Get rich, quick!

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An advertisement titled 'Red Hot Penny Stocks' appeared in newspapers in the 1990's, laying claim to making spectacular short-term profits. These 'get rich quick schemes' seem to always pop up following a sustained period of rising asset prices. Around the Y2K market bubble, it was called 'daytrading', with 'daytraders' leaving their regular jobs to make a living purely by way of high frequency trading in stocks.

Fast-forward to 2021, and the popularity of low-cost trading platforms and do-it-yourself investing is readily apparent. It is also easier than ever before for literally anyone to partake. No licenses, qualifications, experience, exams, knowledge, a low minimum age if any, tiny minimum amounts, and very little paperwork. Just about anyone can use their smartphone to trade derivatives on crypto currencies. They can also borrow money from the trading platforms to leverage up even further. **What could possibly go wrong!?**

The website of a popular global trading platform carries the straplines '*Investing for Everyone*', '*Commission-free investing, plus the tools you need to put your money in motion*', and '*Introducing fractional shares – invest in thousands of stocks with as little as $1*'. Borrowing from the house is described as '*…you'll be able to receive extra buying power*'. There is even a referral system whereby your account is credited for bringing 3 other people on board.

Finding reliable sources and doing original fundamental research and thinking requires significant time and effort. This might explain why so many people take their cues from social media and historical price changes – aka stock charts. This is eerily like the shoe-shiners on the steps of the New York Stock Exchange giving stock tips in the red-hot bull market of the 1920's. It did not end well for highly geared short-term stock market speculators then, and it is unlikely to end well for them this time around.

Not to be outdone, a South African bank recently launched ETN's – Exchange Traded Notes – giving customers an ability to '*invest in some major global shares*' with '*as little as R10*' and '*at no cost to the investor*'.

We read a few source documents, made a few phone calls, and ran the numbers. It turns out the bank's effective annual fees on these ETN's range from 1,3% to 2,8% at an investment amount of at least R100,000. That is pretty good going for the bank, but it is not such a great deal for their customers.

However, for much smaller customers and amounts, which their marketing campaign is clearly targeting, we estimate the bank's effective annual fees on these ETN products are above 100%. **This means their customers are basically guaranteed to lose *at least all* the money they put in, even if they select underlying investments that *increase* in price.**

Our work continues...

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