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TRADING STRATEGIES

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POST-COVID

Trading after COVID

A higher risk appetite, younger traders and bets made on the basis of social media sentiment were themes that characterised trading at the height of the pandemic

Joe McGrath

The coronavirus pandemic caused some well documented and previously unimaginable consequences to the nation's mental, physical and financial health.

Yet, while daily news headlines often referenced those in financial hardship during the outbreak, there were many in society who were able to improve their disposable wealth.

Figures released by YouGov at the end of March 2021 revealed that almost a third (32 per cent) of people in the UK had actually managed to grow their savings during the pandemic.

However, the interest rates on savings accounts have remained low and people are now exploring other places to put their money, according to Simon Crookall, a former bond trader who founded retail site InvestEngine in 2019.

"The surge in sign-ups to trading apps during the pandemic has shown that people are prepared to put their money in the stock market even in a time of uncertainty," he says. "For those who don't need to keep this cash on hand, or plan to spend it, investment could certainly be worth considering."

Given the low interest rate environment and the volatility in stocks throughout the crisis, investors have been keen to explore opportunities, according to experts at the various retail brokerages.

"By causing significant fluctuations on the stock market, COVID has put investing on the public agenda," says Anna-Sophie Hartvigsen, co-founder and partner of Female Invest.

"As a result, people are joining the stock market at unprecedented rates, hoping to get in at the right time. This can be seen as an expression of an increased risk appetite, where investors are willing to gamble for short-term gains."

For many, the pandemic has redefined how they think about investing. The significant stimulus measures from governments around the world shaped the performance of equity markets. It meant a whole host of individual sectors and stocks returned double-digit returns in a matter of days, something investors previously waited months, or even years, to see before the pandemic.

"The rapid bounce back from COVID lows inspired by significant stimulus and support reinforced the message that 'bad news is often good news' for the markets and that

Chaiyapak Mankannan via Shutterstock

corrections or dips are to be bought," explains Charles White-Thomson, chief executive at Saxo Markets.

Joshua Mahony, senior market analyst at IG Markets, acknowledges the opportunities market corrections have afforded during the pandemic, but explains that while the initial March-April capitulation in stocks and energy markets led to some short-termist activity, the trends since have been more drawn out, allowing traders to hold on to positions for longer.

"Global lockdowns provided the basis for huge tech gains, which have only recently started to lose some momentum," he says.

"Nevertheless, each trader will take their own approach and while one will see a trend and want to ride it for weeks at a time, another may spot specific entry opportunities that may last hours."

For younger consumers, the frustrations of slow income growth coupled with a long-term low interest rate environment is likely to mean a greater willingness to explore what retail trading platforms have to offer.

In addition, substantial innovation in the retail trading market over the past decade has made it easier to trade through apps, to use ewallet services and explore emerging asset classes such as crypto currencies.

"A lack of access to pedigree private investments has pushed young investors into high-risk assets where there's still upside growth potential," says Josh Greenwald, chief risk officer at Uphold.

IG's Mahoney agrees, explaining that the market "collapse" witnessed during the pandemic brought in a new crop of traders.

"Huge interest from younger traders seeking to take advantage of rock-bottom prices also brings a different risk-profile and investing attitude," he says. "While the new generation of traders will often be more open to risk, that approach can perhaps shift as they move along their journey and take a more strategic approach to trading and investing."

Some market observers at the Financial Conduct Authority (FCA) will indeed be hoping this is the case. In March 2021, the regulator issued a public notice warning that young people were investing in high-risk products that may not be suitable for them.

"We want to make sure we encourage the ability to save and invest for lifetime events, particularly for younger generations, but it is imperative consumers do so with savings and investment products that have a suitable level of risk for their needs," says Sheldon Mills, executive director of consumers and competition at the FCA.

"Investors need to be mindful of their overall risk appetite, diversifying their investments and only investing money they can afford to lose in high-risk products."

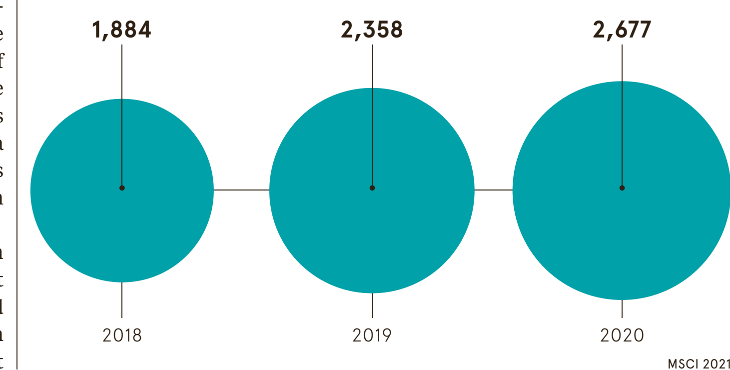
It is clear the shifting profile of retail traders is of interest to the regulator, but their age profile isn't the only issue being monitored.

The recent spike in previously out-of-favour stocks such as US retailer GameStop and tech firm BlackBerry led to the regulator warning traders about the dangers of high-risk trading based on social media sentiment alone. Despite this, the media attention these events attracted fuelled interest further. Since then a host of companies have come forward to warn their own customers of trading without sufficient information.

"This is a risky approach to investing," says Crookall of InvestEngine. "We'd urge people tempted by such opportunities to consider their own situation and build diversified, long-term portfolios. Many people need more guidance on risk, rather than just diving headlong into what can be very choppy waters." ●

STOCK MARKET VALUE HAS SOARED DESPITE THE PANDEMIC

Value of MSCI World USD index 2018–2020



MSCI 2021

Commercial feature

How technology is making trading accessible to all

Advances in technology mean retail traders now have more choice to trade financial products, but the most successful platforms will be those that put the protection of their customers first

Since the start of the coronavirus pandemic there has been an unprecedented boom in retail trading. What was once a closed shop for anyone other than professional traders is now accessible to anyone with an internet connection.

As lockdowns have left people with extra cash in their pockets, some have been turning to trading platforms to try their luck in the financial markets. The publicity around GameStop at the start of the year has only increased interest in retail trading, with many newcomers seeking to move beyond stocks and trade other products such as contracts for difference (CFDs), derivative contracts that allow people to make short-term trades that hinge on the performance of a wide range of underlying assets.

"In general, whenever finance is in the news and whenever markets are volatile, there is always more interest from new retail customers to trade," says David Zruia, chief executive of trading platform Plus500, which specialises in CFDs. "During the past year we've seen record numbers of customers trading everything which is popular at the time. At the beginning of the pandemic when the oil price dropped we saw more trading volumes on CFDs for oil and then later on we've seen a shift towards other CFD instruments, like shares."

This explosion in retail trading has been unleashed because of technology. Retail customers can now simply pick up their smartphones and make trades in a matter of seconds. In 2020, for example, Plus500's trading platform saw its customer base increase by 117 per cent to 434,000 active users, with more than 74 per cent of all customer trades taking place on mobiles or tablets.

"Over the last few years, but especially over the last 12 months, we have seen that trading has become more accessible for retail customers," says Zruia. "We've seen this with a number of US-based operators and Plus500 in Europe, which offer accessibility from anywhere. And as the technology improves, it not only becomes even more accessible, it also becomes faster and easier to trade, so we and other technology-based providers can offer a better product to the potential audience."

This backdrop has seen a rapid growth in the variety of retail trading platforms offering everything from share dealing to futures trading. These platforms often make it easier for retail traders to open accounts, for instance by allowing customers to place smaller deposits. Some platforms, such as Plus500, also enable traders to leverage their positions to potentially amplify returns, entailing higher risk, while also offering negative balance protection so customers can't lose more than their initial deposit.

"We have offered negative balance protection since our inception in 2008, long before it became a regulatory requirement," says Zruia. "Risk management is very important to us; we do everything we can to protect and support our customers."

For instance, as part of that risk management process, Plus500 didn't allow its customers to take out CFDs on GameStop stock from June 2020, which helped to protect them from the extreme moves in GameStop's share price in early-2021. In addition, Plus500 has introduced a number of educational tools on its platform to help customers understand the risks associated with trading.

For Zruia, advances in technology will continue to democratise access to financial trading by reducing the barriers that have traditionally prevented wider adoption, such as high trading costs and fees.

"We continue to enhance and adopt new technologies to improve our platform's usability for customers," he says. "All the main elements of the platform were developed by us so we're not using any third-party or licensed products, which improves the stability of the platform and reduces technical issues. It also means we don't have to pay fees to third parties, so we can keep optimising the platform while at the same time reducing costs for our customers."

Innovation is not just about technology, but also bringing new trading opportunities to customers. Plus500, for example, was not only the first among its competitors to offer a native mobile app for CFD trading, it was also the first to offer bitcoin CFDs, says Zruia.

As the fallout around GameStop highlighted, regulatory scrutiny on retail trading platforms is only going to increase. Zruia says this is why it is doubly important to always treat your customers fairly. Many of the new regulations introduced in 2018 by the European Securities and Markets Authority on trading CFDs, such as negative balance protection and limits on the amount of leverage offered to customers, had already been adopted by the platform much earlier.

"The general purpose of regulation is to protect customers as much as possible, so we're very supportive of this," says Zruia. "Providers that are fair and honest with customers become stronger and will continue to grow, and those that don't play by the rules won't last. Furthermore, this aligns with our objective to build a strong bond of trust with our customers. We've managed to do this primarily by delivering a consistent level of service for our customers over the last 12 months. And we remain highly cognisant of customer feedback to help inform improvements in our product."

Developing proprietary technology also means companies like Plus500 are quickly able to ensure their trading platforms are compliant with new regulations.

"We welcome new legislation; it is good for our customers and good for our business. With any new legislation that is introduced, we are able to amend our system accordingly," says Zruia. "This means we can adjust the technology and make changes very fast to adhere to the new regulations with as little impact on the customer as possible."

With the boom in retail trading showing no signs of slowing down, Zruia is now eyeing other opportunities for Plus500 beyond CFD trading.

"We know that our customers who trade CFDs with us trade other products on other platforms, so our plan is to become a one-stop shop and offer our customers a wider variety of products," he says. "We're currently working on developing a separate share dealing platform, which is going to be introduced very soon to the market across Europe, as well as in the UK. Besides this, we are looking at other trading and financial products as we aim to deliver on our vision of becoming a broader, multi-asset fintech group."

> We continue to enhance and adopt new technologies to improve our platform's usability for customers

For more information please visit www.plus500.com

Plus500

IPOS

Joining the SPAC boom

The UK is considering reforming the rules regarding blank-cheque companies, which could entice fast-growth tech firms to list in London. But there are risks for investors

Rich McEachran

Cazoo is one of a number of UK firms that opted to go public in New York via a SPAC

When online used car dealer Cazoo, the fastest UK firm to achieve unicorn status, announced it would be going public on the New York Stock Exchange via a $7 billion merger with a special purpose acquisition company (SPAC), the news was considered a blow to the City of London.

Cazoo isn't the first UK company to snub London in favour of New York. Electric vehicle firm Arrival announced it was going public via a SPAC last year and made its Nasdaq debut on March 25. Meanwhile, diagnostic test manufacturer LumiraDx is also set to float on the Nasdaq in a $5 billion SPAC deal.

The acronym SPAC has become synonymous with a frothy market. Essentially, SPACs are a type of investment vehicle, blank-cheque companies that list on stock exchanges and then hunt for privately owned businesses to take public. For the targets being acquired, it is an easier process than going down the usual flotation route.

There were 248 SPAC IPOs in America in 2020, raising a collective $83.4 billion. So far in 2021, there have already been 308 SPAC IPOs, which have raised $99.9 billion.

Such is the froth surrounding SPACs, the US Securities and Exchange Commission (SEC) is exploring options to crack down on the trend. Recent market jitters have seen some of the shine wear off and SPACs are no longer delivering as high returns on deal announcements as they were at the start of the year.

In stark contrast, SPACs have yet to take off in the UK. The main reason for this is because of their structure.

"SPACs are structured differently in the United States compared to the UK. With New York-listed SPACs, investors can redeem their shares if they're unhappy with the target firm. That's currently not the case in London, where trading gets suspended once a merger is announced," explains Nasser Khodri, head of capital markets at FIS.

This investor lock-up means the appeal of doing a SPAC deal in London is not as attractive as it could be.

The majority of companies that choose to go down the SPAC route operate in industries where they "need to move quickly to capitalise on market opportunities", according to James Allum, vice president and regional European head at Payoneer. The global payments provider is set to merge with a SPAC listed on the Nasdaq, chaired by banking entrepreneur Betsy Cohen, in a $3.3 billion deal.

Allum explains that, unlike the traditional flotation process, which only allows a company to share data on historical performance, going public via a SPAC enables the company to share future revenue projections.

To this end, SPACs can offer investors "an opportunity to share in the benefits of accelerated growth", he says. But if trading gets suspended once a target has been announced, then it can weaken interest in the company being acquired as potential investors are temporarily prevented from buying shares.

Despite concerns that the SPAC market in America is showing the hallmarks of a bubble, London is actively looking at how it can relax its rules regarding blank-cheque companies. In March, Lord Hill published a report on the current rules, in which he described the lock-in as "a key deterrent for potential investors".

