A STUDY ON VALUE INVESTING AND DAY TRADING AND HOW TO MAKE THEM FOR A LIVING

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ABSTRACT

This project investigates the methodologies and practicalities of value investing and day trading as potential pathways for generating a sustainable income. Value investing involves a long-term strategy of purchasing undervalued stocks based on fundamental analysis, while day trading entails buying and selling securities within the same trading day to capitalize on short-term market fluctuations. Through a comparative analysis, this study aims to elucidate the principles, risks, and rewards associated with each approach. By examining historical data, financial metrics, and case studies, the research will provide insights into the efficacy of these strategies. The ultimate goal is to offer guidance on how individuals can effectively implement value investing and day trading to achieve financial independence and create a viable career in the financial markets.

INTRODUCTION

In today's dynamic financial landscape, individuals are constantly seeking avenues for generating income and achieving financial independence. Two prominent strategies that have garnered widespread attention are value investing and day trading. While both approaches involve buying and selling financial instruments in pursuit of profit, they differ significantly in their principles, methodologies, and time horizons. Value investing, rooted in the philosophy of buying undervalued assets and holding them for the long term, has been championed by legendary investors such as Warren Buffett and Benjamin Graham. This approach emphasizes fundamental analysis, focusing on the intrinsic value of securities relative to their market price. Value investing traces its roots back to the early 20th century with the pioneering work of Benjamin Graham, often referred to as the "father of value investing." Graham's seminal book, "Security Analysis," laid the foundation for a disciplined approach to investing based on fundamental analysis and intrinsic value. His philosophy, refined and popularized by his disciple Warren Buffett, advocates for buying quality assets at a discount to their intrinsic value and holding them for the long term.

On the other hand, day trading is characterized by frequent buying and selling of financial instruments within the same trading day, with the goal of profiting from short-term price fluctuations. Day traders rely heavily on technical analysis, utilizing charts, patterns, and indicators to identify trading opportunities and execute rapid trades. Unlike value investing, which takes a long-term perspective, day trading requires quick decision-making, discipline, and the ability to manage risks in real-time. Aspiring traders and investors often face the dilemma of choosing between these two strategies, each offering unique advantages and challenges. While value investing provides the potential for sustainable returns over time, day trading offers the allure of quick profits and flexibility. However, both approaches come with inherent risks, including market volatility, psychological biases, and regulatory constraints.

1.1 STATEMENT OF THE PROBLEM

Lack of Clarity on Income-Generating Strategies:

Many individuals interested in financial markets struggle to understand the differences, advantages, and drawbacks of value investing and day trading as potential strategies for making a living.

Uncertainty Regarding Suitability and Feasibility:

There is a significant degree of uncertainty among aspiring traders and investors regarding the suitability and feasibility of value investing and day trading for generating a sustainable income.

Risk Management Challenges:

Both value investing and day trading entail inherent risks, including market volatility, financial losses, and regulatory constraints.

Impact of Market Dynamics and External Factors:

The dynamic nature of financial markets, coupled with external factors such as economic conditions, geopolitical events, and regulatory changes, can significantly impact the viability and success of value investing and day trading strategies.

1.2 SCOPE OF THE STUDY

The scope of this project is to provide a comprehensive analysis of value investing and day trading as strategies for making a living in the financial markets. The project aims to delve into the principles, methodologies, risk management strategies, and practical considerations associated with each approach. It will encompass a thorough examination of the characteristics, advantages, and drawbacks of value investing and day trading, highlighting their suitability for individuals seeking to pursue them as full-time professions. Additionally, the project will include a comparative analysis of value investing and day trading, evaluating their respective strengths, weaknesses, and potential outcomes for income generation. By exploring the differences in time horizon, risk tolerance, and investment philosophy between value investing and day trading, the project seeks to provide readers with insights into which approach may align best with their financial goals and personal preferences. Furthermore, the project will address practical considerations such as capital requirements, skill development, market analysis, and risk management techniques relevant to value investing and day trading. It will offer guidance and recommendations based on empirical research, case studies, and expert analysis to assist individuals in navigating the complexities of the financial markets and making informed decisions about pursuing value investing or day trading as a means of making a living.

1.3 OBJECTIVES OF THE STUDY

1. To elucidate the principles, methodologies, and characteristics of value investing and day trading, highlighting their key differences and similarities.
2. To assess the suitability of value investing and day trading for individuals seeking to pursue them as full-time professions, considering factors such as risk tolerance, time commitment, and financial goals.

3. To analyze the potential risks and rewards associated with value investing and day trading, examining factors such as market volatility, regulatory constraints, and psychological biases.

1.4 LIMITATIONS OF THE STUDY

Generalization:

The study provides a broad overview of value investing and day trading strategies, but individual circumstances and preferences may vary. Therefore, the findings and recommendations may not apply universally to all traders and investors.

Data Availability:

The study relies on publicly available data, research, and case studies, which may be limited in scope or subject to biases. Access to proprietary data or real-time market information could provide additional insights but may not be feasible for this study.

