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TRADING WITHOUT PAIN

by Tobias Stöhr, Sales Executive at Spectrum Markets

The emergence of online trading platforms has enabled countless millions of people from all walks of life to engage in security trading. While the prospect of having the world's markets at your fingertips can be exciting, trading requires at least a basic understanding of the financial markets, the potential costs and the risks involved. Needless to say that brokers play a pivotal role when it comes to educating retail investors. Here is an overview of the key factors to consider when registering with a broker and starting to trade.

Brokerage account

There are a wide range of online brokers to choose from, so it is important not to get lost in the offerings while shopping around. Aspects to focus on should include how easy the broker's online platform and app are to navigate, what products are listed, which features are offered (e.g., provision of market or company research, virtual trading without real money) and whether trading commission fees are charged. Furthermore, it is important that the platform has a reputation for being reliable and stable during times of high frequency trading.

Financial markets

Before starting to trade it's crucial to have at least a basic understanding of the functioning of the financial markets: What are the opening hours of the markets? What impacts the prices of securities, derivatives or ETFs? What are the major indices? What is the difference between the bid price and the ask price? What asset classes exist and how are they correlated (e.g., with regard to risk exposure)? What costs occur when trading mutual funds or ETFs (awareness of expense ratio)? More and more online brokers offer educational information on these and many other market-related topics.

Trading strategy

All buying and selling orders need to follow a trading plan. Such a well-defined strategy can include many aspects supporting the decision-making process and helping to overcome emotions, such as a clear set of expectations, accepting or cutting losses, using stop-loss orders and sticking to a time horizon.

Investment self-restriction

One of the most quoted rules in investing is: "Only invest money that you can afford to lose." That's true for very experienced traders as well as beginners – and it is one of several crucial aspects that high-quality brokers will clearly point out to their retail clients. In any case, especially when new at trading, it is important to start with negligible amounts, even if more money is available for trading. After all, the first steps on a trading platform should not be about aiming for huge gains but about getting familiar with the ins and outs of the platform and its tools and features in order to deal properly with larger sums at a later stage. Obviously, beginners should avoid trading with margins. Some online brokers offer trading simulators which can be used for training, so that traders can make mistakes without risking any real money.

Risk self-assessment

How large the sums that are used for trading can eventually become and whether they are used for risky or less risky assets, depends on anyone's personal circumstances and risk appetite or tolerance. The latter should be assessed before starting to trade. In fact, some of the trading platforms offer risk self-assessment tools. But they are also available elsewhere on the internet. Such tools can help a trader to understand how he or she would react to potential losses and which asset classes or products might be perceived as too risky. It's paramount to act in line with the personal risk aversion and not to ignore it in order to chase performance (because of the fear of missing out of a potential opportunity).

Tax rules

Beginners tend to treat taxes on trading gains like an afterthought. However, it's important to understand, among other considerations, that in many countries the taxes that have to be paid on profits can depend on the holding period of a security. For example, in many places the capital gains tax is lower when a stock that was sold with a profit was in the portfolio for more than a year.

Spectrum Markets

Brokers may want to consider connecting with Spectrum Markets, so that their retail clients can benefit from the innovative features and the range of products on offer on our venue: securitised derivatives on highly liquid indices, currency pairs and commodity derivatives that can be traded 24-hours, 5 days a week.

Get in touch today to discuss how the seamless market access that our venue provides, can help to grow your retail client business.

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

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