



# Trading vs. Investing

# Trading vs. Investing – what's the Difference?

## Trading

*“Investing and trading are two very different methods of attempting to **profit in the financial markets**. Both investors and traders seek profits through market participation. In general, investors seek larger returns over an **extended period** through **buying and holding**. Traders, by contrast, take advantage of **both rising and falling markets to enter and exit positions over a shorter time frame**, taking smaller, more frequent profits.”*

*“Trading involves **short-term (active) strategies** to generate daily, monthly, quarterly **income**.”*

### Examples:

High-Frequency Trading, Day Trading, Swing Trading, Algorithmic Trading, Copy Trading

## Investing

*“Investing takes a **long-term (passive)** approach to the markets and often applies to such purposes as **retirement accounts**.”*

### Examples:

Portfolio Investing, Diversified Investing, Investing with Asset Managers and/or Robo Advisors, ETF Investing

(Source: Investopedia.com)



# A detailed comparison

	Trading	Investing
<b>Investment Horizon</b>	Short Term (intraday, days, weeks)	Long Term (2 - 50 Years)
<b>Profits/Income Generation</b>	Trading gains, frequent cash income	Long term growth / Dividend income
<b>Asset Classes</b>	Forex, Cryptocurrency, Commodities, Stocks (Index)	Stocks, Bonds, Real Estate, Alternatives, Gold
<b>General approach</b>	Active (frequent trading)	(typically) passive, Buy-and-Hold
<b>Positions</b>	Long and Short	(typically) Long only
<b>Instruments</b>	Derivates (CFD, Futures, Options)	Physical, Funds, ETFs
<b>Leverage</b>	Yes, can be very high (Margin Trading)	No
<b>Trading / Transaction Costs</b>	frequent, high (Commissions, Bid-Ask Spread)	low, ETF and Asset Manager Fees
<b>Diversification</b>	No / Low	High, Portfolio approach
<b>Strategies (selection)</b>	Technical Analysis, AI based, Statistical Arbitrage	ETF (passive), Portfolio Optimization, Style (Value vs. Growth)
<b>(Desired) Returns</b>	High / Very High ("10 percent per month")	5-10% per year
<b>Risk</b>	High / Very High	Low to Moderate



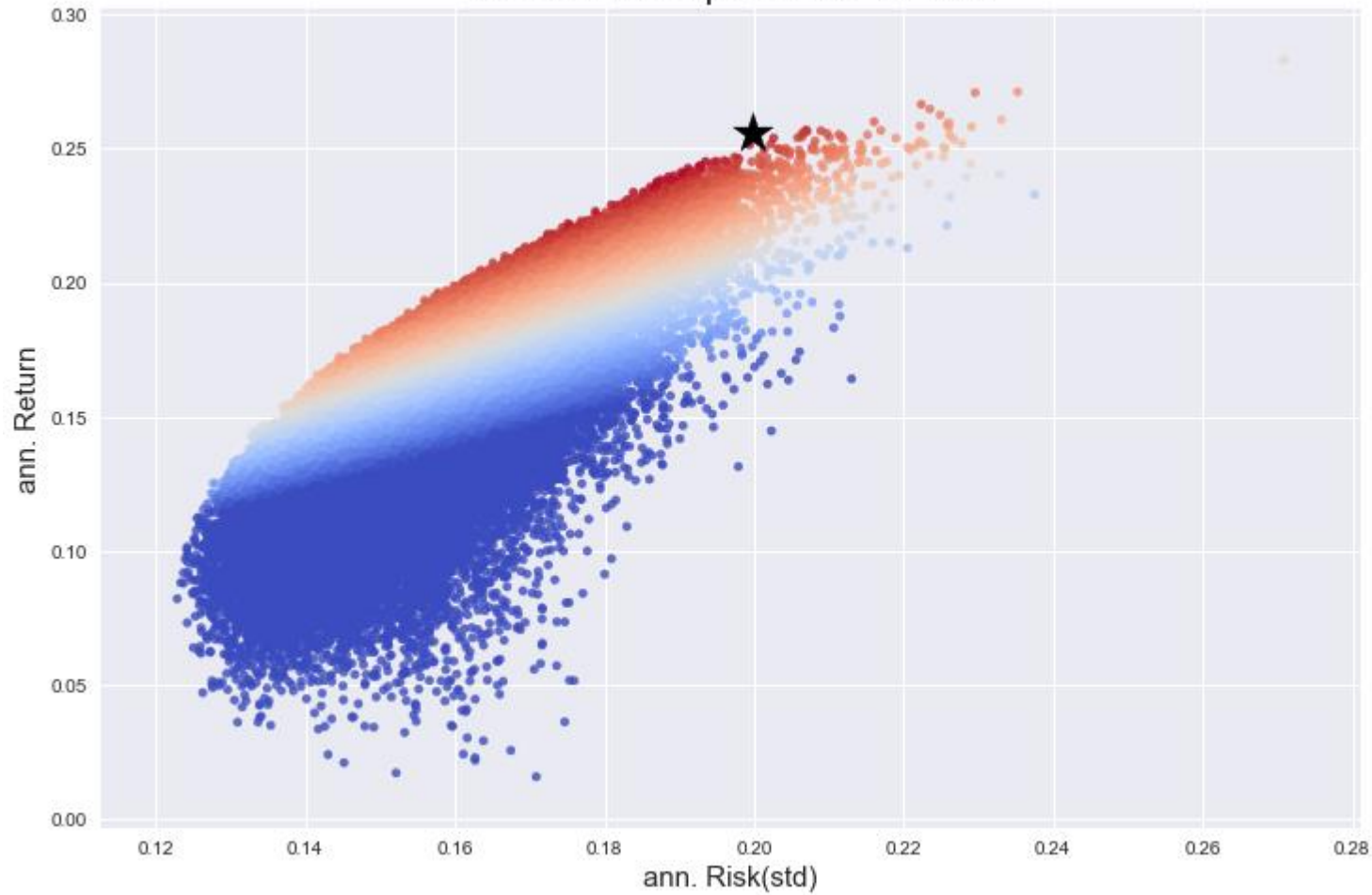


# Trading at a glance



# Investing at a glance

The Max Sharpe Ratio Portfolio



# No matter if you trade or invest...

...Decisions should always be based on rigorous **quantitative** and **data-driven** analysis:

- Fundamental Data, Price and Volume Data
- Performance Measurement and Risk Analysis
- Optimization Tools
- Backtesting and Forward Testing
- Simulations
- Knowledge and Skills

...Trades/Investments should follow a **systematic Strategy** / Idea

- Definable and unambiguous
- measurable and quantifiable (Backtesting)
- reproducible

Trading/Investments decisions (primarily) based on **Gut Feeling and/or Intuition** do **not meet** the above criteria!

Traders/Investors need to have a **plan** and the **skills and resources** to execute that plan.

