Investing Vs Trading

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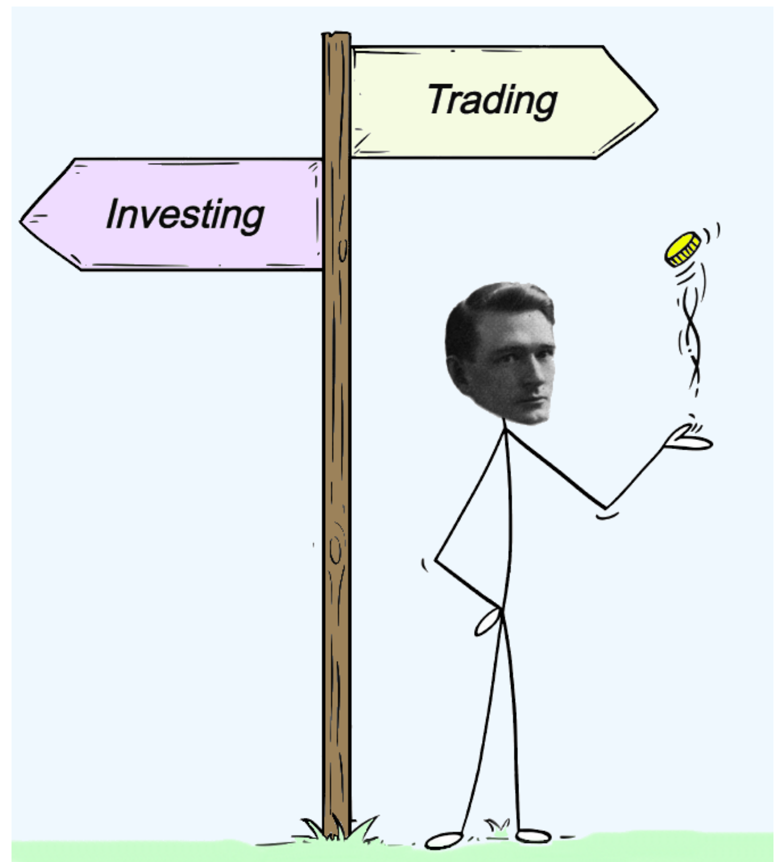
1. Introduction

This might sound simple; but a key thing that market participants tend to overlook is the difference between Investing & Trading.



Many decide to stick to purely one or the other for the sake of simplicity or playing into their strengths.

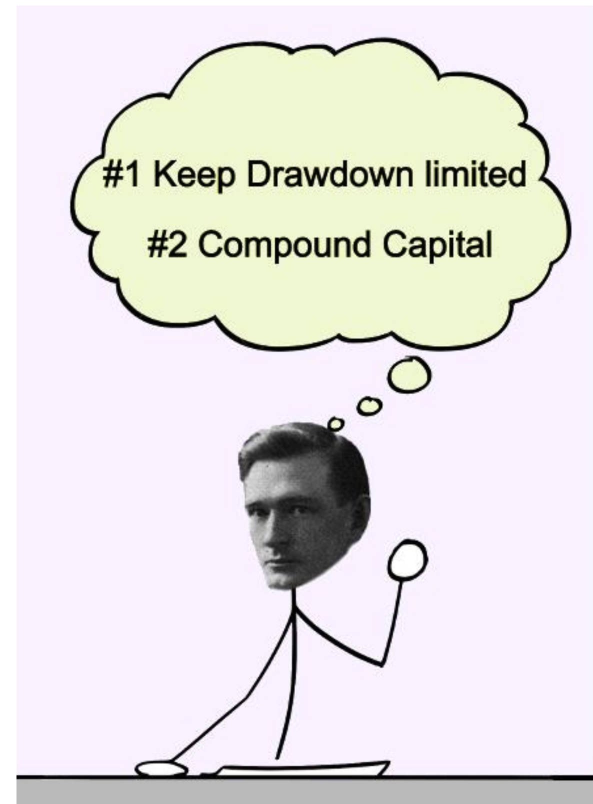
Unfortunately, many people allow crossover between the two different approaches to the market, which usually ends up being detrimental to their portfolios.

The best is to do both. I'll discuss some concepts to further breakdown the differences between the two, and how one may look to approach doing both successfully without confusion or cost to the market.

