Why Morning Is the Worst Time to Trade Stocks

Data show volatility raises risks for individual investors who jump at opening stock bell

Illustration by Chris Whetzel Photo: Chris Whetzel for The Wall Street Journal By Dan Strumpf and Corrie Driebusch
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Rising stock-market volatility is proving especially costly for retail investors who typically buy and sell stocks soon after the market opens—often the most perilous time of the trading day.
Buying and selling by individual investors is especially heavy in the minutes immediately after the market opens in the U.S. at 9:30 a.m. Eastern time, when the chances of getting the best price for a stock are lower and swings tend to be bigger, traders and other market observers said.
But within minutes, the gap between the price sellers want for a stock, known as the “ask” price, and what buyers are offering, the “bid,” shrinks sharply and continues to narrow up until the end of the trading session. This quirk in the market has been amplified in recent weeks amid the big market swings.
The smaller gap, or spread, is better for investors because they are less likely to overpay for a stock or sell below the prevailing price in the market. The wider the spread, the more exposed investors are to high costs, which can erode returns at a time when major stock indexes are down for the year.
In the first half of the year, the difference between the bid and ask prices of shares in the S&P 500 was 0.84 percentage point in the first minute of trading, according to data from ITG, a brokerage. That gap shrinks to 0.08 percentage point after 15 minutes and to less than 0.03 percentage point in the final minutes of the trading day.

This difference often amounts to only pennies a share. But it can add up for the many individual

investors who pile into the market early in the trading day.
For example, at the start of trading on Monday, shares of Scripps Networks Interactive Inc. had a bid-ask spread of 35 cents, or about 0.66 percentage point, according to FactSet trading data. By the end of the day, the spread had narrowed to a penny, or 0.02 percentage point.

“The overall cost to trade is lower, and the risk of getting a bad trade is lower, if you wait 30 minutes after the market opens,” said Scott Kubie, chief strategist at CLS Investments LLC, an asset manager that invests mostly through exchange-traded funds. After a half-hour passes, the gap between the bid and ask prices narrows and big swings abate, Mr. Kubie said.
“At that point, whatever orders had been pushed in from people the night before are done, and you can avoid the swings,” he said.
To be sure, volatility can be beneficial if it allows an investor to buy or sell stocks at a more favorable price.
Trades for individual investors tend to be executed in the morning, because they put in orders the previous evening through their online brokerage accounts or their financial advisers, often after they have been able to catch up on the news after work. About 15% of average daily trading volume is driven by individual investors, according to TABB Group, a research and consulting firm focused on financial markets.
Stock-trading volumes in general tend to be clustered near the market open and close, but large institutional investors tend to congregate toward the end of the day, The Wall Street Journal has reported. In 2014, more than 13% of all trading volumes took place between 9:30 a.m. and 10 a.m., a figure that has held steady for the past five years, according to trading data compiled by Credit Suisse. The opening 10 minutes accounted for nearly 5% of volumes, according to the bank.
The practice worked against many mom-and-pop investors on the morning of Aug. 24, when the Dow Jones Industrial Average plummeted more than 1,000 points within the first six minutes of trading before paring about half of those losses in the next half-hour. Share-price spreads also widened sharply in that period.
Professional money managers prefer to stay on the sidelines when spreads are large, because they know they are more likely to get a better price for shares when the gap narrows. But if a retail client insists, then financial advisers often have no choice but to comply.
On the evening of Sunday, Aug. 23, a client called Steven Podnos, chief executive of investment adviser Wealth Care LLC, and told him to sell all her stocks. Mr. Podnos, whose firm oversees $250 million for about 120 families in Merritt Island, Fla., persuaded her to hang on to the bulk of her investments, but agreed to sell a handful of exchange-traded funds, or ETFs, investments that act like a mutual fund but trade on exchanges like a stock.
He placed the orders early Monday, Aug. 24, worried in part that a deeper selloff was in the making. One ETF, the iShares Core S&P Small Cap ETF, fell as much as 30% before rebounding. He estimates that the plunge and snap back in the ETFs cost the client several thousand dollars.
“I was sitting there looking at it and said, ‘Oh my god, this is crazy,’ but I didn’t know it wasn’t going to be worse,” Mr. Podnos said.
ETFs have come into greater focus in the weeks since the tumult of Aug. 24, which hurt investors of all stripes and prompted greater scrutiny of the securities. On that day, many ETFs fell more than their underlying holdings. The securities are popular among individual investors.
Stock markets world-wide have tumbled as investors become more anxious about China’s slowdown and its impact on global growth. Adding to the uncertainty is the Federal Reserve, which could raise interest rates at a policy meeting this week. The Dow Jones Industrial Average slid 62.13 points, or 0.4%, to 16370.96, on Monday, bringing year-to-date losses to 8.1%.

On Aug. 24, TD Ameritrade Holding Corp., one of the largest U.S. online retail brokerages in terms of trading activity, handled trading volumes that were four times the average size, said Steven Quirk, senior vice president of the trader group at TD Ameritrade. In the first half-hour, volumes were 10 times the average. Fidelity Investments also reported above-normal retail-trading activity.

“Mondays are generally going to be some of your busiest market opens as well because you’re queuing up orders over the weekend,” said Gregg Murphy, senior vice president of retail brokerage at Fidelity. “A large percentage of trade activity takes place in the first 30 minutes of market open.”

Chris Vorwald, investment associate with Cincinnati-based financial-advisory firm Truepoint Wealth Counsel LLC, said he doesn’t like to trade at the beginning of the day. But sometimes he can’t avoid it due to client demands. Recent market spikes and falls have illustrated the danger of early morning trading, however, and it is one he has been emphasizing to clients.

“In the morning, you tend to get a lot of overreaction to overnight news or news coming out of other markets,” said Mr. Vorwald. He tells individual investors that they are likely to fare better if they avoid making quick emotional decisions based on opening swings.

“When you have a day where the market is falling hundreds of points, let the market settle down and get a better idea of where the true market is before you trade,” he said.

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