# What are we Telling our Children about Investment?

**We all make mistakes when we are young. However, provided we learn from them, they usually don't cause too much harm, and are generally accepted as 'part of the exuberance of youth'.**

But as the young go through the learning process, the challenge for parents, teachers and society generally is in deciding where to draw the line between standing aside to let them learn for themselves and intervening because they could be about to make a major mistake.

The current trend for online trading is a prime example of this dilemma.


A recent survey in the UK found that the number of British students trading crypto-currencies has tripled in a year. But it's not only crypto. You can now buy all manner of risky financial instruments with just a few taps of your screen, and with little or no understanding of the asset.

As the parent of a university student myself, I find it a scary thought that people of this age are trading derivatives without even a modicum of knowledge of the assets, and before they've even considered anything like a long-term savings plan.

It is encouraging to see that the UK's Financial Conduct Authority (FCA) shares these concerns.

Several times in recent months it has warned young people about the danger of high-risk investments, and crypto in particular. It has also announced plans to use online influencers to warn people away from making poor investing decisions. Is it sad that the FCA needs online 'influencers' to make a point, or am I just getting old ?

We should still be anxious for our young would-be traders though, because there's a whole industry out there, wanting young people to dabble in trading and, ultimately, become hooked on it.

Some of the biggest names in financial services, including consumer investment platforms like Hargreaves Lansdown, openly admit that they have profited greatly from the trading boom.


This should not be surprising. All these platforms make money on the trade, not on asset performance, so they want traders, not investors. It is therefore vital to teach our youngsters to resist the temptation to trade in favour of solid, long-term investment strategy.

Some of these platforms talk a good game on investor education, but their actions tell a different story. The bottom line is, they have a commercial interest in getting people to use their platform.

BrokerViews.org recently studied 50 'open book' FX traders at eToro for 30 days. ('Open Book' is exactly what it says. You can see who just traded what FX pair, and copy the trade).

- 8 of 50 traders (16%) achieved a profit
- The average loss was -48.5%, the median was -54.7%
- On average, 56.5% of the trades were completed with a profit
- A third of the traders lost 90% or more of their money

They know that younger consumers are drawn towards high-risk investments, and they seem to be doing little to discourage them. That is why, for example, some constantly tempt consumers with articles on specific stocks, sectors or countries that people are buying into.


Interestingly, Monzo Online Bank recently asked Hargreaves Lansdown to stop running an advert on social media encouraging people to 'register for alerts on the Monzo IPO', because it was mimicking the clickbait nature of scam adverts.

Well done, Monzo. But that sort of advertising doesn't mimic clickbait. It is clickbait!

What's wrong, you might ask, with buying individual stocks? Nothing. But is it a good idea?

I have suggested many times that there are huge differences between investing, trading, speculation and gambling.

Cointelegraph.com has more startling trader data. Here are some statistics, from online educational resource Tradeciety;

- 80% of all day traders quit within the first two years
- Among all day traders, nearly 40% day trade for only one month
- Within three years, only 13% continue to day trade. After five years, only 7% remain
- The average individual investor underperforms a market index by 1.5% per year;
- Active traders underperform by 6.5% annually

- Traders with up to a 10 years negative track record still continue to trade
- Profitable day traders make up a small proportion of all traders – 1.6% in the average year
- Among all traders, profitable traders increase their trading more than unprofitable day traders
- Investors with a large differential between their existing economic conditions and their aspiration levels hold riskier stocks in their portfolios
- Men trade more than women, and unmarried men trade more than married men
- Investors are more likely to repurchase a stock that they previously sold for a profit than one previously sold for a loss
- Individual investors trade more actively when their most recent trades were successful
- The average day trader loses money by a considerable margin after adjusting for transaction costs. [In Taiwan] the losses of individual investors are about 2% of GDP

Astounding.

Almost everyone loses, they lose fast, they underperform simple, mindless investments, and they continue trading even after being proven unprofitable.

**Contrast that with investing in a boring old pension or long-term investment.**

It would be nice to see platforms like Hargreaves Lansdown promoting the benefits of saving as much you can into a pension from the day you start working, and simply buying and holding low-cost index funds. But there are obvious reasons why it doesn't happen.

That's part of the challenge the FCA faces.

Historically, it has simply lacked the appetite to rock the boat and, despite the positive noises we're hearing, probably still does.

In the meantime, it's up to all of us who care about these things, particularly as parents, to treat the trading platform industry rather like the food industry, because young investors are being sold a considerable amount of junk to gorge on.

No, it might not kill them, but let's at least point out the dangers and steer them towards the fresh produce aisle a little more often - Because you know that ultimately the fresh produce aisle is going to be much better for their long term physical and financial health.