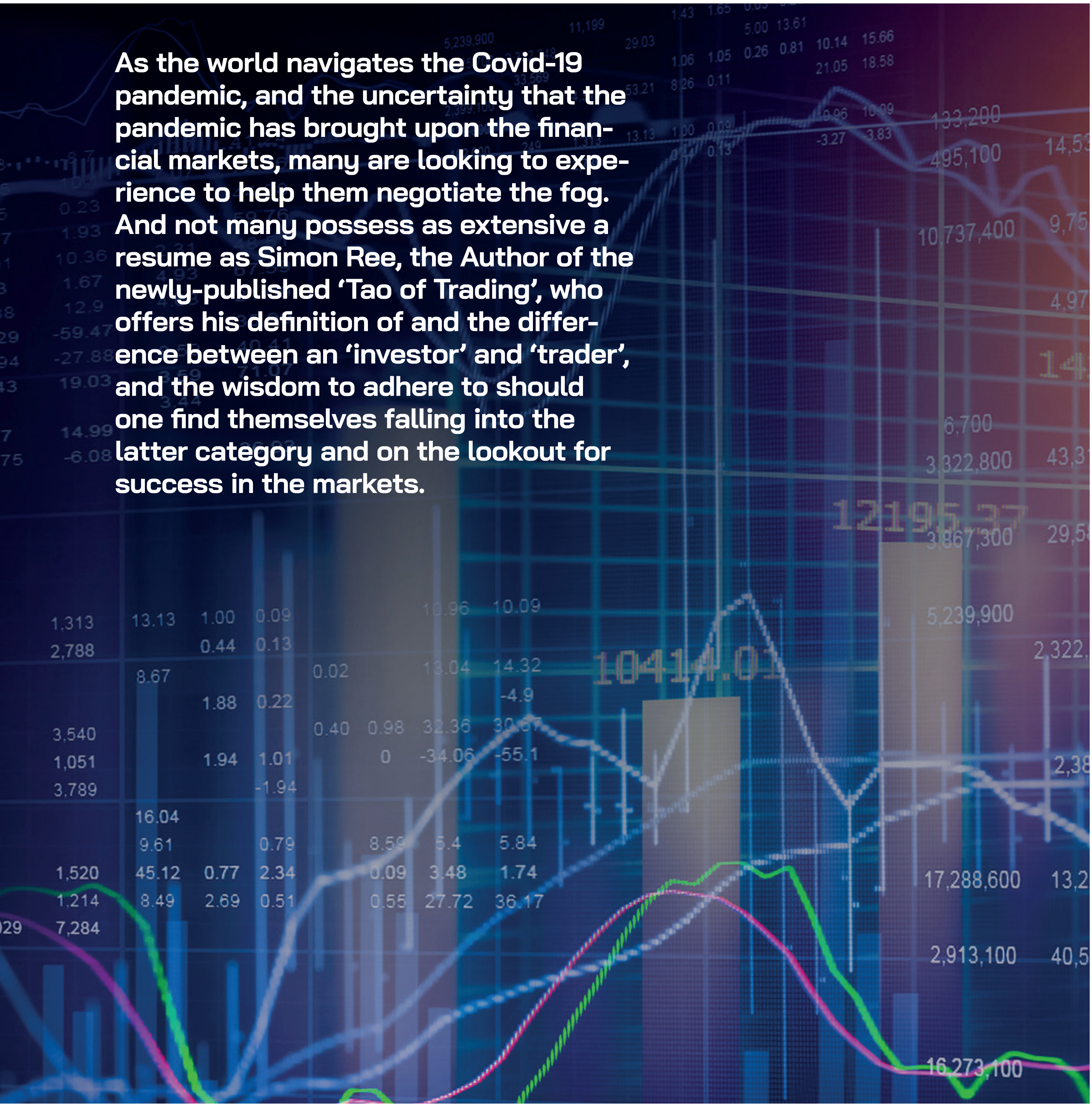
Are You an Investor or a Trader?



As the world navigates the Covid-19 pandemic, and the uncertainty that the pandemic has brought upon the financial markets, many are looking to experience to help them negotiate the fog. And not many possess as extensive a resume as Simon Ree, the Author of the newly-published 'Tao of Trading', who offers his definition of and the difference between an 'investor' and 'trader', and the wisdom to adhere to should one find themselves falling into the latter category and on the lookout for success in the markets.

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"Are you a trader?"

"No way, trading is too risky! I'm an investor."

In my nearly three decades of experience as a financial markets professional, I've met thousands of people who buy and trade stocks, and this is a common refrain. The clear majority of them—at least 85%—characterise themselves as investors in the market, not traders.

It's as if there's something less dignified about being a trader. Traders get associated with gambling. They're considered risky and focused on scoring quick wins. But people have it all wrong.

The real difference between investing and trading isn't time, it's purpose. As I'll explain, far more people would be considered traders than investors—likely including you.

