Fresh Invest: Getting active
Season 2, Episode 1 Transcript

Alex Lieberman, Co-founder and Executive Chairman of Morning Brew Hey, everyone, I'm Alex Lieberman, co-founder and executive chairman of Morning Brew. This is season two of Fresh Invest, your favorite investing podcast sponsored by Fidelity Investments and powered by Morning Brew. Last season, I talked to our trusted friends at Fidelity about some broad financial and economic topics. This time around, we're getting personal as we delve into the biggest themes in today's financial headlines and then spell out what they actually mean for your portfolio.

Alex Today's topic: How to decide whether being an active trader or a passive investor is right for you. When talking about the markets, we often hear the terms investors and traders. But what's the difference between the two, and which term might describe you? It's all about the time span. Investors are in it for the long term. They hold their positions for years and even decades.

Alex But traders do the opposite and try to make quick money off the markets through rapid buying and selling. You've probably heard a lot lately about day trading. That term refers to people who hold their positions only throughout a given trading day, not overnight. There are also swing traders who will only hold their positions from days to weeks, and even scalp traders who hold theirs for minutes and even seconds.

Alex Knowing your comfort zone and goals will help you choose the style that's right for you. So today I'm chatting with Brett Yoder for some insights on how to pursue trading, investing, or a combination of the two, and how to take a more active role in growing your own assets. Brett, welcome to the show.

Brett Yoder, Fidelity Trading Strategy Desk Alex, I'm glad you had me on.

Alex So, could you start by explaining who you are and talk a little bit about what you do?

Brett Yeah, absolutely. So I'm Brett Yoder, of course. But I work in a small group at Fidelity called the Trading Strategy Desk. What we focus on is just educating clients if they should be trading, or if they should be investing, or what metrics to look at. Really kind of the where to start. And then we take them from the novice or an experience, and we have content that pushes the whole way through to advance level, you know, options and derivatives-style trading and different ways that you can take advantage of market mechanics.

Alex So, I want to get a little bit of a peek behind the curtain and get a sense of what you do actually educate people on any given day or week. Can you walk me through what kinds of factors people should consider when they are deciding whether to invest or trade?

Brett Right. Where we start is the most basic of basic. I mean, the most basic question that you ask or you can think about asking is why are you investing? And the answer uniformly should be grow assets.

Brett So from that point, we just frame the idea then and we start to plant the seed of prospect. If I'm going to put my money out into the market for any investment, what sort of return should I be thinking? What sort of possibility does that stock have for me? What sort of volatility could I experience if I actually put my money into that stock? And how will that help me actually get to my financial goal?

Brett And then from there, goodness, we can go many different directions. We can go through technical analysis, fundamental analysis, trying to find or create some established checklist, almost, of what you should be looking at to have a repeatable process, to risk your assets, to get your return. And we just build, like dominoes, based off of that one idea.

Alex So, what that makes me think of is, you know, you obviously have the risk-reward that you have to assess of given assets, whether you're investing or trading. But then what I'm also wondering is how do you assess the relative riskiness of these two techniques — of investing versus trading? So when you're giving advice or thinking about should a client be investing or should an individual be investing or should they be trading, how do you weigh the relative risk of these two forms of putting money to work for asset appreciation?

Brett We've got to break them out between the two. And this is a great way for your listeners to try to decide, OK, am I more investor mindset, or I'm more trader mindset. Because with an investor, the way that we think about risk is that volatility. How much does the actual balance of your account go up and down? That's your risk. The risk is if the volatility kind of ebbs towards the downside, now your assets aren't worth as much and now all of a sudden you have financial need and you've got to pull out of the market when it's flowing down. Hey, there's your risk. So we articulate it via volatility. That's the investor mindset.

