

Do you Know the Difference Between Investing and Trading in the Stock Market?

TDS Corporate Tokyo Japan Since 2005

Japan, Tokyo, May 11, 2021 ([Issuewire.com](https://www.issuewire.com)) - When it comes to wealth creation, investing and trading are the two ways to make money in the stock market. However, investing and trading are very different styles of wealth creation or earning profits in the equity market. For example, today, you and your friend bought an equal amount of seeds to sow in your fields but you sold them to someone in a day because you could earn profit. However, your friend sowed the seeds and let them grow for a few years till they gave new seeds. He sowed the new seeds and continued this for years and sold a lot more seeds eventually than were bought. By investing his seeds, he would have made a profit quite different than what you made by trading your seeds. This is simply the difference between investing and trading. To learn the same in financial markets, let's learn other key differences between investing and trading.

1. Time Horizon

Investment and trading can be differentiated based on the time horizon. Let's understand this with an example. Suppose you have money and you buy a shop to start a new business. Within two weeks the price of your property increases and you sell it for a profit. This is called trading. However, if you purchase a property because you know that it has huge long-term appreciation potential since the area will be developed into a residential area, and hence hold on to it then you are investing.

Trading simply means holding stocks for a short period and making a profit by selling stocks as soon as the price touches a high. The period of consideration for traders can range anywhere from a day to weeks to months. On the other hand, the stock investor selects stocks based on strong fundamentals and holds on to them for a longer time, ranging from a few years to decades to maximize their wealth in the long run.

2. Method

The other difference between trading and investing is in the method used to make money in the stock market. Traders use technical analysis to conclude their buy and sell decisions whereas investors use fundamental analysis. Fundamental analysis focuses on the company's financials, analysis of the industry, and the general macroeconomic situation in the country. Technical analysis does use the market price of the stock to predict future patterns and analyze historical ones but does not focus on factors affecting the market price. It studies trends in price, volumes, and moving averages over a period of time.

3. Capital Growth

Traders look at the price movement of stocks in the market. If the price goes higher, traders may sell the stocks. Simply, trading is a skill of timing the market whereas investing is an art of creating wealth by compounding interest and dividend over the years by holding quality stocks in the market.

4. Risk

Both trading and investing involve risk on your capital. However, trading comparatively involves higher risk and higher potential returns as the price might go high or low in a short while. However, investing involves comparatively lower risk and lower returns in the short run but might deliver higher returns by compounding interests and dividends if held for a longer period. Daily market cycles majorly do not impact quality stock investments for a longer time.

Financial Takeaway

Trading can be an exciting way to earn quick money. However, like with gambling, it can also quickly lead to major losses. Investing usually means smaller short-term wins, but also fewer severe losses. If you're comfortable with the risks, trading with a portion of your money can be enjoyable and could lead to profits.

If minimizing risk and exposure to volatility are your main goals, then long-term investing is recommended. But if you're saving for a financial goal that you hope to reach by a specific time, a slow-and-steady investing approach is usually best.

Media Contact

TDS Corporate

admin@tdscorporate.com

TDS Building Shinogawamachi, Sinju-ku

Source : TDS Corporate

[See on IssueWire](#)