> ***The best is to do both.***

2. Trading

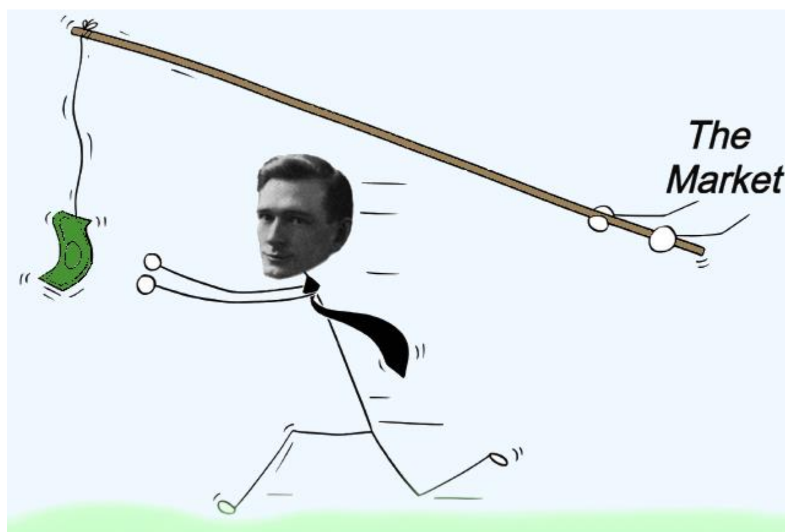
As a **trader**, you look to increase your base asset as much as possible, with as little drawdown as possible.



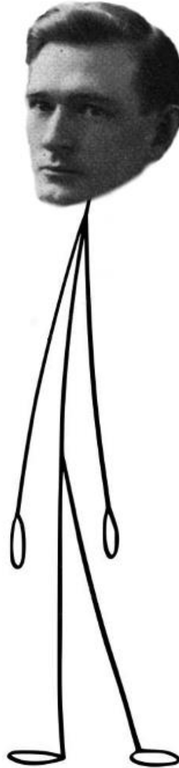
Funnily enough, the latter portion of that sentence is actually more important than the former. As a trader you should look to keep your drawdown limited as a priority, and then compounding capital on top of that should be the secondary.

Traders often look to play into trends, usually via technical analysis, narratives, or events, that may affect the price.

A **great trader** keeps his ammo for when the timing is right, then strikes for moves that have positive expected value - aiming to increase their capital, take profit, and then move on to the next trade.



3. Investing



An **investor** is different on many levels. First, there are different ways to be an investor, and for different reasons as well (some may be the same).

Investors put less weight on their fiat currency, and prioritize building a solid portfolio of assets they deem likely to return value over time. They often approach their investments via; Dollar cost averaging, judging sentiment, or fundamental analysis.

The key here is: an investor's main variable is **time**. The idea is; the more time that passes, the more likely that investment will turn a profit.

Because of this, you may find that investors feel more comfortable investing into an asset that has been tried and true over the course of a long period of time, as they deem it a safer investment, however not everyone can do efficient research or fundamental analysis.

> ***Investors prioritize building a solid portfolio of assets they deem to return value over time.***

4. Difference between trading and investing

You see, investing and trading is similar on many fronts, which is why it's so easy to mix up the two and forget which approach you're applying to which assets, where your priorities reside, and what your initial game plan was. The main thing to remember is that investors and traders work based on two entirely different variables.

Investors work based on **time**. **Traders** work based on **price**.

Therefore; if you ever find yourself closing out of an investment because the price is changing, even when your initial thesis is still valid, you may be operating as a trader at that very moment.

> ***Investors work based on time. Traders work based on price.***

Similarly; if you ever find yourself closing a trade because time has passed and price hasn't done what you thought it would, even though the reason for you entering the trade is still valid, you may be confusing yourself with operating off of an arbitrary variable to that specific trade.

All too often, especially in crypto, traders will come in and attempt to trade a coin, and end up as an investor. Only doing fundamental research to justify their investments after the fact, with a heavy bias attached.

Important

On an important note, we'd like to mention that it is very important to keep the Macro cycle in mind while investing and know your exits.

On the other hand, many have found themselves spending lots of time researching and developing a game plan for the long term, only to ditch the plan entirely and opt to trade their investment for either a loss, or a much smaller win than what they're targeting as an investor upon initially entering.

Whilst the honest truth is; the only way you'll begin operating as both is likely via **making those mistakes enough times**, **acknowledging them**, and **developing some very strict rules for yourself to clearly be able to define the two different approaches**.

Know if it's a recession doom market, there's no need to have an investment portfolio.

5. Tips on how to make the difference

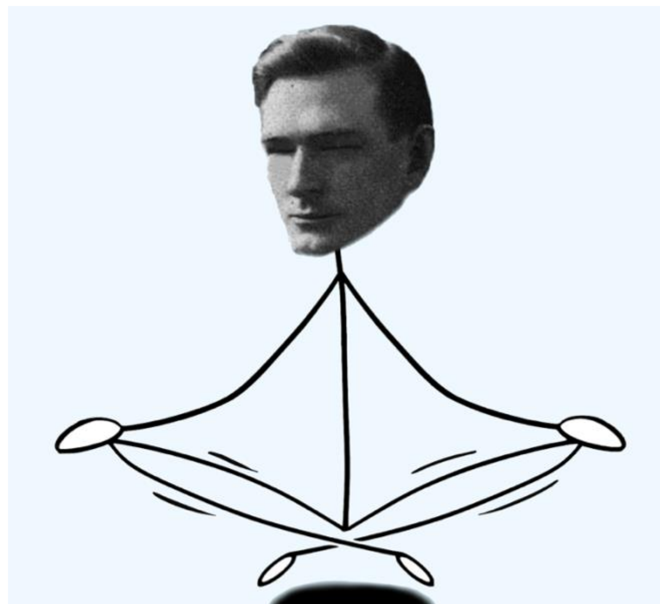
Here are some **ways** you may find help ease the learning curve a bit:

- Something as simple as physically **separating your investment account from your trading account**.

