SPECTRUM®

DIVERSIFIED TRADING

by Tobias Stöhr, Sales Executive at Spectrum Markets

Keeping the portfolio well-diversified is probably one of the best-known investing concepts in the world. Allocating funds by asset classes, sectors, regions, strategies or, increasingly by ecological or social criteria, is practiced by institutional and retail investors alike. Levelling the inherit risks by spreading the exposure across various investment or trading styles is a much less common approach.

One of the lessons that life teaches us is that it's never a good idea to "put all your eggs in one basket". With regard to investing, there are different opinions about what actually constitutes a diversified portfolio, but there is a general understanding that the various individual assets should have a low correlation with each other in order to minimise risks and smooth the volatility of a portfolio. For many investors in the institutional as well as the retail space that means, money should ideally be spread across several asset classes, industry sectors and geographic regions.

Interestingly enough though, the concept of diversification is rarely mentioned when it comes to trading or day trading. Of course, a trader can focus on a range of markets simultaneously and allocate not more than a few per cent of his or her budget to any single trade, thereby ensuring that the exposure – as short as the time-frame may be – is overall diversified. However, another way of diversifying is to use different trading styles.

Depending on their trading goals, trading hours and other factors, most traders stick to just one style:

- **Scalping** – usually numerous short-term trades, entered and exited in one day, aiming to achieve profits by catching multiple small wins.
- **Day trading** – often just one or very few trades, entered and exited in one day, aiming to achieve profits by finding the best buying and selling spot of a financial instrument.
- **Swing trading** – often just one trade, entered and held over several days or weeks, aiming at larger price targets.

While the trading style and hence the trading plan usually reflect the personal preferences of a trader – and some become exceptionally successful over time exactly because they focus on one style of trading only – a particular style might not be adequate for all market conditions. In short, traders may miss out on potential gains or larger gains.

Using not only one but two or three different trading approaches requires additional skills and training, but this kind of diversification can help to reduce the risks and boost the profits over time.

Brokers may want to consider connecting with Spectrum Markets as our venue is suitable for all trading styles and can be especially beneficial for those retail investors and traders who want to trade outside the market opening hours: the range of securitised derivatives on highly liquid indices, currency pairs and commodity derivatives listed on our venue can be traded 24 hours, 5 days a week. This includes the opportunity to shorten assets through derivatives where they're deemed overvalued.

Get in touch today to learn more about Spectrum as a true marketplace, allowing your clients to see orderbook prices and volumes, which enables more informed decisions during varying market conditions.

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

spectrum-markets.com

Tobias Stöhr
Sales Executive
+49 69 4272991 81
tobias.stoehr@spectrum-markets.com

Spectrum is the trading name of Spectrum MTF Operator GmbH. Headquartered in Frankfurt, Germany, we offer a new way of dealing in leveraged products for the European retail market; introducing a purpose built 24/5 lit trading venue, with complete transparency, increased choice and maximum control