According to the report, there is "a real danger the perception that the UK is not a viable location to list a SPAC" could lead UK-based fast-growing tech companies to list on markets in the United States and European Union.

Lord Hill urged the Financial Conduct Authority (FCA) to conduct a review into the rules to make listing in London more appealing. A final decision on any rule change is likely to be made towards the end of the year.

So what might any changes look like? In layman's terms, Khodri says we could expect to see the FCA provide US-style protections, which means those investors unhappy with a target company can sell their position upon a merger announcement.

"This is an improvement but, at the same time, doesn't protect retail investors from downside risk," he adds, referring to the drop in a holding's value that can happen between investing in a SPAC pre-announcement and selling post-announcement.

The risk associated with SPACs has been prescient in recent months. Like so-called "meme" stocks – think GameStop – US SPACs have become popular with risk-hungry retail investors hoping for high returns on merger announcements. They may often invest without doing their due diligence and reading a SPAC's IPO prospectus available via the SEC's website.

Although investing in SPACs can be risky, the benefits of relaxing London's rules could outweigh any concerns. For one, it could help attract tech unicorns that might otherwise be lured elsewhere. It could also attract more impressive SPAC boards of directors and serial SPAC sponsors who have experience in the United States targeting big-name companies.

Bruce Garrow, co-head of corporate broking at Investec, believes the "recommendations will certainly encourage the right management teams with the right credentials to think seriously about London".

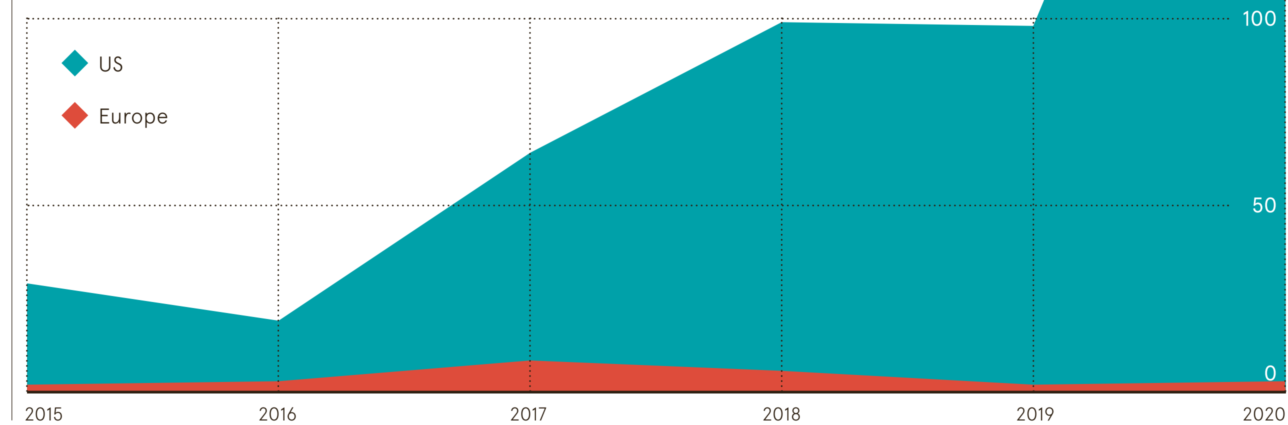
Of course, experience and past performance in doing SPAC deals is no guarantee of future success. And there will be critics in the City who believe that any rule shake-up would be bad news and London shouldn't be jumping on the SPAC bandwagon. However, Khodri at FIS suggets that if the rule changes go ahead, they'll help boost London's post-Brexit profile.

"It's unlikely that London can catch up with Wall Street, but there's definitely a place for the UK in the long-term development of this market," he concludes.

> It's unlikely that London can catch up with Wall Street, but there's definitely a place for the UK in the long-term development of this market

EUROPE LAGS BEHIND THE US FOR SPAC IPOS

Number of SPAC IPOs completed



Refinitiv 2021

STRATEGY

Activist investors: danger or opportunity?

The GameStop trading frenzy has shown the impact activist investors can have but while some believe this will democratise finance, others are warning of the dangers

Surface via Unsplash

Marianne Curphey

There has been a surge in day-trading frenzies, fuelled by the actions of so-called activist investors who use social media platforms and online forums to band together and bet against companies and hedge funds.

GameStop became the focus of a trading frenzy at the beginning of this year, surging to a valuation of $34 billion after the co-ordinated actions of amateur investors via online trading discussion groups like r/wallstreetbets, found on Reddit. The collective actions, plotted on online forums, can drive up stocks that hedge funds have bet against, aiming to punish the big players in the stock market.

At the centre of this was Robinhood, the trading app that became the vehicle for amateur investors to take on Wall Street and teach hedge funds a lesson in the GameStop debacle. However, when Robinhood suspended trading on GameStop, retail investors were outraged, claiming the move had protected the hedge funds and institutional investors.

While some herald activism as democratising finance, others warn that online threads are leading young and inexperienced investors to make wild and risky bets, and put vast amounts of personal capital at risk.

While activist investing is nothing new, the GameStop incident is very different to normal behaviour. "This is normally about buying shares in underperforming companies and then using shareholder influence to effect change such as removing the board or management, altering the strategy or restructuring the business to improve profitability and shareholder returns," says Jason Hollands, managing director of Bestinvest, the online investment service.

"This new phenomenon of private shareholders piling into a stock like GameStop is very different. The objective is primarily to give a black eye to other investors by mispricing the shares. This upends the whole purpose of investing, which should be to allocate capital with companies that will make good use of it and return profits."

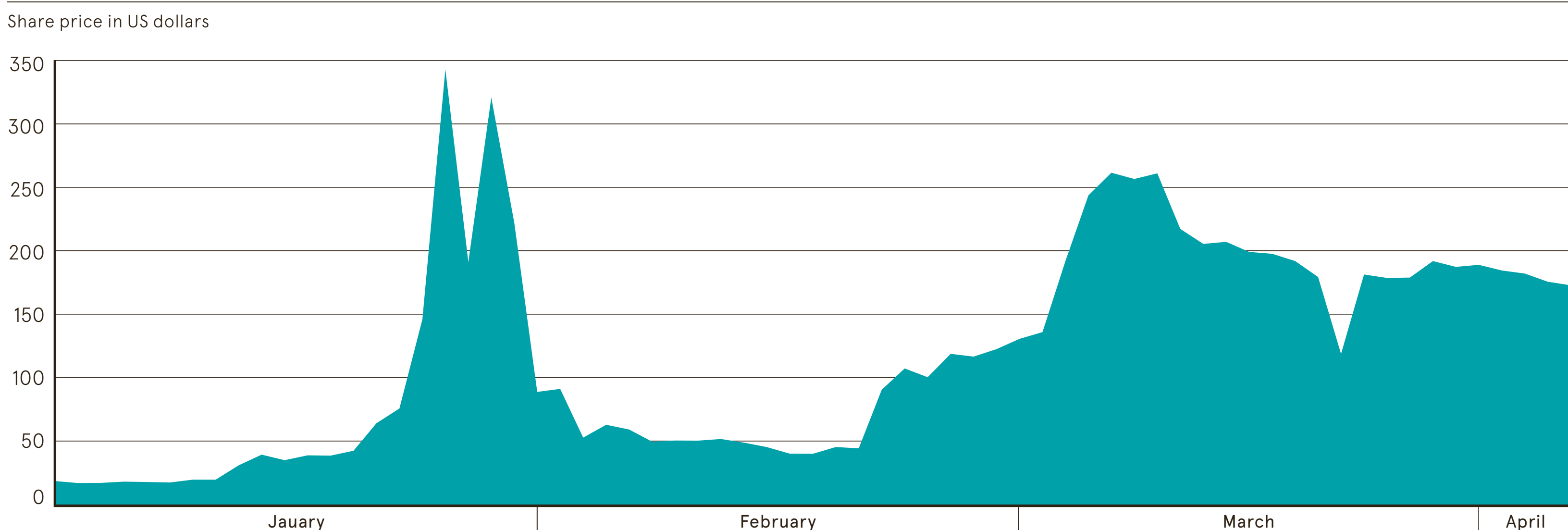
With people having more free time to trade in stocks, alternatives forms of entertainment closed and government cash handouts widely available, companies such as Robinhood have seen a substantial increase in users, says Maxim Manturov, head of investment research at Freedom Finance Europe.

In America, equities have always been seen as the place to invest. Now, people who are out of work are looking for alternative ways to create cash.

"In the United States, people are coming back to equity markets to boost incomes that have been reduced through the response to the pandemic," says Stuart Lane, chief executive of Trade Nation.

GAMESTOP'S SHARE PRICE SURGE IN 2021

Share price in US dollars



Yahoo 2021

"This is being encouraged by the record highs being hit on the major indices, plus fear of missing out. Also, for many people, trading is an expression of individualism and an opportunity to take risks at a time when many feel their freedoms are being curtailed in other ways."

Anna-Sophie Hartvigsen, founder and partner of Female Invest, says that while activist investors may cause large fluctuations in individual stocks, they are unlikely to impact the overall market. The best way to guard against single-stock fluctuations is to diversify risk and invest across different stocks and asset classes.

"In many ways, the risk of activist investors is no different than any other type of risk and therefore the solution is the same," she highlights.

The frenzy over app-trading risks luring inexperienced investors into overpriced and underachieving companies, says Hollands. It gives the impression that "playing the stock market" is a get-rich-quick game built on short-term share price movements.

"In reality, true investing is about buying great companies for the long term and not short-term speculating," he says.

Regulation has not yet stepped in because it will always lag behind innovation, say Fiorenzo Manganiello and Nessim-Sariel Gaon, co-founders of the LIAN Group.

"Platforms like Reddit's wallstreetbets provided the possibility of rapidly sharing material information and an environment where the 'little guys' can join forces against the institutional investors, squeezing out their short positions on companies like GME, AMC and BlackBerry," according to Manganiello and Gaon.

"While this has all been great fun for some of the market participants, there is considerable risk and losses borne by the investors who joined the 'hype train' late and endured considerable losses in the process. Many of them could trade with leverage, getting exposed to additional risk."

Indeed, "meme stock" stories, like the GameStop saga, merely act as examples of how easily inexperienced investors can be pulled into making potentially damaging financial decisions, says Edgar de Picciotto, co-founder at ikigai, a premium banking and wealth management fintech.

Ben Hobson, markets editor at Stockopedia, says hedge funds and deep-pocketed investors have always taken big stakes in troubled companies so they can influence board-level decisions.

He says the risk isn't so much about activism but more to do with the age-old stock market problem of investors herding together to create bubble-like conditions.

$25.10

BlackBerry's share price hit a nine-year high in January 2021 after investors on Reddit began investing in the company

Yahoo 2021

"Soaring price momentum in stocks, where the only appeal is a vocal community of investors buying into them, is hugely risky. Without a good quality business or attractive valuation, things can get very volatile very quickly," says Hobson.

Seth Ward, co-founder and chief executive at Pynk, says investors, particularly large ones, have never before had to answer for their actions.

"It's almost impossible to hide what you do today. And the consequences of business decisions have never been more apparent," he says.

His advice is to keep applying standard, best practice, long-term investment strategies. For example, diversification will give good protection against one or two shares moving out of sync with the fundamentals for a period of time.

Also, keeping an eye on investment subreddits might help in more ways than one; it's an important part of the market and might offer some fresh perspective, which is rarely a bad idea. "Don't over leverage; don't invest more than you can afford to lose," says Ward.

Social media chat rooms are beginning to resemble the squawk boxes on fast-paced trading floors, says Michael Kamerman, chief executive of online trading venue Skilling.

"What started out as a combination of vast numbers of remote workers looking to take up trading with more time on their hands, coupled with greater volatility in financial markets and the rise of digital brokerages, has evolved into a retail trader mindset revolution," he says.

Yet, if anything, prices moving to extremes in both directions creates a more fertile environment for fundamental active management, says Kasim Zafar, chief investment strategist at EQ Investors.

"The biggest lesson from this sort of thing is that investing is a serious business. It requires skill, care and due diligence. If any of these are lacking, one runs the risk of being a 'punter' rather than an investor," he says.

Samuel Leach, chief executive of Samuel & Co Trading, says markets are efficient and, if people find a way to 'beat the system', this tends to only last for a short time before the market adapts and removes such arbitrage opportunity.

"This puts more risk on the retail investors who are putting their life savings into these stocks in the hope that the rally will continue," he says. "With investing, it is a zero-sum game, therefore for you to win, someone else must lose."