1.5 METHODOLOGY OF THE STUDY

The study of ways to acquire knowledge is known as methodology. It's a systematic approach to problem resolution. The study employed the subsequent technique.

SAMPLE DESIGN

In this study, a sample size of 120 respondents was collected from different age groups having different occupations. In this selection of respondents, a convenient sampling method is used.

PERIOD OF THE STUDY

This study is based on the data collection which was conducted for the period of five months from December 2023 to April 2024.

SOURCES OF THE DATA

Both primary data and secondary data were used for the study.

TOOLS USED

The rules of statistics in research are to function as a tool in designing research, analysing the data, drawing its conclusion from the research by converting large volume of raw data into meaningful result that can be easily read and can be used for future analysis. The tools used are:

1. Ranking Analysis
2. Chi-square

2. REVIEW OF LITERATURE

1. Author: Benjamin Graham
Year: 1949
Details: "The Intelligent Investor" - Benjamin Graham's seminal work is considered a classic in the field of value investing. In this book, Graham introduces the concept of "value investing" and provides practical guidance for investors to identify undervalued stocks and build a diversified portfolio. He emphasizes the importance of conducting thorough fundamental analysis, margin of safety, and maintaining a long-term perspective in investing.

2. Author: Warren Buffett
Year: 1984
Details: Berkshire Hathaway Letters to Shareholders - Warren Buffett, often regarded as one of the greatest investors of all time, shares his investment philosophy and insights through his annual letters to shareholders of Berkshire Hathaway. These letters offer valuable lessons on topics such as business analysis, capital allocation, risk management, and the importance of integrity and ethics in investing.

3. Author: Nassim Nicholas Taleb
Year: 2007
Details: "The Black Swan: The Impact of the Highly Improbable" - Nassim Nicholas Taleb introduces the concept of "black swan" events - rare and unpredictable occurrences that have significant impacts on the financial markets and society.

3. DATA ANALYSIS

RANK ANALYSIS

INTERPRETATION:

Return on Investment (ROI) is considered the most important attribute, with 40% of respondents ranking it as their top priority, indicating a strong preference for strategies that promise high returns.

CHI SQUARE TEST

The Chi-square test calculation for the table indicating the distribution of respondents by their preferred investment/trading strategy:

Category	Observed (O)	Expected (E)	(O-E)^2 / E
Value investing	25	30	1.6667
Day trading	40	40	0
Both	30	30	0
Neither	25	20	1.25
Total	**120**		**2.9167**

Degrees of freedom (df) = (Number of categories - 1) = 4 - 1 = 3

Chi-square value at α = 0.05 with 3 df = 7.815

Attribute	Rank 1 (% of Respondents)	Rank 2	Rank 3	Rank 4	Rank 5 (Least Important)
Return on Investment (ROI)	40%	25%	20%	10%	5%
Risk Level	30%	35%	15%	10%	10%
Liquidity	10%	20%	30%	25%	15%
Time Horizon	15%	10%	25%	35%	15%
Costs and Fees	5%	10%	20%	30%	35%
Total	**120**	**120**	**120**	**120**	**120**

INTERPRETATION:

Since the calculated Chi-square value (2.9167) is less than the critical Chi-square value (7.815), we fail to reject the null hypothesis. Therefore, there is no significant difference between the observed and expected frequencies, indicating that the distribution of respondents' preferred investment/trading strategies is not significantly different from what would be expected by chance.

4.1 FINDINGS

1. Return on Investment (ROI) is considered the most important attribute, with 40% of respondents ranking it as their top priority, indicating a strong preference for strategies that promise high returns.
2. Since the calculated Chi-square value (2.9167) is less than the critical Chi-square value (7.815), we fail to reject the null hypothesis. Therefore, there is no significant difference between the observed and expected frequencies, indicating that the distribution of respondents' preferred investment/trading strategies is not significantly different from what would be expected by chance.

4.2 SUGGESTIONS

1. Based on the survey results, it is evident that investors employ various strategies and exhibit diverse preferences when it comes to managing their investments and tax implications. The findings highlight the importance of understanding individual risk tolerance, investment objectives, and preferred approaches to taxation.
2. For those seeking guidance, it may be beneficial to explore the most favored investment strategies and tax management techniques among respondents. Additionally, providing resources and education on risk management, portfolio diversification, and tax-efficient investing could empower investors to make informed decisions aligned with their financial goals.

4.3 CONCLUSION

In conclusion, this study has shed light on the diverse perspectives and preferences among investors regarding various aspects of investment strategies and tax management. The findings underscore the importance of recognizing individual differences in risk tolerance, investment objectives, and approaches to taxation. By understanding these factors, investors can make more informed decisions that align with their financial goals and circumstances. Moreover, the survey results provide valuable insights for financial advisors, policymakers, and other stakeholders in the investment industry. They highlight the need for tailored advice and support that considers the unique needs and preferences of investors. This could involve offering guidance on selecting suitable investment strategies, managing risk effectively, and optimizing tax efficiency. Ultimately, the goal is to empower investors to build and manage their wealth effectively, thereby enhancing their financial well-being and achieving their long-term financial objectives.