SPECTRUM®

MOVE OR BE MOVED –

Investors increasingly in favour of active trading approaches

Trend trading describes the activity of entering into trades with the aim of participating in a longer-term movement of the price of the asset traded. It is not just randomly buying and holding but requires conducting thorough fundamental analysis.

Swing traders, in contrast, engage for much shorter periods, mostly days or sometimes weeks to benefit from highs and lows within a longer-term trend. They rely on technical analysis trying to detect and interpret patterns that, according to comparison with statistical empiricism, gives them sufficient confidence to derive a forecast for the next trading sessions. Not for nothing, swing traders are referred to as buying support and selling resistance.

Whether the majority of your clients belong to the former or the latter category or even applies a blended strategy will be entirely up to their choice and, respectively, their experience as traders. Consequently, any advice as to which behaviour is more advisable or preferable from another can hardly be serious – since this depends on multiple variables and each approach has its pros and cons.

It is a common misconception though that traders holding their positions for longer periods are less exposed to risk. This notion may be attributable to the fact that a less active trader takes fewer trading decisions and has a smaller number of trades to take to execution. It is an undisputed fact, however, that a longer holding period – as far as the exposure to risk through a single investment is concerned (rather than the performance of the portfolio over time) – is statistically not decreasing this single risk.

Factors such as the transparency of the whole execution process, the order book depth or the execution likelihood, transaction costs etc. may have worked as additional push factors in the past leading private individuals to become more and more passive.

The discernment that the benchmark is too hard to beat has become an often-cited excuse for staying away from the markets whereas the real concern has been that the entire investment process and the circumstances around the execution were too complex, costly and opaque for a private individual to succeed. As a consequence, passive investors have been suffering disproportionately from portfolio losses they could have curtailed or even avoided had they been in the driving seat.

The unbroken growth in trading volumes since the launch of Spectrum Markets last year and the trading patterns we've been observing foster our belief that once markets are truly accessible and fully transparent, the attitude towards passivity is going to crumble.

In trading, what counts is your clients' strong opinion and, ultimately, the terms under which they can take this opinion to the market. The technical, legal and operational infrastructure of Spectrum has been designed to offer ultimate support for those among your retail clients who prefer trading actively.

Please don't hesitate to get in touch if you wish to receive further detail.

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