  Things get very tricky when your capital for both is tied up in the same account, and you'll often find yourself tempted to go off-course in either direction.

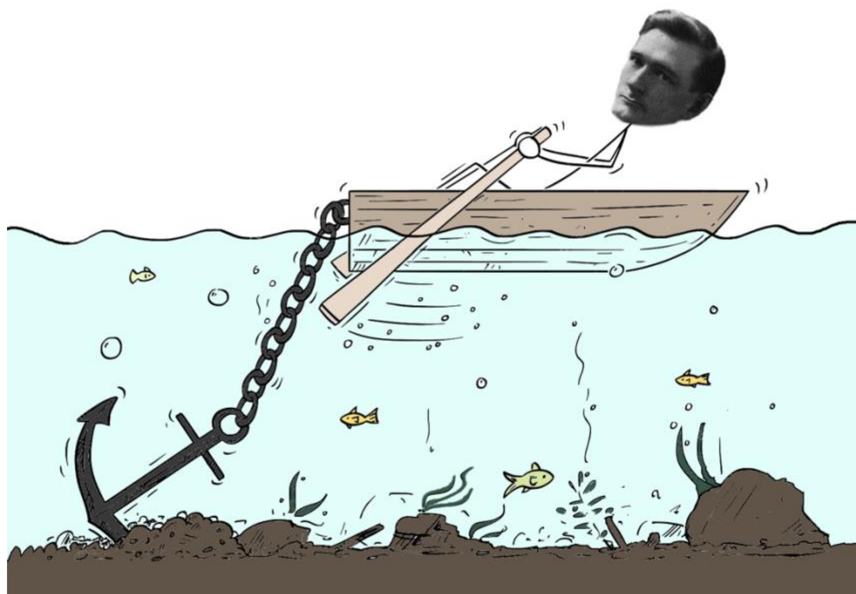
> ***Separate your investment account from your trading account***

- **Sit down** and **think hard about the approach** you want to take as a market participant entirely. How much do you feel should be dedicated to investing? How much to trading? How are you justifying this decision? Will you rebalance the two every 3 months or so? Will you take trading profits and use them to invest? Etc.



- **Limit your ease of access**. In the prime digital era we're currently in, it's incredibly easy to login to your investment account, and make a drastic decision on the drop of a dime.

  If you find that you have low emotional control and often put yourself in bad situations with impulsive decisions, you may find that limiting how quickly you can access those investments/funds will **create a barrier of time** for you to fully process your decision before acting irrationally.

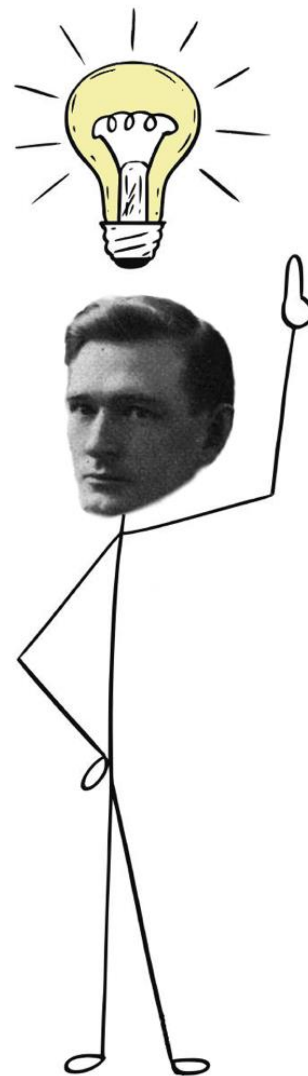


- **Rethink your approach from the ground up**. It may sound like regurgitated information to veteran market participants, but the first rule of investing is: "Never invest more than you're willing to lose". This concept should be applied to your approach to the market as a whole. If you wholeheartedly can stomach your investments going to 0, you'll quickly find that you're able operate as an investor much more efficiently, and could likely turn a profit much higher than if you were to force yourself to be uncomfortable risking much more than you should.

> ***Never invest more than you are willing to lose.***

- On the same note as the above, **deeply consider how much capital you're willing to put up as a trader to sharpen your skills**, especially in the early stages of your trading career where you pay lots of tuition fees to the market. How will this capital division impact your ability to perform as an investor? Asking yourself simple questions like these and 15-30 minutes of a deep state of thought can drastically shift your ability to perform greatly as a market participant.

> ***How much capital are you willing to put up as a trader ?***



6. Conclusion

I hope you've found this informative and refreshing. I thank trader Mercury for this insight. Don't forget that you can always access my free mentorship lessons here Mentorship Index. And yes it's free, always have been, always will be.

Cheers to being a level-headed player of markets.