> "This phenomenon of private shareholders piling into a stock upends the purpose of investing

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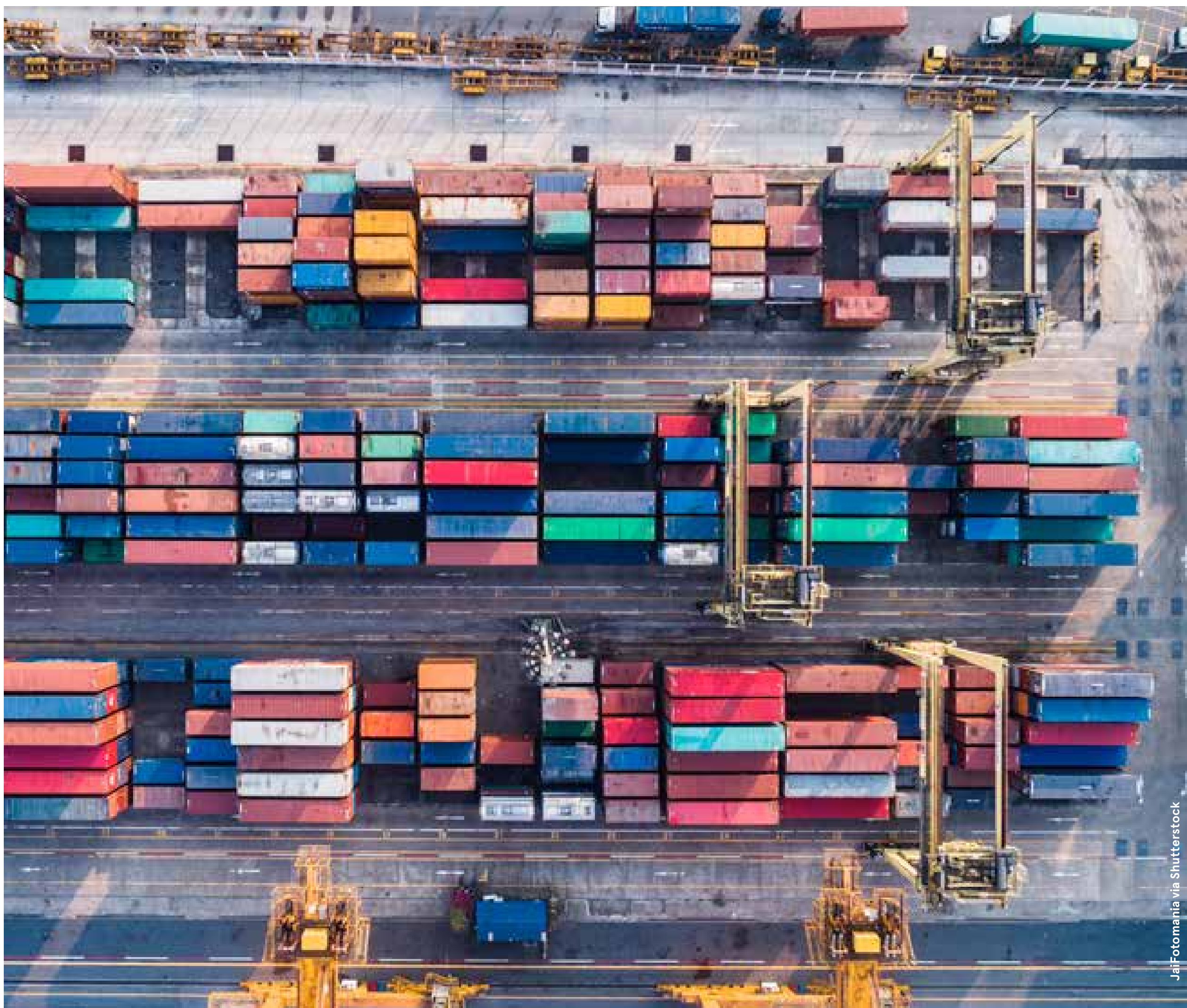


COMMODITIES

Are commodities on the cusp of a new supercycle?

A recent surge in commodity prices has led some banks to declare the start of a new 'supercycle' but there are questions over whether the conditions are there for multi-year growth

Fiona Bond

Following the devastating impact of the coronavirus pandemic on financial markets around the world, the recent surge in commodity prices appears to suggest growing investor confidence for the future.

Oil prices have jumped by around 20 per cent since the start of the year to pre-pandemic levels, while gold has soared to a new record. Meanwhile, copper, which is often viewed as the bellwether of the industrial metals sector, hit a nine-and-a-half-year high at the end of 2020, fuelling talk of a new commodities supercycle.

Price swings are par for the course in any market, but the term "supercycle" is reserved for very largest fluctuations, when commodities rise above their long-term price trend for a lengthy period, often several years, sometimes even a decade or longer.

The industrialisation of the United States at the end of the 19th century and the post-war re-industrialisation of Europe and Japan in the late 1950s are two such examples. More recently, the rapid economic growth of BRIC countries, most notably China, sent demand for commodities, and with it prices, soaring in the early years of the millennium.

But the global financial crisis, coupled with slower than expected Chinese consumption, proved significant headwinds for the sector, sending the S&P/Goldman Sachs Commodity Index plunging by 60 per cent over the past decade.

After languishing in a bear market for the past ten years, 2020 saw commodities find favour with investors once again. The Bloomberg Commodity Index rose 10 per cent in the fourth quarter alone, prompting analysts to declare the sector is displaying structural similarities to that of the early-2000s.

On the face of it, the signs are certainly positive. The Chinese Caixin manufacturing purchasing managers' index reached a ten-year high in November 2020, implying increased demand for commodities. Meanwhile, a weakening US dollar, combined with widespread fiscal stimulus, has stoked concerns of growing inflation, against which commodities have historically been used as a hedge.

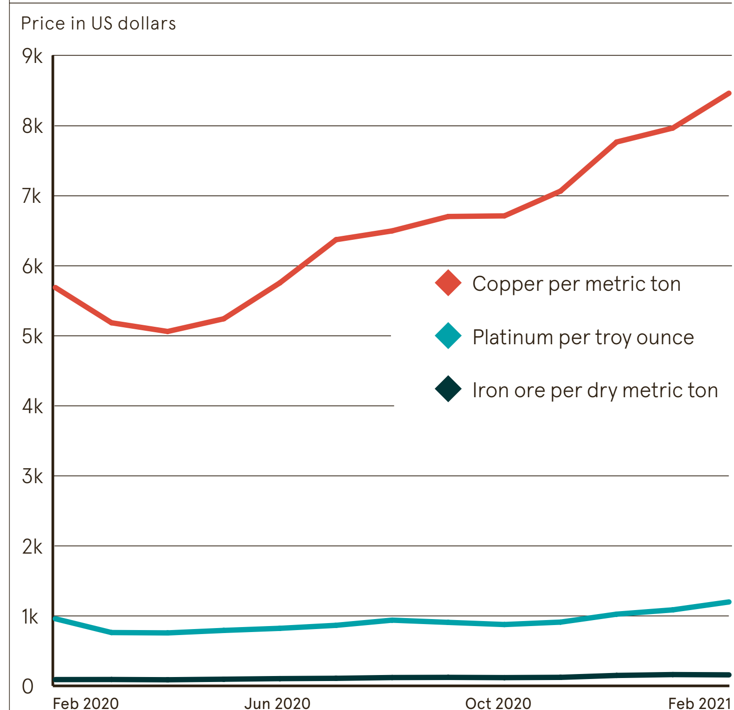
According to commodity analysts at J.P. Morgan: "The past decade was marked by low growth and low inflation. Bonds and secular growth stocks were in a bull market, while commodities and cyclical stocks performed poorly. We believe that the tide on yields and inflation is turning."

The new commodity upswing, and in particular oil up-cycle, has started. Mostly, it will be the story of "post-pandemic recovery, ultra-loose monetary and fiscal policies, a weak US dollar, stronger inflation, and unintended consequences of environmental policies and their friction with physical constraints related to energy consumption and production", says J.P. Morgan.

Commodity bulls also stress the impact of the green industrial revolution upon the sector, with countries across the globe vowing to spend big to meet climate targets.

THE PRICE OF SOME COMMODITIES IS ON THE RISE

WorldBank 2021



China, the largest energy producer and consumer in the world, recently committed to become carbon neutral by 2060. Beyond China, the US Biden administration has set a new $2-trillion green deal, while the European Union has pledged to reduce greenhouse gas emissions by at least 55 per cent up to 2030, compared with 1990 levels.

Analysts at Goldman Sachs believe this transition has the potential to create $1 trillion to $2 trillion a year in infrastructure investment, surpassing oil and gas drilling for the first time.

While the building blocks for a commodities price growth look to be falling into place, many experts warn it is too soon to label the recent upswing the start of a new supercycle.

Scott Gardner, investment strategist at Charles Stanley, explains: "For a commodity supercycle to occur, we need two macro factors to be in play: a weaker US dollar and above-trend economic global growth.

"A weaker dollar can arise from further easing by US authorities and, given the infrastructure plan and commitment to the easy financial conditions from the US Federal Reserve, we currently have that condition.

"Secondly, we need robust economic growth globally. During the 2000s, as China emerged into the global marketplace, the demand for commodities increased dramatically and helped fuel the 2000's supercycle. We currently don't have an emerging economic superpower at a similar stage to where the Chinese were."

> For a commodity supercycle to occur, we need a weaker US dollar and above-trend economic global growth

Some analysts believe that while there is an argument for a more bullish market across certain commodities, it is difficult to anticipate the same level of demand for commodities such as oil, which makes up a significant proportion of the sector.

As a result, investors need to be aware of risks associated with broad-based commodity indices, says Gardner.

"Depending on the commodity index, energy comprises between 25 and 40 per cent of the index. Given the increased hostility from governments and corporates globally to traditional fossil fuels, this is a secular headwind. Investors should focus on specific commodity groups, namely metals. There is also the secular trend towards cleaner, greener energy via electrification," he says.

Indeed, lithium, a crucial component of electric vehicle batteries is up 88 per cent this year, while palladium, used in catalytic converters, reached record highs in 2020.

Michael Hewson, chief market analyst at CMC Markets, comments: "We are likely to see a shift in supply and demand across certain metals. However, offsetting that will be a decline in fossil fuels such as coal and oil. While one might argue that price spikes will occur, it will not be enough to warrant being called a supercycle."

Investors should avoid placing all their eggs in one basket. Hewson says: "It's important investors don't focus on one particular commodity, but rather create a basket of companies to diversify the risk."

He advises that investors could benefit from considering companies not directly in the renewables sector, but which offer services to these firms, as a way to gain exposure.

While wisdom has taught us to expect the unexpected when it comes to commodities, the jury remains firmly out on whether we are in the throes of a new supercycle. But one thing is certain: commodities are likely to keep investors on their toes as we enter a post-pandemic era. ●

Commercial feature

Gen Z's road to recovery

Faced with a bleak financial future, Generation Z can bounce back with the right support and advice, says Shard Capital

Due to a combination of extreme and short-sighted actions by many governments and central banks across the world, spanning 30 years, Generation Z have been left with severely restricted prospects in the years ahead.

Priced out of an exorbitant housing market, and with scarce job opportunities and mounting debt, any potential returns on their savings have also been decimated by low to zero per cent interest rates.

In stark contrast to the previous three generations, who have enjoyed an annual return of between 5.7 and 6.4 per cent on a traditional 70:30 split between equity and bond investments, according to Credit Suisse, Gen Z are forecast to only be able to generate 2 per cent annualised returns with a similar 70:30 equity-bond split.

It would appear that while the rich have got richer, those at the other end of the scale will now struggle to get anywhere.

So how have we arrived at this desperate situation, where the next generation has effectively had the debts accumulated by previous generations placed firmly on their shoulders? And, more importantly, what can they do to protect and grow the few assets they are able to accumulate?

Rise of asset price inflation

Central banks have, until now, been preoccupied with tackling consumer price inflation (CPI). But they have done so at the cost of neglecting to deal with the equally important issue of asset price inflation.

CPI measures the rise or fall in prices of a basket of consumer goods and services, such as rent, clothes, electricals, transport, recreation and healthcare. Asset price inflation measures just about everything else, including the value of property, shares, bonds, life insurance, gold and fine wine.

Let's take a look at how this has played out with the world's most influential central bank, the US Federal Reserve. Formed in 1913 and given the mandate by Congress in 1977 to ensure price stability and maximum employment, so myopic was its focus on CPI that the Fed failed to adapt to the unprecedented change in global economic and social conditions brought about by globalisation and technology improvements.

Rather than spurring CPI, as they intended, the use of lower interest rates has had the unintended effect of simply driving asset prices inflation. The irony is that the Fed's former head of research, Stephen Cecchetti, working at the time as professor of economics at Ohio State University, duly noted this and, in 2000, flagged up that reacting to asset prices through policies would reduce the likelihood of asset price bubbles forming.

Unsustainable economic bubbles

Central banks' collective failure to address the problem of asset price inflation has encouraged speculation and, ultimately, creation of a series of successive systemic bubbles, each larger than the previous one. Such is their longevity that asset or economic bubbles date back to Tulipmania during the Dutch Golden Age of the mid-1630s and are typically associated with increased use of leverage to try to boost equity and/or debt returns.

The growth of bubbles has become more prevalent in recent decades, fuelled by light-touch regulation and aided by the repeal of regulations, such as the Glass-Steagall Act, with the dot com bubble of 1995 to 2000 and the sub-prime mortgage crisis between 2007 and 2010 among the most notorious examples. Despite springing up in different regions, because of their global correlated nature, they have a shockwave effect on millions of investors worldwide.

In turn, these bubbles have resulted in subsequent recessions. Central banks have exacerbated this by continually bailing out companies and investors with taxpayers' money, much of which never gets repaid, setting a dangerous precedent and generating the expectation that investors will get rescued again in future crises, thus perpetuating future bubble cycles.

