



Trade or Invest? Which is Better?

Market sentiment has improved substantially in the last twelve months after several years of downturn. Retail investors are active again, trading on their favourite stocks. It is easier to make money in a market uptrend than in a downtrend. Still, investors should ask whether it is better to make money from trading or investment as the market comes and goes. One day, the market will come down. Investors should ask themselves whether they are investors (on fundamentals) or traders (on speculative news, theme play, concept stocks etc). Each approach requires different skills and strategies. Unfortunately, many investors always get mixed up between trading and investment. Many a time, they started off as trading but keep the stocks for investment once they lose money on the stock.

I gave a sharing at the 14th Phillip Investment Conference and my topic is "Trade or Invest? Which is Better?"

Trading is exciting, if you make money that is. That excitement lures many retail investors to try their luck in the buoyant stock market.

There are many successful investors and traders that make huge amount of money over the years (see Exhibit 1). The most successful long term fundamental investor is none other than Warren Buffett who focuses on steady growth stocks. On the other hand, one of the most famous traders is George Soros who profited mainly from shorting currencies.

Trading and investment are two extreme strategies although in certain cases, they overlap i.e. an investment stock may also be used for trading. Nevertheless, investors should be clear whether a stock is purchased for investment (suitable to be held for long-term) or for trading (for short-term).

Investors generally are happy to take profit after the share price goes up, but the key is what you will do if the purchased stock runs into losses. For trading stocks, it is necessary to cut loss which is a difficult decision for most people.

The single biggest mistake for most people is not having the discipline to take a loss if a trade turns bad. A time frame should be set to sell if a trade turns out to be wrong, rather than clinging to false hope.

A real trader treats each trade as a bet which may be profitable or turn out to be a loss while a longer-term investor is investing for long-term targets (see Exhibit 2).

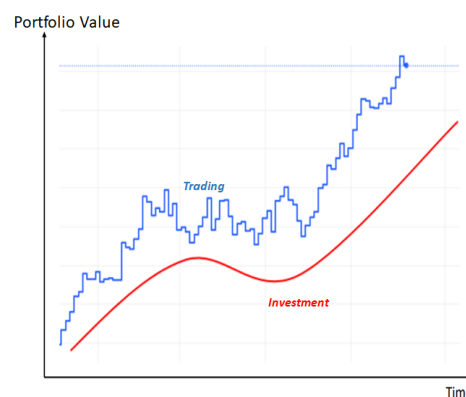
Finally, trade or invest, which is better. There is no fixed answer as both can be profitable provided you know how to do it. Few people make money from trading as they lack the discipline to take losses and also due to lack of time to monitor their trades. It is better for you to invest if your objective is to make money.

Exhibit 1: Warren Buffett vs George Soros



Source: MIMI Money

Exhibit 2: Trading looks for incremental gain



Source: PCM Jul '24

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