Brett Trader mindset is a little bit more straightforward, right? It's more articulate. I'm going to decide to buy XYZ stock at a certain price. I say 100 bucks, for example. If it goes up, the market trades up to a certain level, I'll take my profit. If the market trades down to a certain level, I will stop my loss. So now I'm articulating risk, not necessarily by volatility, because I'm trying to take advantage of the upside volatility. I don't want some, you know, blanket volatility measurement and say that's risk. No, I want the positive side of volatility and if it trades down 5%, $5, some monetary amount, some other sort of method that we can establish it, then we're getting out. So it's a little bit different.

Brett There's, in general, a benchmark. We can use the S&P 500. We can think about the idea that over its history, it normally moves up and down around 16, 18%. Obviously, we have different times we can observe were much higher — 34% drawdown that we had during the pandemic sell-off and so forth. But in general, it's around 16 or 17%. So I could think of that for my investor mindset as the benchmark that I want to use.

Brett Whereas with the trading mindset, OK, well, if I risk, you know, $5 a share on this trade and I'm wrong, then how much money do I still have to trade? Can I go in and still be able to use my strategy getting into this stock and that stock, and this stock and that stock. So hopefully that brought it back for you. But that's a real good thing to think about.

Alex Yeah, no, absolutely. And so. Take two 28-year olds. You take Alex Lieberman and Alex Lieberman's friend. Even if we are of the same age, even if we're both considering investing versus trading, we still potentially are going to take very different approaches based on our own risk tolerances. So I want you to talk a little bit more about, like, how does risk tolerance factor into making trades or making investments? And also, how does an investor, especially a first-time investor, learn for themselves what their risk tolerance is?

Brett Right. What a setup there. So how would two 28-year-olds sitting down try to articulate the different levels of risk? You know, when I try to explain this to someone brand-new to investing, it's hard for me even to use the word risk because the connotations that come along with that preconceived notion.

Brett So, let's talk about maybe from a different term. How active are you wanting to actually be in the portfolio? Do you want to be checking on your portfolio every month? Every day? Twice a year? Once a year — you just want to see that end-of-year statement. In one mindset, we can account for mobility of money. If I have an investment that isn't working out and whatever fundamental information may have changed, maybe it's fallen out of favor, et cetera. If I'm checking on my portfolio on a regular basis, I'll be able to manage that risk, maybe get out of the investment, wait for it to be more opportune or find a better place for my money.

Brett So that leads more, again, just using the time horizons, it leads more to this idea of being a trader. Even though we're still basing it off the same factors maybe an investor uses, we've got a little bit more mobility in our money. Opposed to the person that just wants to set it and forget it. Hey, my parents told me I need to sit and start to invest. So let me do that. I know it's going to help me out in the future. OK, we're going to look at that idea of management a little bit different.

Brett And before, you know, we've switched risks to the word management and the idea concept of management. So regardless of the factors of why I'm investing my money, if I'm going to be managing based off of new factors that are coming up, I'm going to fall into that trader idea.

Alex Yeah. So it sounds like a big part of this is really what is your appetite for staying on top of your money? How frequently are you willing to monitor what's not only happening in the markets, but also how it is affecting the money that you've put to work such that you can make adjustments?

Brett Absolutely. Yeah, a resounding yes to that. Because think about this: Let's take both of those 28-year-olds again. Let's put them side by side. Well, if they both grew at any percent year over year, 20% year over year, then great. They both grew that. They had different tactics and different strategies on how to do it. But the point is, if I'm going to be a trader and then all of a sudden decide now, I mean, this weekend was a little bit, you know, too fun or whatever, I don't want to check on my investments. It's not going to work.

Brett If I'm going to be an investor with that long-term, set-it-and-forget-it idea, but then I'm going to log in and I'm going to read some media, some news reports, and get scared out of my investment, not believing in whatever the factors were that why I got in in the first place, I'm not in the appropriate mindset, really, to be an investor.

Alex So, I actually want to keep playing this out because historically, I've been more of the investor profile than the trader profile. And in a second, I want to talk about what it could look like for me to start trading. But first, I want to understand how, when you are analyzing assets to put your money into, which ones make more sense for trading as an investment style versus investing as your kind of asset appreciation style. So, how do you think about which stocks make more sense for trading versus investing?