Investors and Traders Differ in Purpose

Most people think the difference between an investor and a trader is a function of time. Supposedly, investors have long-term time frames and traders operate in the short term. In reality, the difference between the two is purpose.

Real investors are owners of a business. They buy stock in a company because they understand the business, they believe they're buying in at a fair price, they look forward to participating in the profits of the company over many years, and they intend to hold the shares for a long time, maybe indefinitely.

Everyone else is a trader

Real traders—the ones who know what they are—understand that trends in markets exist because of strong human emotions. They buy and sell stocks because fear and greed create opportunities to profit from the identifiable patterns that form within trends.

In other words, traders buy a stock because they expect to be able to sell it later at a higher price. If that sounds like you, well, my friend, you are a trader just like me.

Are You Misidentifying Yourself?

The notion that you're a trader might be jarring if you hold to the idea that traders operate in the short term with high stakes, and other myths that characterise

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them as risky. But many people have a tough time navigating the stock market because they're following advice for real investors when they're not a real investor.

If you're a trader, you'd better start acting like one. In addition to acknowledging your purpose in the market, here are a few more ways you can recognise that you're actually a trader:

- If you've ever bought a stock expecting to be able to sell it at a higher price in the foreseeable future, you're a trader
- If you check the value of your holdings every day, every week, or every month, you're a trader.
- If you're pondering how this quarter's earnings will affect a stock's price, you're a trader.
- If you wonder how markets will react to next month's Nonfarm Payrolls number, you're a trader.
- If you think you should sell Bank Of America and buy Wells Fargo "because it's cheaper," you're a trader.

We all like to think that we can make rational, logical decisions unaffected by emotion. These are the characteristics of a good investor—but they apply to very few of us. Indeed, conventional financial theory suggests that investors are rational and seek to maximise profit through objective, non-emotional investment decisions.

Nobody invests with the goal of losing money. However, the emotions of fear and greed, along with herd instinct, have always been the main drivers of stock prices and investor behaviour, and these lead people to make irrational investment decisions.

Control Your Emotions and Ego

To improve your trading game, you can take a lesson from professional traders about controlling your emotions and ego.

Many people who think they're good investors will buy into a stock based on logic and sound reasoning. However, after they've bought in, they will often succumb to the emotions of fear and regret, and end up selling winners and hanging onto losers.

You must remove emotions from trading, but also keep your ego in check. There's an old saying that investors like to toss around: "You never make a loss until you sell."

This saying is usually offered as a nugget of wisdom, but it has more to do with the ego's reluctance to face up to the regret of loss. You wind up holding onto a losing stock for longer, ultimately taking a major loss instead of a minor hit.

Similarly, investors will see a solid gain on a position but will refuse to take profits, even if the gain has met their wildest expectations. They'll find new reasons to hold on because greed and the fear of missing out have taken over, and they don't want to leave potential gains on the table.

As you can see, fear and greed can negatively impact returns for both investors and traders if you're not in control of your emotions. At the same time, getting a handle on your emotions can give your results a solid boost compared to the average "investor."

Accept Your Role as a Trader

Whether they like to admit it or not, most participants in the stock market are traders—and there's nothing wrong with that at all. If you fit the purpose and definition of a trader, it's time you embraced your role. Instead of trying to fit the investor mould, find ways to improve your trading outcomes, starting with controlling your emotions and ego.

Trading doesn't have to be risky, but it's up to you to determine your acceptable risk and keep emotion out of your trading decisions. A good trader knows that emotion will often override logic in the market. She can spot emotional extremes in the market and exploit them for profit. More importantly, she is aware of her own emotions and has rules in place to keep them in check.

To be a profitable trader, you must follow a robust set of trading rules about when to enter and exit a position, develop strong risk management discipline, and above all, do so with consistency. Follow these principles, and you'll take emotions out of the equation as much as possible and stay on the right side of the market. ■

The Tao of Trading: How to Build Abundant Wealth in Any Market Condition

In his twenty-five years as a banker, advisor, and player in the markets, Simon Ree has witnessed first-hand the many hurdles individual investors must overcome to succeed. He wrote 'The Tao of Trading: How to Build Abundant Wealth in Any Market Condition' to put readers on the fast-track to financial success.

The book teaches readers:

- How to instantly read market trends so you're "sailing with the wind at your back."
- The most powerful tool in finance for building your wealth AND managing your risk.
- How to generate consistent cash flow from the stock market.
- Simple to learn techniques that will have you trading the markets like a pro.
- And much more.

About the author

Simon Ree has twenty-eight years of experience as an active trader, investor, and financial markets professional. He previously held senior positions with Goldman Sachs in Sydney and Citibank in Singapore before deciding to focus on options trading full-time in 2017. He has spent over 40,000 hours watching and analysing markets, and during this time, he "cracked the code" on how to trade safely and profitably. Today, he's passionate about teaching others what he's discovered. In addition to trading, Simon is a certified Jeet Kune Do instructor and a Reiki master. He lives in Singapore.