Growing wealth divide

Simultaneously, central banks have inadvertently increased the ever-growing wealth gap by favouring or rewarding the select few big asset owners who control the investment market over those who have few assets and the younger generation.

This has, subsequently, perpetuated social discontent and unrest among these disenfranchised masses, who are finding it even more difficult to find a job, get on the property ladder, pay off their debts or save for their future.

To try and get any sort of a return, younger investors are being forced to take increasingly greater risks, just to save enough for a level of pension that would meet required retirement targets. But that comes with a big downside if their investments go south.

> We are well placed to help you make the most of your investments

Once we are firmly on the road to recovery from the coronavirus crisis, these financial market excesses must be reined in. The most likely route to resetting valuations is through inflation, however we need to ensure this doesn't penalise the poorest and those on fixed incomes least able to cope with a sharp rise in living costs.

Hope for the future

Governments and central banks can play a key role in closing the inequality divide through the introduction of bold fiscal stimulus measures, such as the capping of bond yields with negative real interest rates while boosting wages and gross domestic product.

Gen Z investors can also stand to benefit by investing in the likes of infrastructure and green projects; precious metals and commodities; growth and value stocks such as healthcare, semiconductors, pharmaceuticals, mining, clean energy, and small and mid-cap stocks; fiat currencies from countries running strong current account surpluses; and sovereign local currency emerging markets bonds.

Here at Shard Capital, we have closely monitored all these trends and, having foreseen many of them developing in markets, we are well placed to help you make the most of your investments. While always seeking to generate the best possible long-term returns, we are also focused on protecting you against downside risks, particularly in this current challenging environment.

Our strong track record is borne out in the numbers: since inception, we have consistently outstripped the MSCI and our return as at the end of March stands at 57.4 per cent, more than double the MSCI reference at 27.5 per cent over this period.

To see how we can help you with managing your investments and new opportunities, please contact 0203 971 7000, email info@shardcapital.com or visit www.shardcapital.com

Shard Capital

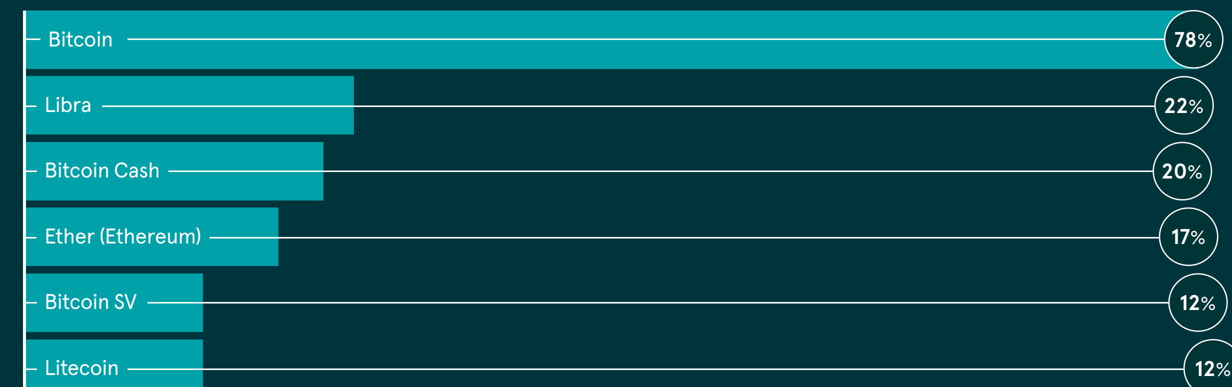
BEYOND BITCOIN

Bitcoin might be the most famous cryptocurrency but the market for digital currencies that make use of blockchain technology is growing rapidly. Awareness and ownership of cryptocurrencies is on the rise in the UK and while most of it is still focused around Bitcoin other cryptos are increasing in use as more people look to invest. But with more interest comes mounting worries about price volatility and scams

