Russell 2000 - moved up about 3.5 per cent.

As my Investopedia simulation showed, leveraged ETFs can sting if you get the market direction wrong. I dropped \$5,456.00 in about two hours of trading on an investment of a little less than \$100,000 in the HBP Nymex Natural Gas Bull Plus ETF. I bet on a rise in natural gas prices, and they promptly fell. So I sold.

The Investopedia simulator allows you to explore short selling, where you aim to profit from a stock falling in price, as well as option trading. You can use market orders, where you indicate a willingness to pay the going market rate for a stock, or you can set parameters using a limit order. Commissions are applied at a rate of \$19.95 per trade. Wall Street Survivor doesn't seem to apply commission fees, but it does offer a full range of trading possibilities like shorting.

Both websites allow you to compare your results against other investors. On Wall Street Survivor, I ranked as high as 82 out of about 90,100 total players on the

week, but ended up with a rank of 435 as of mid-Thursday. With the stock markets seeming to deflate a bit after a good run, I decided to liquidate both portfolios.

The leveraged ETFs in these two portfolios aren't meant as long-term holds. You need to monitor these ETFs closely if you own them, and I barely have enough time to keep an eye on my real investments.

Then again, you can afford to make mistakes with stock-trading simulations. That's half the fun of using them.

Source:

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