

The long and short of investing into volatility

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With shares hovering close to the same level they were five years ago some experts are suggesting the buy-and- hold strategy is dead. But that doesn't mean investors can't make money. With sharemarkets seemingly going nowhere and trading in a well defined range, investors can still make the market work for them by investing regularly in a disciplined manner and with a long-term horizon.

And they can do it all online.

According to financial services researcher Investment Trends, the volume of traders trading shares online in the 12 months to May, and who also intend to continue trading shares online, increased by 50,000.

Investment Trends senior analyst Pawel Rokicki says more investors had been using online brokers since the global financial crisis.

"Our other research has highlighted a lingering investor distrust of financial institutions that is making life challenging for fund managers at the moment, but which is clearly benefiting providers of online share trading.

"Short-term trading volumes fluctuate greatly depending on what is happening with share prices, but the growth in underlying trader numbers should see future high volume months set new records for the online brokers."

The choppy nature of sharemarkets in the past few months means investors have to be quick on their feet to take advantage of any moves in share prices.

On the surface it might seem like a tough time to expand your share portfolio, given there is little doubt that the market faces a highly volatile future as investors debate the probability of the US markets falling.

But high volatility and a degree of sharemarket uncertainty can combine to help create some of the best trading opportunities for investors who don't necessarily want to simply buy blue chip stocks and want to be more active in their trading. It might also suit investors who want to run against the more conventional investment herd.

In fact, some analysts suggest that's what investors should have been doing for the past 10 years, given that in most developed markets the indices have returned low or no returns in the past 10 to 20 years. Think shares in France, Germany, Britain, Japan and the United States.

Pulse Markets managing director Hamish McCathie reckons that online trading makes it easier to move in and out of shares quickly but also believes if used correctly contracts for difference are a very good tool.

"They are cheaper for a start and can boost profits if used in the right way.

"Most people get into trouble when holding positions overnight but if you use them strictly in a day trading sense they can be very beneficial," McCathie says.

Jim Taig, managing director of Seismo Market Solutions, says the view of buy and hold as a long-term strategy no longer works.

"Due to market volatility, it is essential to be able to trade both long and short using shares and direct market access CFDs – in order to optimise your portfolio performance over the short and long term," Taig says.

"However decision versus execution is the critical issue when trading or investing. Your success online will always be based on the accuracy of your decisions before you execute."

Taig believes there are a number of key questions that investors must ask when trading online.

The critical trading and investment decisions are: what to buy, what to sell and when; how much to buy or sell and why; questions over whether to go long or short, which are essential strategies in volatile markets; how to manage your trades and how to set your stop losses, and how to scan the markets to find optimum buy and sell opportunities.

Finally, investors need to determine whether they sell their shares or hedge them (using CFDs or options) – in order to protect their capital and profits.

The Australian Financial Review

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