THE MOST RECOGNISED CRYPTOCURRENCIES

Cryptocurrencies more than 10% of respondents had heard of

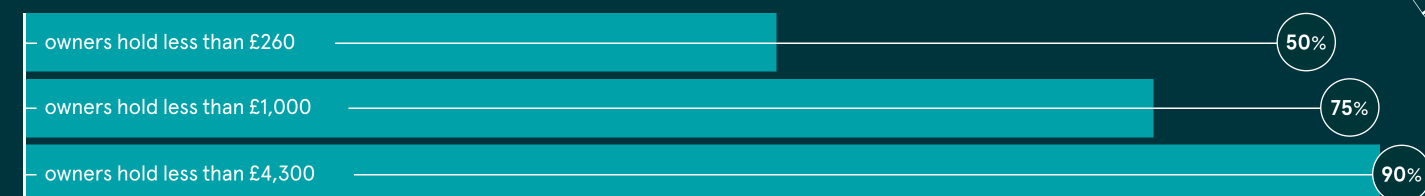
Financial Conduct Authority 2020



THE VALUE OF CRYPTOCURRENCY OWNERSHIP IS RELATIVELY LOW

Value held by cryptocurrency owners

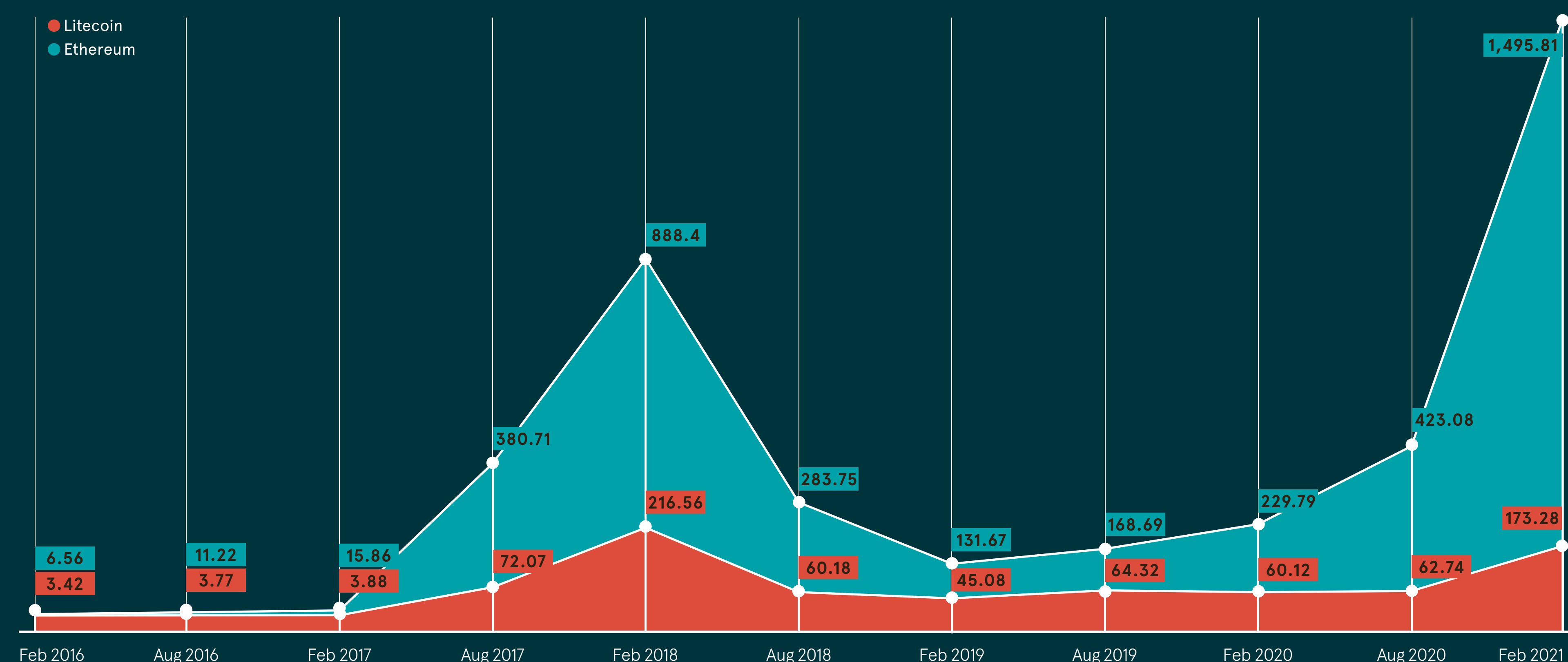
Financial Conduct Authority 2020

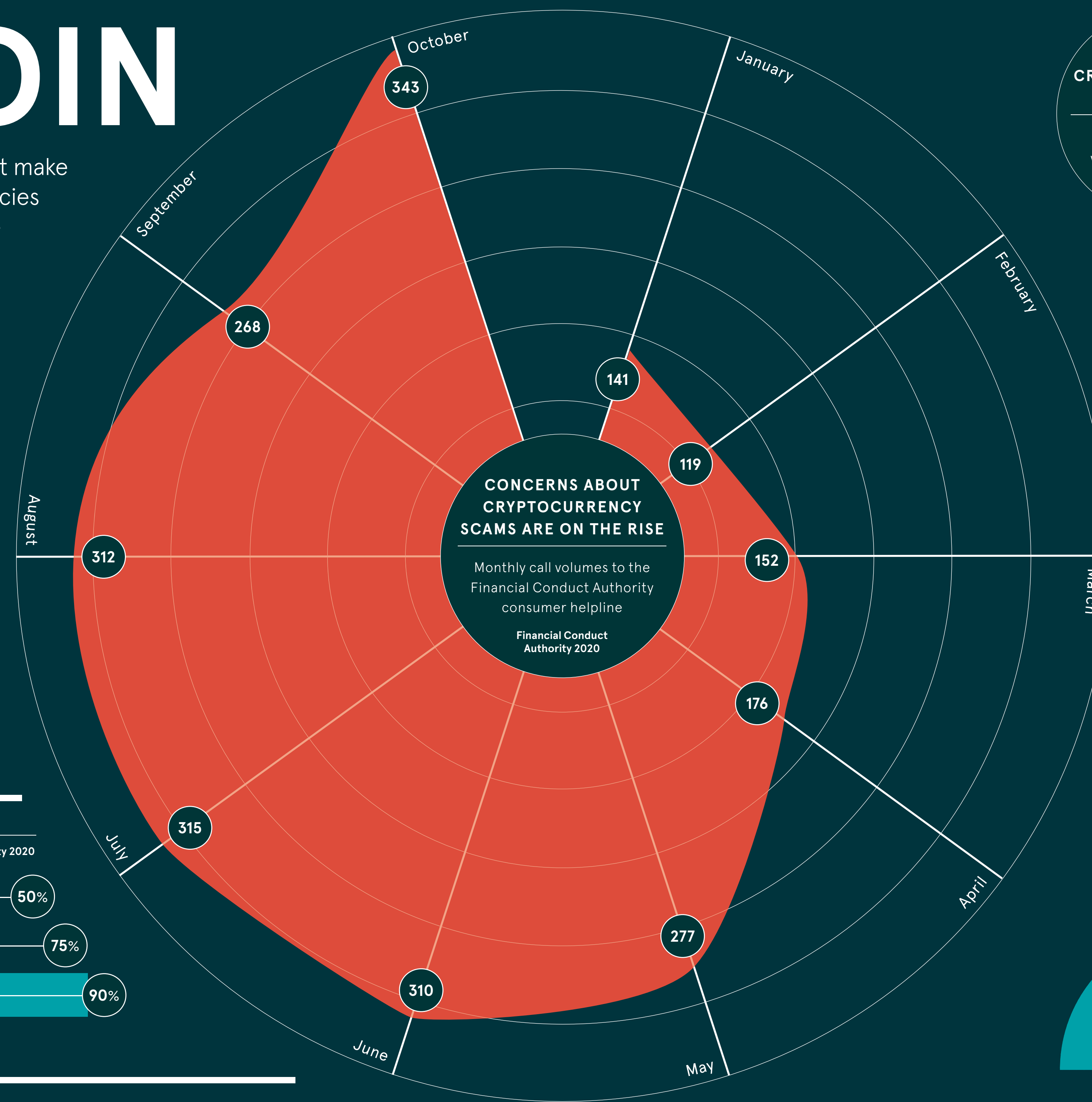


CRYPTOCURRENCIES SUFFER FROM PRICE VOLATILITY

Value of different cryptocurrencies in US dollars

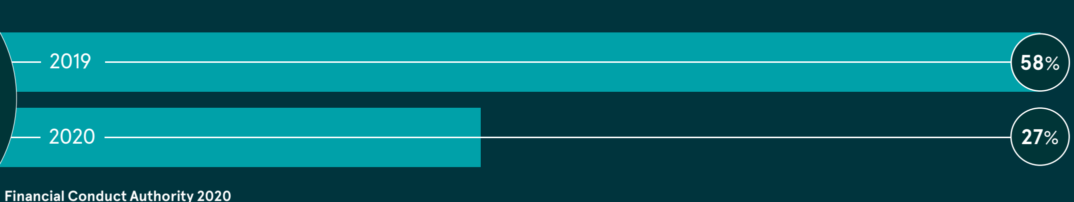
CoinGecko 2021





AWARENESS OF CRYPTOCURRENCIES IS RISING

% of UK population who have never heard of cryptocurrency



Financial Conduct Authority 2020

THE PRICE OF CRYPTOCURRENCY

In US dollars on 30 March 2021

Coindesk.com 2021

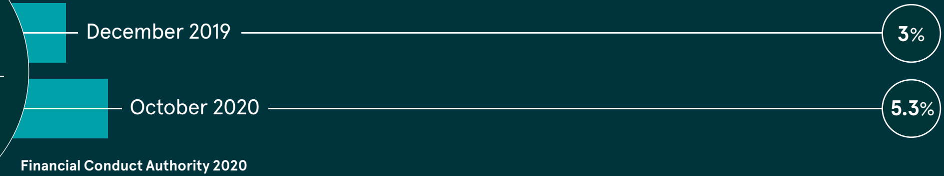
$57,627 Bitcoin

$1,676 Ethereum

$184.17 Litecoin

OWNERSHIP OF CRYPTOCURRENCY IS INCREASING

% of UK adults who have owned or own a cryptocurrency

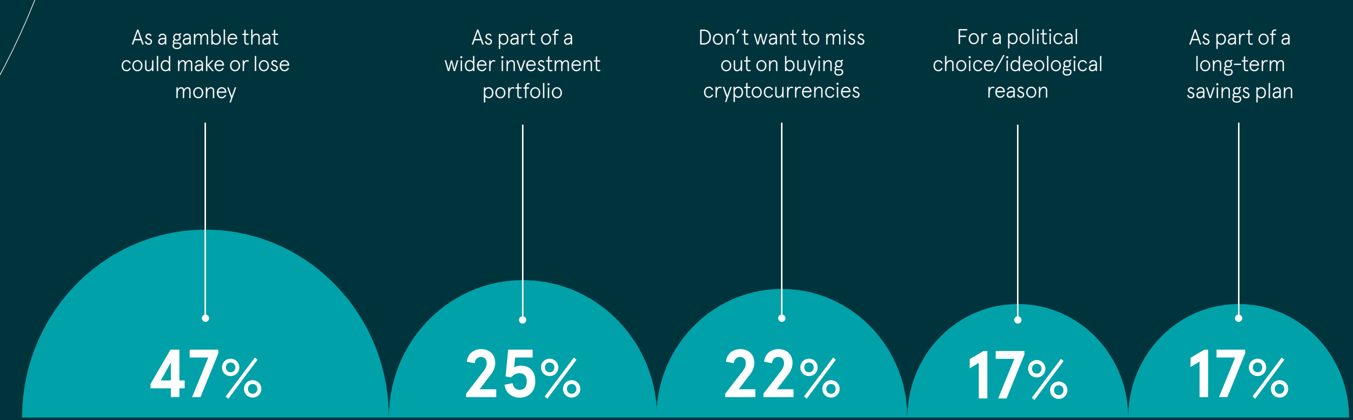


Financial Conduct Authority 2020

MOST PEOPLE OWN CRYPTOCURRENCY 'AS A GAMBLE'

Top five main reasons for purchasing cryptocurrencies

Financial Conduct Authority 2020

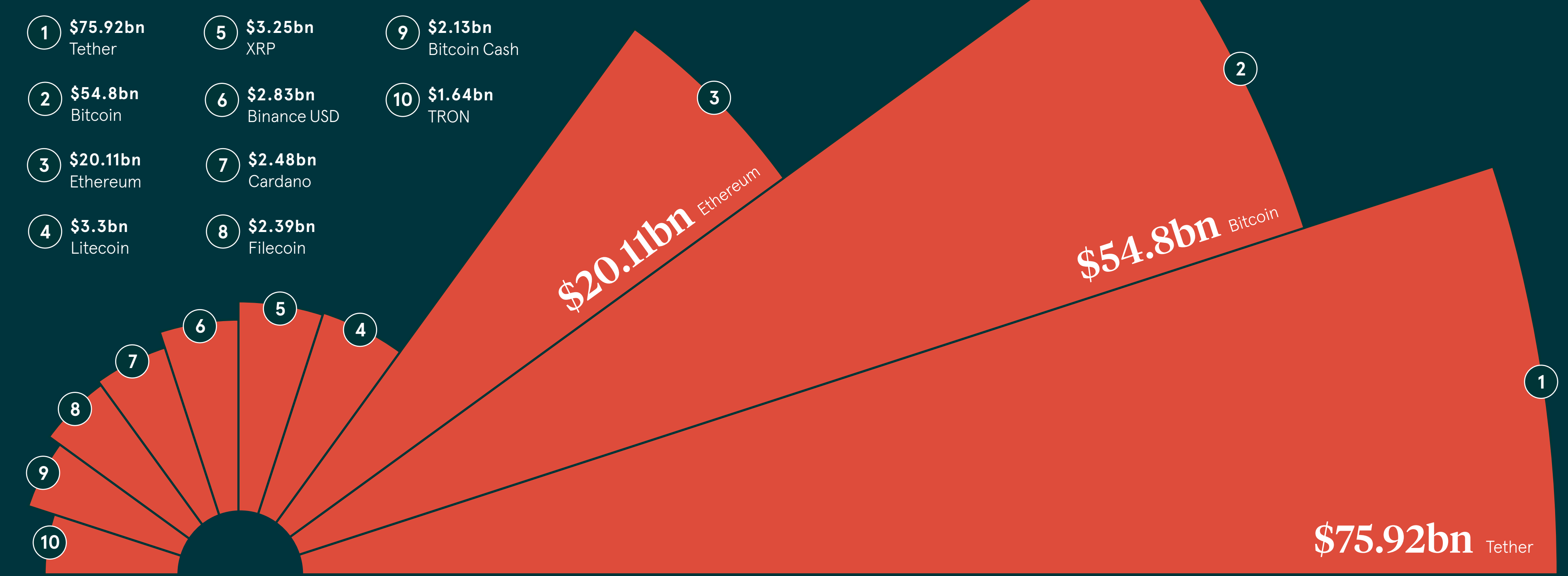


THE 10 MOST TRADED CRYPTOCURRENCIES IN THE WORLD

Based on 24-hour volume on 29 March 2021

CoinMarketCap 2021

1. $75.92bn Tether
2. $54.8bn Bitcoin
3. $20.11bn Ethereum
4. $3.3bn Litecoin
5. $3.25bn XRP
6. $2.83bn Binance USD
7. $2.48bn Cardano
8. $2.39bn Filecoin
9. $2.13bn Bitcoin Cash
10. $1.64bn TRON



CHARTISTS

The mysterious appeal of chartism

Reading runes or respectable science? Looking inside the world of traders who buy and sell solely on the patterns they see

Charles Orton-Jones

Is it possible to trade by spotting patterns in charts? Warren Buffett, the Sage of Omaha himself, had a simple verdict: no. He said: "I realised that technical analysis didn't work when I turned the chart upside down and didn't get a different answer." He stuck to the polar opposite – fundamentals investing, where only the long-term financial prospects of a company are considered – and ended up the world's richest man.

Yet so-called chartism remains popular. Legions of day traders swear by it. They track price movements with saucer bases, pullbacks, double bottoms and diamond bottoms; there are levels, breakouts and Fibonacci retracements.

So what's going on? Is it really possible to trade solely by spotting patterns and trends in short-term market movements?

"I strongly believe that many people engaging in this type of trading do not know what they are doing," says Dr Andrea Barbon, assistant professor of finance at Switzerland"s University of St. Gallen, who teaches a PhD course on mathematical modelling for finance.

"I have friends who have started trading. They call me and ask for advice. And they are really quite expert in these charts. But they don't know what they are talking about. Software is attracting their attention. They are trying to extrapolate the future from what happened in the past. But it's nonsense. It's just emotional."

And yet Barbon concedes there may be two reasons why chartism can deliver results. The first is the fact that so many people believe in the methodology. "Traders are all looking at the same charts and using the same indicators. And if people believe that when a price crosses a line then it's the right time to buy stock, that will push the price up," he says. Patterns in the charts thus become "co-ordination devices" for groups of like-minded traders.

The second justification is more substantial. "Charts at high frequency may capture arbitrage opportunities. There may be a big player who needs to liquidate a large position. When they do that they leave traces in the chart. It is possible to spot this, in principle," says Barbon.

On the trading floors, you will find all sorts of opinions, from sceptics to devotees. One of the most popular places for traders to share strategies is TradingView, which claims more than 15 million visitors a month.

David Belle, TradingView's UK director of growth, explains that for many traders, the appeal of charts is they offer simple insights. "You have to remember that trading is one of the hardest games in the world. And the way it is marketed by brokers makes it look easy. It can seem like a game. People think it should be accessible. So they see things and assume they have importance," he says.

Often patterns they notice are phantoms. "It's confirmation bias," says Belle. "They look at the history of the S&P 500 and notice a correlation with the phases of the moon and say they'll buy at the next full moon, when really there's no causation at all."

Samuel Leach, founder of Samuel & Co Trading, trader, trainer and social media star with more than 132,000 followers on YouTube, is blunt about the excesses of chartism.

"I've seen some that are really bad," he says. "There's one called the Gartley pattern, which looks like a butterfly or bat. I've seen people draw a duck around price action."

But Leach says chartism can produce good results, if only because it's popular. "If people are doing the same thing at the same time, then of course it's going to work," he says, noting that chartism is therefore more effective with smaller capitalisation stocks than major indices. "Foreign exchange markets are in the trillions traded. You aren't going to have a noticeable effect on that."

Leach uses chartism for his own trades. "I love fundamentals," he says. "I say 'I am going to buy this stock'. But when am I going to buy it? I use technical and support levels for that. If I can see a share is bouncing around between two levels, I can wait for it to hit the lower level before I buy." Results are never guaranteed, but it would be odd not to take short-term movements into account.

Another reason to doubt the merit of chartism is the fees it incurs. Every time a trade is made a fee must be paid and over time these erode a significant proportion of the gains.

Furthermore, chartists underestimate the calibre of the competition. Investment banks deploy trading warbots able to execute high-frequency trades. These trading bots are programmed by highly paid quants with PhDs in mathematics and physics. It is fanciful to suppose a lone trader, equipped with basic trading tools, can win consistently against billion-dollar funds armed with this weaponry.

And chartists forgo the most obvious advantage to self-investing: taking advantage of new market information. An events-based strategist, for example, can scan breaking news for an event that will shake the market and move fast to take advantage. Chartists will see the ripples as they occur, but miss the early-mover advantage.

Chartism means rejecting some of the trading strategies with the best track records, namely diversification across funds and industries, and analysing fundamentals to look for under or overvalued stocks. It's high risk to trade just a few stocks over the short term.

Evidence is emphatic. Researchers at Brazil's São Paulo School of Economics and University of São Paulo, tracked 1,551 retail investors with more than 300 days of trading each. The result? Only 1 per cent earned more than the Brazilian minimum wage and 0.5 per cent more than a bank teller, and all incurred with great risk.

"We show that it is virtually impossible for individuals to day trade for a living," the researchers warn. The more investors traded the worse they performed: "The probability of an individual exhibiting a positive profit monotonically decreases with the number of days he or she trades."

> "Trading is one of the hardest games in the world but the way it is marketed by traders makes it look easy. It can seem like a game

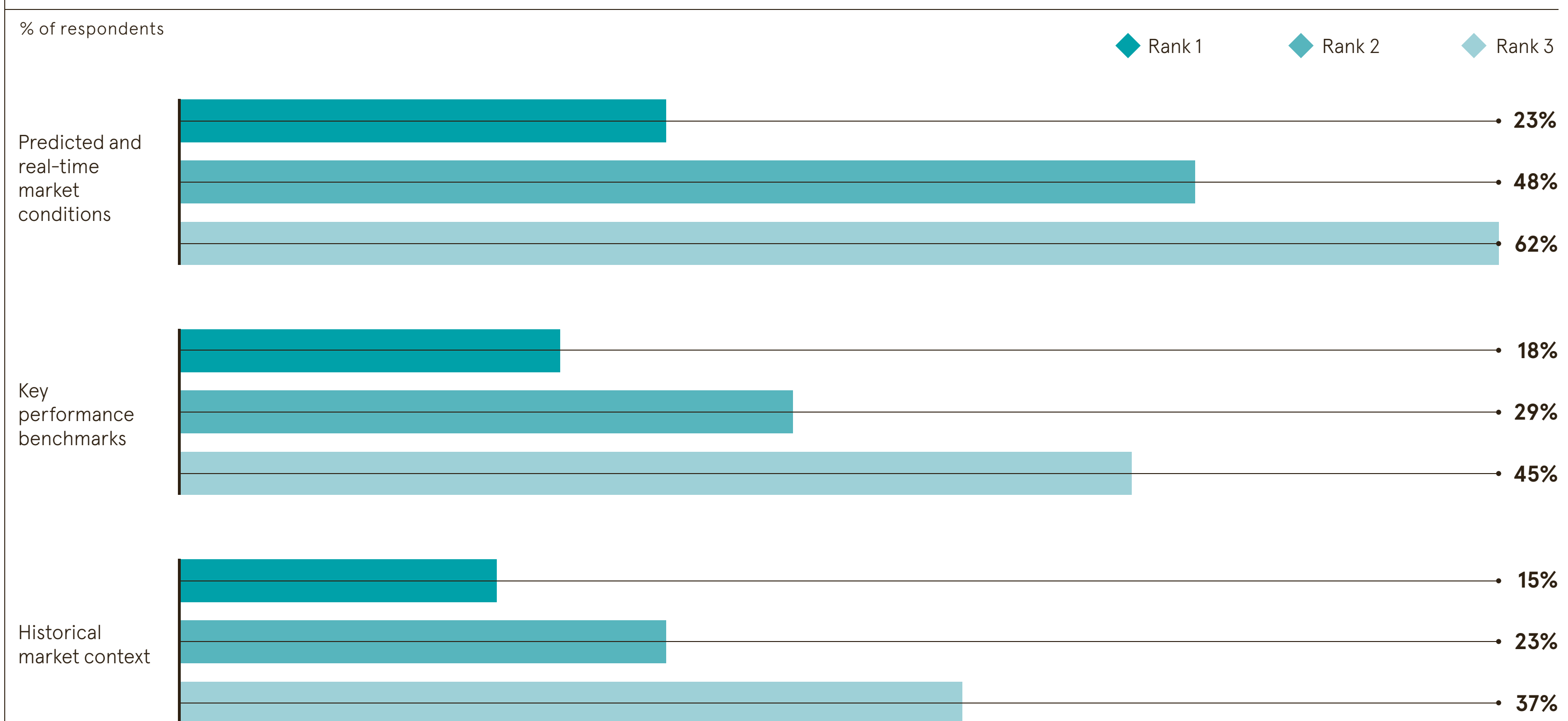
The explosion in popularity of trading via apps and easy-to-use websites means chartism is flourishing. The situation is amplified by charismatic figures who brag about easy wins via formulae. One of these traders, Alex Hope, nicknamed King Popper, was sentenced to three years in jail for masterminding a £5.5-million Ponzi scheme from gullible investors. The sad truth was Hope had no expertise in trading. He was sentenced to an additional 16 months for blowing funds on prosecco and concert tickets rather than repaying his victims.