Brett So how do we break this one down? Think about the trading. If I'm going to have a shorter time frame, I'm going to try to get that growth, just pure growth in stock value or that positive side of volatility.

Brett So I'd be more apt to look at something that does have a history that has volatility in it, opposed to an investment or stock that sits and moves 5 cents, 10 cents, 20 cents — some sort of small amount up and down. Now, that doesn't mean that you can't be successful trading something that moves by pennies. You certainly can, but it would be setting yourself up for a little bit more potential of movement if you already have something established that moves.

Brett Whereas the investing mindset — maybe we're not that worried about it because then we have the idea of the value play. If I'm going to be in that company that doesn't move a lot, but it is a solid company. It does have good books and it does pay some sort of distribution dividend or something like that, where I can reinvest and then, at its heart, take a hold of the idea of compounding. Well, that could fall right in because I'm fine with that longer-term wanting the compounding returns.

Brett So whereas there's no specific limitation that you can articulate because simply none exists, there's certainly setting yourself up for the idea that maybe more volatile is better for traders, whereas it doesn't necessarily matter as long as the entire picture is looked at for investors.

Alex Got it. And just to make sure I understand — more volatile could look better for traders, or could it be more appetizing for traders because they're simply more opportunity to get in and out of trades to make money on the change in price? Is that basically the thought process?

Brett Yeah, that's 100% it. We put our assets at risk and we invest in, you know, company XYZ. It's going to go up or down. We know those are the outcomes. But, how much does it go up and how close can I stop my loss? So, all of a sudden, if I have a stock that's going up and down 10% from where I buy it, and I buy it right at midpoint. So I've got 5% up or 5% down. Well, if it does go up, I'll make my 5%. If it goes down, what if I stop my loss at a percent, or 2%, or 3%, etc.? So now, if the market [chuckles] wasn't random and was truly nonrandom, and we could just flip a coin, right?

Alex Yeah.

Brett Going up or down, I could set myself up for success. The market doesn't really work that way. It certainly moves and it trends.

Alex Right.

Brett So we've got to take that into consideration.

Alex So now let's switch gears and say I'm starting to think about trading for the first time, given, like I said, I've generally been a buy-and-hold, longer-term investor. I step up to my computer, have my screens up. How do I actually approach making my first trade? And not even approach in terms of, like, executing on it, but, like, thinking about doing it in a way that makes sense.

Brett Right. It's the why.

Alex Yeah.

Brett So you want to put your money into this company. Why? You know, you think you want to go short on this company. [Alex chuckles] Why? It might [chuckles] not be the most popular answer with your listeners, but we need to hit the books. We need to figure out some way to articulate that. There's two major factors that investors and traders alike will look at why stocks then go up or down. And with that, we've got this idea of fundamental analysis and we have this idea of technical analysis. Neither are essentially right or wrong. It's just one way for you to be able to articulate the why.

Brett So until you have a strong basis on it yourself, where you can say, OK, maybe from a technical perspective, I'm trading a moving average-style system, price just crossed my moving average, therefore that's my buy trigger. And now I get more articulate and my why becomes more pointed and more pointed. At that point, I'm ready to place my first trade because I've seen it play out. I've done the homework on it. Now, I'm not risking my hard-earned assets because, oh, somebody somewhere said, hey, trade a moving average system. I fully understand exactly the risk that I'm taking.

Brett Same thing with fundamentals. Hit the books, understand the ratios. When we talk about the quality or the value, the way that we would establish a financial case on a company, understand what those ratios are, run the numbers yourself. They're easily accessible. You can get them anywhere. But have the knowledge of why you're investing fundamentally too.

