HIGHLIFE ADVISORY

Secrets your Broker might not be sharing with you

Introduction

How often have you told yourself that you should have not invested in something, but you did? When you analyse your own investment track record, more often than not you find a series miss steps that could have been avoided and managed had you not succumbed to your own emotions and that gentle nudge from your friendly broker.

We know brokers earn commissions from the investment instruments they sell, however what they usually sell are only pieces to your entire investment puzzle. Over committing to one asset class and not diversifying will cripple your Investment process.

Let us look at some common mistakes that we make when we employ the services of a broker and when we rely on them as our sole source for information when investing.

1. Not understanding the instrument and its investment function.

When you are introduced to exchange traded stocks, futures and options, you need to understand if and how these instruments fit into your investment portfolio. More often than not you will be exposed to elevated risk levels when you invest in just one instrument or, worse still, if you get involved with day-trading strategies.

Exchange traded derivatives are used to manage investment risk and should only be traded when you understand their intricacies and the risks that are associated with them.

Day-trading is a complicated strategy that involves complex modelling and probability scenarios that even seasoned professionals get wrong. You should only invest in instruments you understand so you do not derail your long term investment plans and alter your risk profile.

2. Brokers do not have crystal balls.

Brokers are specialist sales persons for the instruments they sell and transact in. As financial markets have become more sophisticated over the years we see many types of brokers offering to trade all sorts of instruments. Each of these instruments form an intrinsic web that represents an investment universe and all of them affect each other.

Just like everyone in an efficient markets, brokers are assumed to have the same information that is available to everyone. However, they invest a lot of money in research analysts who source and attempt to decipher all the information available as fast as possible before it is relayed to you. These are hunches and suggestions on how they expect their instrument they trade to react when the market digests the information. Like all other hunches, sometimes they get it right and sometimes they get it wrong.

Understanding the relationship between what the broker is telling you about the instruments they trade in and what they expects the market to do is important before you make a trade. It is important that you have several opinions before you make an informed decision to invest.

3. Social media and your investment decisions.

Markets are a places where people congregate to sell their produce and products, it is also a place where information is shared before a purchase is made. With the advent of the internet and the explosive growth of social media, people began sharing information about what they were trading and investing on these platforms, so it also became a source for information.
According to Investment Answers, scientists reported an 87.6% accuracy rate in predicting daily changes in the Dow Jones Industrial Average when they studied the mood of large-scale Twitter feeds
These studies however are not easy replicate, they involve complex algorithms which are not available to the layman. So, just like overzealous salesmen in any form, social media proponents have suggested that you can forego proper analysis and make investment decisions by just relying on information trends. This is not true.
Investors should only use social media if the information is from a reputable source. Over reliance on tainted news from social media has also caused markets to behave erratically and has actually caused panic in the financial markets.

4. Deciding between a full service broker and do it yourself service.

Like everything else you pay for, you must know what are you getting back in return. Make sure your relationship with your broker is a win-win situation.

Full service brokers used to be able to charge a lot for their services because you could not do it yourself but with the advent of online trading platforms and trading portals, now you can, and this has brought down brokerage fees drastically. The choice with you now is to decide if you are ready to invest on your own using these systems which are different from each other or continue to speak to a broker.
Good service will be expensive, so look for a reputable broker that can help you develop and provides you with timely but relevant information. There is no need for you to pay for research reports that are more than 100 pages long when you do not read them.
Do it yourself services are for a investment savvy clientele that are used to trading on smartphones and tablets, however, before subscribing to these services look for the differences in price packages and access to live prices because it will add up and in some cases provide less for more money.

5. Is your Broker financially sound?

Just as your broker is required to find out about you and your risk tolerance you need to find out about your broker's financial health. While exchanges and regulators do periodic reviews on market players, there have been cases where brokers have not been able to continue to provide a service and this can cause problems.
This also applies to online trading platforms and any other service that requires you to place a margin to trade. Feel free to review their balance sheets and find out how long they have been in business. Brokers can be part of large financial institutions but also stand alone entities. You may also want to divide your money between two brokers to diversify your risk.

6. Does your broker have the time for you?

The answer is not as simple as "yes" or "no" and this depends on the size of your account. If you trade once or twice a year and you never invest in more than 5 board lots at any one given time, then maybe, just maybe, you should do it yourself. Your broker may execute the trade for you but you might not get the first call if there is a market situation. The service you get is directly proportional to the size of your account, the more stocks you have, the more often you trade which leads to the commission you generate for your broker will determine the service you receive. Ironically, it is the less informed investor that will need to the most guidance, but that might not be possible if your trading account is small. Hence, it is therefore better for some less savvy investors to use collective investment schemes, like unit trusts, to expose themselves to the market. Indirectly you will be getting the best service possible because you will have a fund manager executing the orders of your collective behalf.

Learn more about Investment Management

TALK TO US

Highlife Advisory can help you manage your investments.
If you have any questions or need more information, please: .

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