Even the BBC gets fooled. An episode of *Young, Welsh and...* on BBC Three featured a 20-year-old online trader said to make up to £200,000 a year on foreign exchange markets. In fact, he was merely a marketer flogging expensive courses. The episode was later pulled from iPlayer.

Barbon warns: "A very good friend paid $5,000 for an online course to follow this guy's classes. I mean, this guy is selling bulls**t." The rising market means his friend is in the black and could be excused for feeling invincible. Chartists are notoriously confident in rising markets.

As the Sage of Omaha put it: "Only when the tide goes out do you discover who's been swimming naked." In a bull market everyone looks like a genius. When the bears return then we see whose methods are valid. Only then will chartists discover the true power of their bollinger bands and rising wedges.

THE TOP THREE MOST USEFUL DATA TOOLS FOR TRADERS



Commercial feature

Commission-free stock trading marks a new era for retail traders

Modern technology has made retail trading accessible to all – it is literally at our fingertips – but it wasn't always this easy

It's fair to say that the technology underpinning online retail trading has come a long way since the days of pagers and dial-up modems (look it up, kids).

Now the trading landscape for retail traders is set to enter a new era. Costs have reduced so substantially that the idea of "free" trading has become mainstream.

While this marks a welcome change from the days when the cost of a single trade was in the double digits, these new models are not as simple or transparent as they may seem.

Look under the bonnet and you'll notice a whole host of question marks, caveats, if and/or buts that make you wonder if trading really is free. As a result, where this leaves a retail trader in terms of execution quality can vary significantly.

Choosing your commission-free trading provider

When choosing a broker to trade with, read the terms and conditions closely to make sure it's right for you and take a closer look at the wider business model. If trading is free, how does the broker make money and is this transparently communicated?

> "For a low cost and small financial outlay, traders can test their strategies without a big commitment

Don't accept shortcuts. A trading provider needs to incorporate and connect to a whole host of liquidity providers, exchanges, tech providers and risk systems to deliver a safe and secure operation.

Lastly, check that the company or broker you are trading with is regulated with the Financial Conduct Authority or another reputable regulator or industry body. Some trading providers use e-money licences or passporting, so it's important to be aware of these differences.

Award-winning, zero-commission CFD trading

As one of the most highly requested and anticipated products, FXCM added single stock (share) CFD – contract for difference – trading to its retail offering a year ago. With FXCM, share CFD traders can go long or short with a simple click of a button and speculate on both the gains and losses of a stock.

When trading share CFDs with FXCM, customers benefit from commission-free trading, only paying the bid/ask spread. In addition, trade sizes are low with the minimum trade size of 0.1 units of a share, therefore, for a low cost and small financial outlay, traders can test their strategies without a big commitment.

Over the past year, FXCM has expanded its share CFD offering, with a recent update including shares from Hong Kong's HKEX and an additional 50 NYSE and NASDAQ-listed companies. Please note that HK shares can only be traded in increments of one share.

FXCM's Share CFD offering is available on MetaTrader4, the Trading Station platform and NinjaTrader, allowing seamless trading for both new and existing customers according to their needs. Please note that HK shares are currently only available on Trading Station account, not MT4 account.

Enabling zero-commission trading is always a key focus for FXCM when expanding their offering, along with easing market access for retail investors during the unprecedented volatility brought by the coronavirus pandemic.

Drawing on our market expertise

FXCM has a unique history when it comes to offering trading services to retail traders. It is already one of the world's largest retail brokers and a leader in online trading. Whether it's foreign exchange, commodities, metals, energy products or stock indices, we have a track record that has stood the test of time.

CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. Some 76.31 per cent of retail investor accounts lose money when trading CFDs with this provider. You should consider whether you understand how CFDs work and whether you can afford to take the high risk of losing your money. Forex Capital Markets Limited is authorised and regulated in the United Kingdom by the Financial Conduct Authority. Registration number 217689. Registered in England and Wales with Companies House, company number 04072877.

Discover more about our offering at www.fxcm.com

Commercial feature

Why 1.4 million Europeans trade and invest with Fineco

Fineco is a giant in European trading. Marco Mottadelli, head of Fineco UK, explains why opt for Fineco Bank

This is a golden age for traders. They are spoiled for choice with apps and platforms galore. Yet despite all this competition, Fineco remains one the most popular trading choices in Europe. We now have more than 1.4 million account holders. And we are growing fast.

But why are we the natural choice for traders? Let's start with who we are. Fineco is a fintech bank, founded in Italy in 1999. We manage £82.5 billion in financial assets. We are regulated by the Bank of England and the Bank of Italy, and we are listed on the stock market.

This makes us different. Unlike fly-by-night apps, we offer size, maturity and stability. This is hugely reassuring to traders who trust us with their money.

Then there's our technology. Our platform provides investment-bank grade trading to retail investors. Our interface is intuitive, with the full range of tools, including over 90 technical indicators. It's the result of more than 20 years of development.

Buy and sell UK and global shares, exchange-traded funds, contracts for difference and foreign exchange. Our platform includes commodities including oil, metal and energy, futures on CME, EUREX and IDEM. We execute 27 million orders a year.

Price is key. Our mantra is transparency. We provide the market's lowest fees, with no hidden extras. We charge no monthly account fee. No custody or deposit fees. No inactivity charges. No portfolio transfer costs. And we offer super-low flat fees: just £2.95 per order for UK shares and £ 3.95 per order for USA. For CFDs there is £0 commission and no added spread. We can do this because of our size, allowing us to push fees to rock bottom. On price alone we are the number-one choice.

Then there is our approach to technology. Our products are coded from scratch, architected around user needs. This is a formidable advantage. Our rivals often use white-label software licensed from third parties and merely repackage it. Our in-house approach means we provide exactly what our users demand. Thus, our platform offers the best user experience, while keeping costs lower, as we don't have third-party licence fees to fund.

20+ countries
invest and trade directly in GBP, EUR, USD, Swiss Francs and 20+ currencies

£0
no monthly account fees

Our trump card is the breadth of our offering. Fineco is more than a trading platform. We are a full service bank. When you join Fineco, you immediately get an account in four currencies: the pound, Swiss franc, euro and dollar. If needed, we'll expand this to 23 currencies. Transfer currencies for no charge and get a rate that undercuts even our strongest fintech competitors, such as Revolut and TransferWise. And enjoy free withdrawals with no limit across the European Union and UK. No one else offers this.

We provide complete investment services. Buy funds from M&G, Jupiter, Fidelity, Invesco and many other asset managers. We add one or two investment houses every month, often in response to a customer request. Our fees are 0.25 per cent maximum, falling to 0.05 per cent for £1 million to £2 million and free on the value over £2 million. There are no hidden fees.

We offer stocks and shares ISAs, and Fineco has recently launched a new offer: when opening a Fineco Stocks and Shares ISA or transfering an ISA between March 3 and June 30, access Fineco's ISA investment platform with zero fees until the end of the 2021-22 tax year (April 5, 2022). Customers can invest in funds, shares, ETFs and bonds, tax free.

If needed, we offer the sort of support you'd expect from a large bank. Got a query or request? Call our support team. KPMG ranked Fineco as the sixth best company in its national ranking for customer service and the best in the banking sector.

Overall, traders get all they need under one roof. Invest and trade from a single login. Manage capital across accounts in multiple currencies.

In a competitive marketplace, Fineco is a market leader in trading. Whether you demand the best user experience, the lowest fees, a place to conduct all your investments or the best customer service, Fineco is your home.

Try us. If you aren't delighted, leave with no exit fees. Our proposition and our values are so strong we believe it will be the start of a lifelong relationship.

To find out more please visit fineco.co.uk

Petrovicheva Maria via Shutterstock

INVESTING

The rise of the amateur home trader

With the UK's largest investment platform reporting a 40 per cent jump in net new business, can armchair traders learn from the professionals or do they face plunging themselves into the red?

Jonathan Weinberg

At a time when interest rates on savings are at an all-time low, pension funds have been hit by coronavirus and many face reduced incomes due to the pandemic, retail trading from home has become a side hustle for those hoping to boost their finances.

A smartphone or computer, plus an online broker platform, is often all anyone needs to buy and sell everything from currencies to commodities to crypto.

Trading novices have access to one-to-one online lessons from professional traders too, alongside YouTube videos and a plethora of guides or courses created by those with industry experience and found with a simple internet search.

Charlie Burton, a money manager regulated by the Financial Conduct Authority, offers online training on his EzeeTrader website. He speculates that another reason there has been an uptick in popularity in the past 12 months is because of the lack of availability of sports betting during the first lockdown.

Citing the low barriers to entry, Burton says: "You can open up trading accounts with just a couple of hundred pounds and buy some bitcoin or euros or dollars.

"I remember back in the 1990s, filling in a load of forms to open up my very first brokerage account. You had to sign every single page and then send it off."

Burton is quick to distinguish learning to trade from "buying an asset class and hoping it goes up" and warns that "80 per cent will fail".

He adds: "The reason most fail is this 'get rich quick' type of mindset. The reality is, you're going to have to accept being wrong probably 50 per cent of the time."

Entering trading as an amateur is fraught with pitfalls, but this hasn't hurt its new-found popularity.

According to an online post looking at the rise in armchair retail trading, by House of Commons Library researcher Ali Shalchi, the UK's largest investment platform Hargreaves Lansdown reported a 40 per cent jump in net new business in the final six months of 2020 with an influx of younger people driving down the average age of its users.

One newbie is Andrew, aged 35, who says he has been exploring different platforms, while dabbling in a mix of stocks and bitcoin, because with interest rates so low he wanted other options to make the most of his cash.

He says: "One of the hardest things is getting used to the terminology, but you can find most things on Google. Trying to understand what is reliable information online is hard for a novice, so I looked for websites that I recognised and spent time to understand what I was getting into.

"You need to ask yourself if you can afford to lose that money. I've only invested what I can afford to lose. The websites and apps do warn you about this."