Alex OK, maybe it's not the exciting or sexy answer, but it's the one that makes a ton of sense, which is, like, have some rationale. Keep asking yourself why, pushing through your limits of your understanding until you get to a place where you believe you've thought through all the upside that could happen from this trade, but all the potential downside. And so when you actually go to hit the button, you don't feel like you're going to get caught off-guard by something that you are blind to when you were actually diligent seeing if this made sense.

Brett Absolutely. And the whole point of the why is understanding the answer to two questions. If the market goes up, what are you going to do? If the market goes down, what are you going to do? And as long as you take the preparatory steps to have that answered first, when you go in, OK, we're stress-free. We already know how we're going to react. We know we're going to make money or lose money. The potential is on either side of that. I know when I'm going to take my profits. I know when I'm going to stop my losses.

Alex Now for this season's brand-new segment, before we started working on this season of Fresh Invest, we asked you, the listener, what questions you had around personal investing and trading strategies. In each episode, we'll ask our Fidelity professionals one of those questions.

Alex Today's question for you, Brett, how often should you rebalance your portfolio? What do you think?

Brett Again, you know, we've had this conversation, this kind of up in the air, what should I or shouldn't I do? Well, here's your quick take on it. Let's weigh out the good and the bad — the pros and cons of rebalancing. If we buy into this idea that, yeah, we're going to fully invest and I'm going to have some different asset classes and exposures, et cetera.

Brett We understand that stocks move up a lot more than bonds and that's measured out through returns, and we can provide a lot of studies for that. But in any case, if I go to rebalance, and I've got my portfolio and I'm looking at it, my stock weighting is now going up and up and up and it starts to get out of balance or whatever my target balance is. That's the point that we ask ourselves, should we rebalance? And the frequency here, if I do it too fast, what am I doing?

Brett I'm now throwing off some of these portfolio models that we've heard about and we've talked about — the whole idea of compounding returns and that diverse portfolio. So I run the risk of doing it too quick. On the other side of it, if I do it too slow or maybe my frequency isn't fast enough, I've built this huge exposure now to equities, where, if the equities give me a little bit of that negative volatility, all of a sudden I see my balance move too much.

Brett So there is a sweet spot. But it's a little bit subjective.

Brett To leave you with some sort of a solid answer here, there's an idea of biannual, annual, or monthly, and there's somewhere within that. And you're going to want to weigh out how much of the equity exposure do you have. Are you in a very aggressive 70/30 split? Are you more balanced, et cetera? I want to be a little bit faster in my rebalance if I'm more aggressive. I'm going to be a little bit slower in my rebalance if I'm more conservative.

Alex Awesome. So it sounds like it's both a question of your risk tolerance as well as based on moves getting to the question of should I be thinking about rebalancing? And then once you're thinking about it, then weighing the pros and cons of deciding whether to do it or not.

Brett Exactly.

Alex Awesome. Well, Brett, thank you so much for joining me today and providing all of these insights around investing versus trading and how to think about it in a methodical way, irrespective of what strategy we choose.

Brett Well, Alex, it's always my pleasure, sir, and hopefully we can do some more.

Alex Thanks for joining me today. I hope listeners got a sense of what strategy may be best for them, considering their goals and time frame. This isn't an all-or-nothing proposition. You may look to have a combination or, at different times in your life, may change your plan. But what is important is knowing the difference between investing and trading and being educated and informed.

Alex As a trader myself in a former life, I know getting actively involved in the market can be exciting, but there are also definitely important cautions to take seriously. Whether you're investing or trading, it's so important to make a plan and then stick to it, even if things are getting wild. I also think it's important, as it is in so many domains of life, to know yourself and what you want. You can't make big decisions until you know what your goals are. The stock market is an exciting thing and it can be rewarding, but there are a lot of factors to consider.

Alex Keep your head level, ask the right questions, and of course, tune in next week where we'll be talking all things trading with today's guest, Brett Yoder.

Alex Thank you for tuning into Fresh Invest, which is sponsored by Fidelity Investments and powered by Morning Brew. Check out Fidelity.com/FreshInvest for more information on topics covered in this week's episode. See you next time.

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