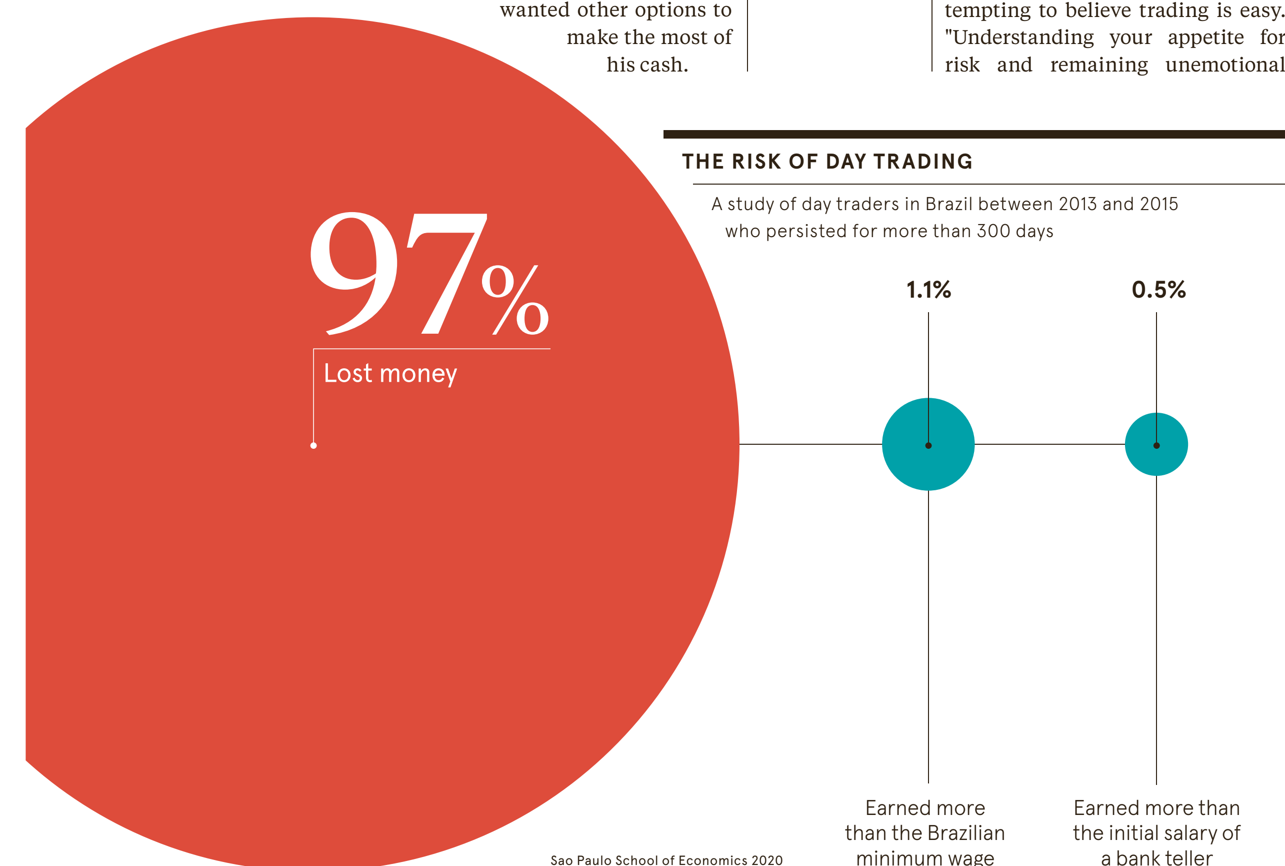
Stuart Lane, chief executive of Trade Nation, warns that it is tempting to believe trading is easy. "Understanding your appetite for risk and remaining unemotional when markets aren't going your way can be hard," he says. "That's why we emphasise the importance of having a trading plan, and employing strict money and risk management. Profits, and losses, can accumulate quickly and being consistently profitable is hard. It requires discipline as well as a thorough understanding of technical analysis."

Naeem Aslam, chief market analyst at AvaTrade, also proffers caution. "New traders need to ensure they are acquainted with the risks," he says. "While there are opportunities to make a lot of money, there is also scope for loss. Making sure they are educated on the markets they are trading in, as well as the tools they are using, is key to success."

Common issues the professionals highlight include overtrading or taking positions that are too big versus the money someone has available to risk.

Michael Kamerman, chief executive of Skilling, says: "While trading has now become more accessible, the ease of apps and online venues should not distract from understanding the decisions you make on them. Day trading isn't a strategy people can jump into without doing their research first. When deciding where to trade, the current price of an instrument, like EUR/USD, gold, Tesla and so on, is only one part of the equation.

"When everyone talks about the hottest tech stocks, it's easy to get swept up in the popularity. However, it isn't the right product for everyone. For example, if you only have time to trade during the evening when stock markets are closed or don't understand the products or services of the hottest new IPO, it's wise to consider alternatives."



> While there are opportunities to make a lot of money, there is also scope for loss

The many pitfalls are perhaps why people are turning to professionals to teach them. Sarah-Jane McQueen, general manager of CoursesOnline, says demand for trading courses aimed at beginners jumped in February and March 2020, with internal data for the whole of last year showing the total number of learners interested in trading courses increased by approximately two thirds. So far in 2021, the number of learners is roughly a third greater than in 2019.

"The biggest red flag to be avoided when searching for a course is one which promises the world, such as 'learn how to make millions in just a few hours' or something similarly over the top," she says. "These courses don't take into account that what you learn isn't suddenly going to make you a master of a skill overnight."

It is for this reason, among many, why EzeeTrader's Burton suggests it is time for the trading education industry to be regulated.

He concludes: "If you have to prove you have three years' trading history of trading accounts you can actually show to some form of regulator, that would just cut out a load of these people. That would be a good thing."

An amateur now making the trade

After training remotely via one-to-one Zoom sessions, Dr Lucy Davey, a coach whose company OptiMUM works with mums, invests in cryptocurrency. She says: "As a mother of young children, the idea of making and investing money, requiring as little as an hour each day of my time, appealed to me. It seemed to have the flexibility to be able to do my trading at times that fitted in with my children and other work and responsibilities. I was one of the very few women undertaking crypto coaching.

"I had to overcome my initial anxieties about being a woman not hugely familiar with trading. I come from a medical, psychiatry background.

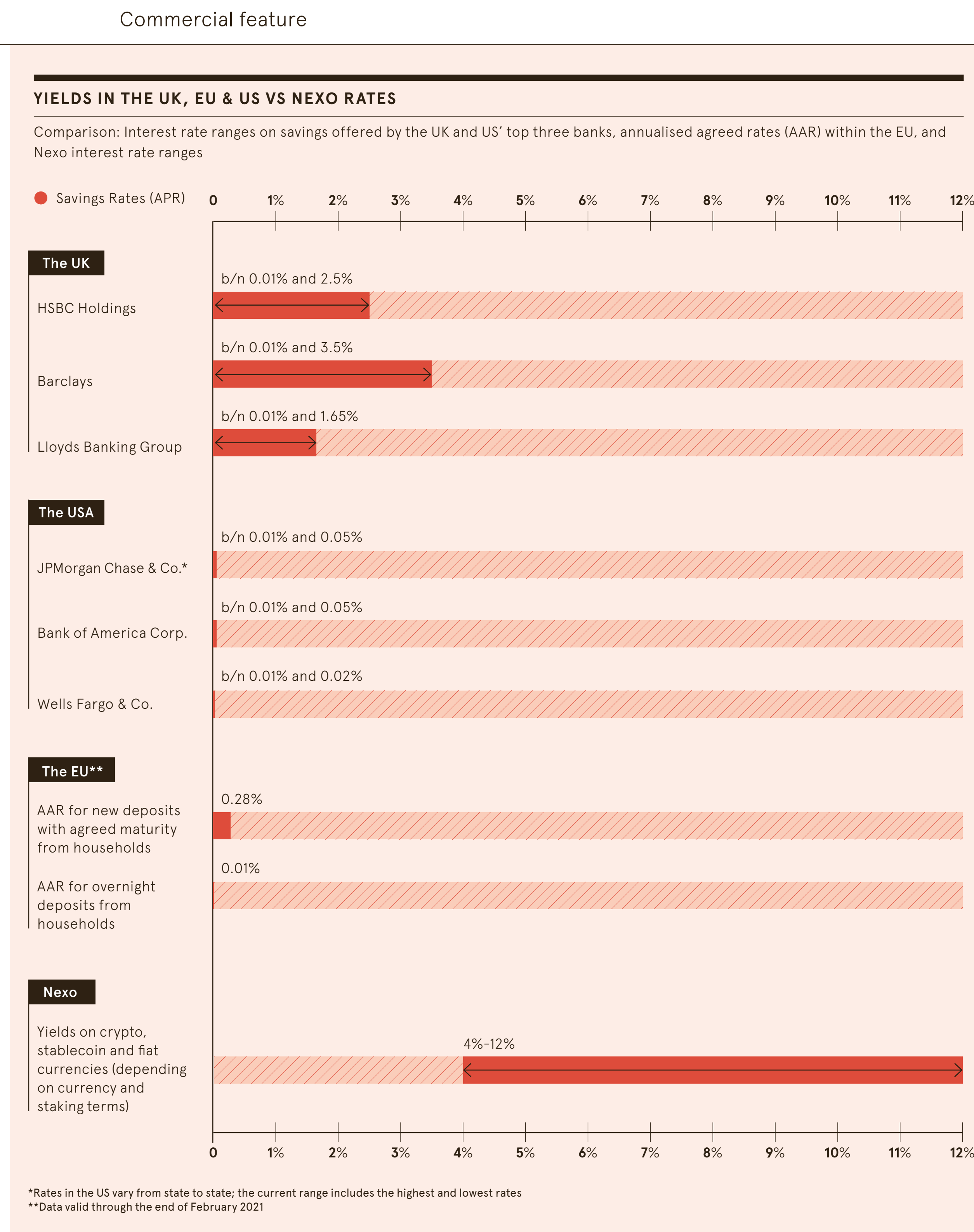
"Also, these are generally high-risk investments and you have to know you risk losing as much as you can substantially gain. It is often unnerving to make your first trades, knowing you could lose. The crypto market has been very good recently to all those in it, but it is infamously volatile. You can be up 20 per cent one day and down 10 per cent the next.

"The biggest challenge is actually to do nothing when your emotions are screaming for you to buy and sell as the market moves violently. So my biggest achievement has been to remain calm and not let emotions take the place of rational decisions. My advice would be not to be greedy and, as you make a profit, take some money off the table."

Commercial feature

Yielding to crypto as a new banking alternative

Cryptocurrencies are known as the disruptors of traditional finance. A new breed of companies is starting to bridge the gulf between the old world and the new, offering excellent yields for long-term holders of crypto



Much has been promised for the future use of blockchain, although many people still regard the sector as something of a Wild West. But as it develops and matures, the industry is finding ways to answer its critics.

Events such as the listing of Coinbase, America's largest cryptocurrency exchange, on Wall Street's Nasdaq stock exchange are signalling growing mainstream acceptance of crypto.

Digital currencies such as stablecoins – which aim to minimise price volatility by pegging the stablecoin to an underlying basket of assets – are offering steadier ways to trade cryptocurrencies, bringing a measure of security and stability to the industry. But it is the new ways crypto assets can be deployed that are likely to be the real game-changer.

So now there's a new way to make money from your crypto assets, which bridges the inefficient world of traditional finance services (known in crypto as "TradFi") and the fast emerging universe of crypto. It is starting to bring crypto into the mainstream, turning it from the incomprehensible preserve of tech-savvy twenty-somethings into a standard financial product that can be used by anyone.

This allows you to cash in on your crypto assets without cashing out, providing a passive income that can not only be significantly higher than that provided by other, more traditional institutions, but can also increase your crypto holdings.

How you utilise this new service is up to you; it can be thought of as simply providing a good return on assets, as an income-generating investment, or as a lender that allows you to pay the school fees or buy a home. Critically, it offers the chance to leverage your crypto rather than selling up as digital assets grow in popularity and price.

There are a number of centralised finance (CeFi) players in the digital assets space that bridge the gap between wild-west crypto and TradFi. Nexo, founded in 2018, is one such. It's a digital finance equivalent of traditional retail banking services that lets you manage your crypto and fiat assets, whoever you are and wherever you are in the world. You can borrow, earn and exchange between assets, as well as transfer funds to your traditional bank accounts, all from within the Nexo platform and mobile application, as well as spend your crypto-backed loan easily to, say, buy a coffee with the Nexo Card.

Should you need to take out a loan, the APR is lower than you would get from a traditional bank, and if you are HODLing – holding crypto for the long term – it gives you the chance to earn a much higher interest rate than is possible elsewhere in the financial services industry.

No trader or investor needs to be told about the current low-interest environment; ever since the 2008 financial crash, it's been difficult to earn a respectable rate on assets and still harder to generate the kind of instant liquidity that can be a key element in becoming a successful trader.

Whether you are a holder of crypto or fiat, or both, Nexo is a great alternative investment and storage option, earning up to 12 per cent on your crypto and fiat currency holdings. It offers the ability to mix fiat and crypto currencies, and take out an instant, fee-free cash loan against those assets. It's a quicker and easier process than those on offer from a lumbering, traditional bank.

Yet you can still access the assets at any time, making this one of the most flexible and efficient ways of borrowing money. Perhaps as importantly for traders, this ability to use your crypto assets as collateral offers you a valuable element of liquidity in your portfolio, without triggering capital gains tax events and without missing out on any potential future growth in crypto.

The company additionally boasts its own cryptocurrency, the NEXO Token that, besides being highly liquid and having grown in value by more than 8,000 per cent since 2018, is the world's first dividend-paying, asset-backed token. Over the past three years, Nexo has distributed more than $9 million in dividends to token holders. The company is also seeing more and more crypto-savvy investors choose to buy or receive their interest payouts in its native NEXO Token, which ranks among the top 100 currencies in terms of market cap out of more than 4,000 cryptos currently in circulation.

In effect, Nexo is acting like a traditional bank, translating the services of the finance industry into the world of crypto and deploying familiar processes such as KYC, or know your customer. It has even launched a card as an extension of its crypto-backed credit line, which can be used in the same way you would use your traditional bank card. No longer do you need to be a digital assets expert to add a little crypto future-proofing to your portfolio; Nexo's systems mean there is a way for anyone to dip a toe into the crypto world.

> Nexo's business model – centred on sustainable yields, top-tier custodial insurance, and over-collateralised loans – lays the groundwork for mass crypto adoption

You still need to be prepared to manage your investments and watch the crypto market, which remains volatile, as anyone who has been on the rollercoaster ride that is bitcoin will know. As with any trading, it's critical not to lose sight of the ultimate investment and always be prepared to back your loans should prices fall. However, CeFi platforms like Nexo make this a lot easier than their decentralised finance (DeFi) equivalents and far more profitable than their TradFi counterparts.

Security is obviously an important part in choosing anywhere you hold your assets. Nexo, which is building for the long term as a business, is choosing a more stable and less volatile business model, over-collateralising loans at 200 to 500 per cent, enforcing a strict liquidation policy – an automatic liquidation if loan-to-value goes above above a certain percentage, albeit after three margin call defaults – and offering a consistent and stable return.

The company, which is keen to educate both users and the wider world about crypto, also carries the hallmarks of classic financial institutions: licenses across the world, insurance coverage of $375 million on custodial assets, and rigorous KYC and anti-money laundering mechanisms.

While it may be the high yields and instant access to cash credits backed by crypto that draw investors to Nexo, it is likely to be the secure set-up and safe environment that keep them working with the company for years to come.

For more information please visit nexo.io

DIGITAL

Explaining NFTs

NFTs have been making headlines, but there's confusion around what they actually are, the risks and benefits of investing, and whether people should be buying them at all

Rose Stokes

Unless you happen to be well versed in all things cryptocurrency and blockchain technology, non-fungible tokens, or NFTs as they are more commonly known, are likely to have entered your realm of consciousness only very recently, if you are not learning about them for the first time.

Either way, in the space of a few short months, NFTs have gone from being niche digital assets relegated to conversations between crypto natives, to headline-grabbing instruments used by high-profile creatives to earn eye-watering sums for their digital work.

But what exactly are they? What are the benefits and risks of investing? And should we all be buying them?

First, you might be wondering what on earth "non-fungible" means. In layman's terms, something that is fungible can be easily replaced with something else of the same type and equal value. If you consider a £1 coin, no matter which £1 coin you have of the millions of identical ones minted each year, it holds the same value as any other. Other examples of fungible assets include oil, gold, bitcoins and even a box of cornflakes: they are items whose value doesn't depend on their uniqueness.

"If someone owes you £50, you'll take any £50 note, you don't care which; that's because it's fungible," explains Antoni Trenchev, managing partner of Nexo, the leading regulated financial institution for digital assets and a member of Bulgaria's parliament.

When something is non-fungible, it cannot be replaced with another similar item because only one of it exists in the world. Consider the *Mona Lisa*, arguably Leonardo da Vinci's most famous work. Another painter could replicate the piece, and could do so quite accurately, but there would always be minor differences; maybe the brush strokes or the tonality would differ slightly. A copy could never hold the same value as the original, of which there is only one.

In simplistic terms, an NFT is a unique representation of value that provides creatives with the opportunity to produce one-off pieces of art in the digital world, where a normalisation of mass reproduction, streaming, downloading and uploading has driven down the value of their work.

An NFT also enables artists to sell directly to consumers, thereby increasing profits, and have a built-in function to pay creators when their work is sold on. They are like virtual collectibles that can be bought, sold or traded for money, either as speculative assets or as a way for brands, as Nike has recently announced, to verify the authenticity of a product.

> More than anything, NFTs represent a shift in business models. They are another way of distributing value

For Lior Messika, founder of Eden Block, a venture capital firm specialising in blockchain and crypto, the potential for NFTs is "colossal" in terms of their ability to "disrupt the entire concept of digital ownership".

"More than anything, NFTs represent a shift in current business models," he says. "If blockchain as an operating system is helping us to do things differently, NFTs are just another way of distributing value in a way that is frictionless."

This, he believes, will benefit both creators and consumers. "Blockchain technologies are extremely effective at fixing the problems we created by moving too fast with the internet," says Messika. "Content creators will become so much richer in the next few years or decades thanks to this kind of innovation, which will eventually feed through to consumers."

If it seems like everybody is suddenly talking about NFTs, it is because they are. Trenchev says: "Despite the fact they've been around for a few years, we're hearing a lot more about NFTs recently because there have been some crazy auctions, with art selling in double-digit millions."

He attributes at least some of this to global lockdowns, which have hit the finances of major recording artists who would ordinarily make a big part of their income from touring. It's a trend that has seen Kings of Leon become the first band to release an album as an NFT and singer Grimes sell $6 million-worth of digital art in tokens. Twitter's founder Jack Dorsey made headlines in March by auctioning off his firsttweet as an NFT for almost $3 million and Kevin Roose, a journalist at *The New York Times*, made $560,000 for charity by selling an NFT of one of his columns.

Trenchev also believes that skyrocketing prices for bitcoin and other cryptocurrencies in 2020, which brought massive financial gains to investors, are behind an increased interest in NFTs. "There are millennials and Gen Zedders who suddenly find themselves sitting on an enormous amount of wealth created seemingly out of thin air and they're looking for ways to spend it," he says.

He adds that while "previous generations view hard assets to be real estate, cash and bonds", this doesn't mean the next generation is going to dance to the same tune. Such investments might not seem so strange to generations who have grown up online.

Expert opinion differs on whether NFTs are a worthy investment. "It's still too early to say if this is a good investment," says Trenchev. "But I would definitely say it's an overheated and overpriced market."

Messika is more upbeat. "It's the same as every other asset class and basically depends on whether the NFT is good or not," he explains. "Being an NFT doesn't make it more or less valuable, but I own a few and I feel confident they'll hold value. Overall, I think the market will grow."

Outside investment, though, are they a worthwhile expenditure for the average consumer? Gem Stoned, a content creator, thinks so. "I've bought two, sold two and minted several," she says. "I really love art and crypto, and I love that NFTs give you the ability to support the artist directly while owning the piece as an asset that can hopefully go up, and not down, in value."

If you decide to give it a go, it is worth bearing in mind that making digital artworks uses a large amount of computing power, so NFTs are not particularly environmentally friendly. Beyond that, Trenchev and Messika agree you should start small. "My advice is always the same," says Trenchev. "Never put any money into a financial asset that you cannot afford to lose."

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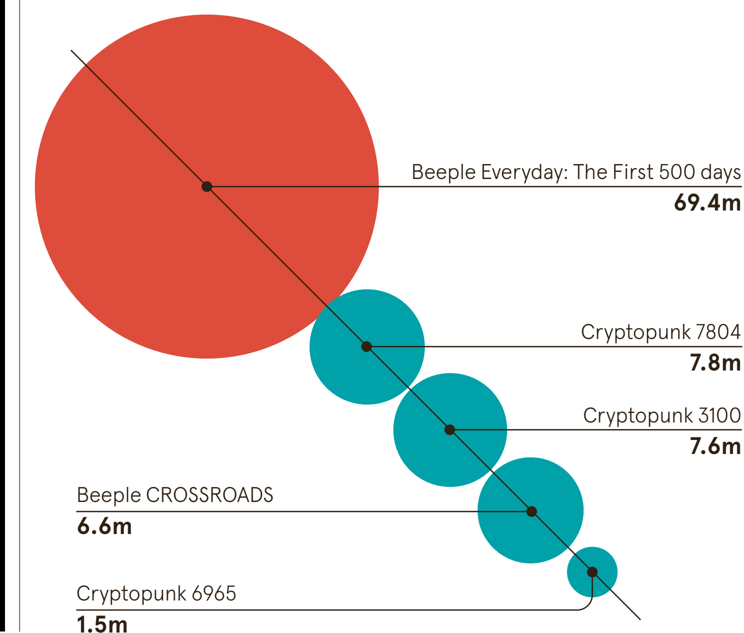
THE MOST EXPENSIVE NFT SALES WORLDWIDE

In US dollars, as of 16 March

Statista 2021



ALTERNATIVE INVESTMENTS

Investing: what are the alternatives?

With bank interest rates at an all time low, many investors are looking to new ways to increase their reserves

Chris Stokel-Walker

As the world slowly shakes off the impact of the coronavirus crisis and the economy gently recovers an even keel, some people in the UK are starting to build up cash reserves.

Bank of England data shows households deposited an additional £18.5 billion into bank accounts in January, but the amount of interest earned on this is likely to remain low as lenders keep rates down to enable a speedy economic upturn.

In all, there is an extra £160 billion of savings in UK citizens' back pockets and retail interest rates are not cutting it. For that reason, for many it is no longer prudent to put cash into Premium Bonds or to scrimp the fractions of a percent from savings accounts offered by high street banks. In their place, however, is a cornucopia of other trading strategies the ordinary person can access.

Whether you are willing to bankroll lawsuits with the potential of receiving a cut of any winnings from a court case, want to invest in your favourite musician's long-term future in the charts by buying the rights to their back catalogue or chance your arm on the rollercoaster of the stock market without paying a cut to a stockbroker, there are options aplenty.

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Litigation funding

A potential new market for investment is the rise of litigation funding, where funders with spare cash can bankroll lawsuits against companies that otherwise could not be brought because of a lack of funds. The investors agree to provide financial support to a legal case in exchange for a pre-agreed share of any proceeds from the case. If the litigant being funded wins, then the financial backer also agrees to pay part or all of the claimant's legal costs, but if they don't win, they don't pay the costs.

The benefits, particularly if funding a class action case against a large company, can be enormous. But as with any investment, it's possible to lose as well as gain from the amount you put in, and litigation funding is much more clear cut in its wins and losses. Should the party you bankroll end up losing in court, you lose all your investment.

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Retail trading apps

One of the most high-profile trading strategies in recent months has been the use of retail trading apps, such as Freetrade, Trading 212 or eToro, to invest on the stock markets without having to go through the traditional means of employing a stockbroker. From your phone, it is possible to invest tens of thousands through ISAs or taxable trading and to play the markets.

"There are lots of apps out there and if you're new to investing then it can be tricky to say which is right for you," says David Kimberley, analyst at Freetrade. Think about what you want to invest in as some apps don't currently offer access to higher risk, higher reward cryptocurrency assets, which can yo-yo in value, while others provide a different range of funds alongside the standard stocks.

"You should look for an app that is a part of the Financial Services Compensation Scheme that protects assets up to £85,000," says Kimberley.

And of course, always be conscious of the fact that no matter how many bells and whistles there are, and how easy it may seem, you are investing real money. "Investing ultimately entails you putting your money on the line. You want to make sure you're doing that with the right company before you open an account with anybody," he says.

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Song rights

Every time a song is played in a movie, on TV or on the radio, the artist behind it gains income. It can be pennies, but as some of the world's biggest music superstars can attest alongside canny investors, if you look after the pennies, the pounds begin to look after themselves. You too can buy into the action, owning the right to song royalties that give you a payment whenever the music is played somewhere worldwide.

Royalty Exchange, an online service auctioning off rights to songs, estimates the average investment brokered by them returns around 10 per cent to those who splashed out. You can buy ten-year or lifetime rights to songs.

Empire State of Mind by Jay-Z went under the gavel and was purchased for $190,000. Some of Rihanna's hits, bought for $200,000 or more, have earned a 20 per cent return within a year. But you don't need to spend big as lesser-known songs can be bought, yes, for a song, but keep getting played. And if you're not keen on relying on a single track to deliver returns, you can invest in specialist funds, such as Hipgnosis Songs Fund, which is listed on the London Stock Exchange.

Crowdfunding

The world of venture capital has long helped propel startups into the stratosphere, but for the rank-and-file investor with a little bit of extra cash to spare, it can sometimes be difficult to gain a foothold in the market. Crowdfunding investment platforms, such as Seedrs and Crowdcube, which were recently blocked from merging by the UK's Competition and Markets Authority, give ordinary investors a chance to get in on the ground floor of potentially booming businesses.

Such platforms list businesses seeking investment from the crowd. If you choose to invest in a firm, you're given shares that are held on to and managed by the platform you're investing through. If the firm manages to make it big, you strike it rich and have the opportunity to sell on or divest your shareholding in the company, potentially for a profit.

But, as with all these things, there is a risk that you won't make any money at all. The majority of startups don't deliver a return on investment, making it a difficult decision to pick and back a winner among the also-rans.

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Collectibles

The world of collectibles may seem like a hobbyist's game, but it is increasingly seen as a viable option for people seeking to invest large amounts of cash and make a profit. Alongside trading cards, rare bank notes and stamps, there is a more up-to-date version of investing that many younger people aiming to dip their toe in the world of investing have investigated: sneaker trading.

Buoyed by big brand names and high-profile collaborations with celebrities resulting in limited-run items, the world of trainer investment has become an opportunity for those with the knowhow and willingness to work the markets to make significant returns. Sites including StockX enable investors to buy and sell rare trainers for thousands of pounds, eking out a profit.

The secondary sneaker market is a multi-billion-dollar business, with platforms handling volumes of purchases. Individual pairs of trainers can sell for more than $100,000. The problem is that, as with other investment opportunities, it's high risk, high reward and the potential money to be made has attracted a new range of sellers looking to sneak counterfeit trainers through the system. For that reason, entering the sneaker market is best saved for those who have a passion and knowledge for all things to do with trainers, for fear of losing out.

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assets institution

$15B AUM & $30B
processed

Over
1M users

Available in 200+
jurisdictions