Brokerage Business from a Latvian Viewpoint

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During my work at Rietumu Bank, for a number of years I have been supervising the operation of our departments which ensure and support transactions of customers on international financial markets. Some changes have been observed in this operation recently. If earlier the bank serviced mostly big investors from countries located to the east of the EU, then, following last year's events, which have changed the rules of the game for banks considerably, there are increasingly more residents of Latvia and neighbouring countries among our customers.

Now, this is not just a tendency, but a bold reality. The new Latvian customers may not be very experienced or resolute yet, but they are persistent and purposeful in their intention to work and earn on the world markets.

The fact that our country meanwhile lags behind 'Old Europe' with regard to the demand for and popularity of investments in financial instruments is undisputable. But, I am sure, this is temporary. We will surely catch up with our European neighbours and, perhaps, even North America and Australia, where investments receive interest almost from one's school days.

The driving force of the popularity of this trend is that investment in securities is almost the only opportunity for increasing one's capital when not being engaged in real business (but this is a different story). We experience an epoch of low interest rates, when it is not easy to get 2% p.a. on a bank deposit, and such result still does not even save one from inflation. Therefore, one cannot dream about receiving a passive income in this way.

Whereas, the picture is much brighter on the financial markets. Thus, during the last 15 years, the DowJones Industrial Average has increased by 170%, i.e. by 11% a year on average, in comparison with deposits - the difference is obvious. Similarly obvious is the reason stimulating our fellow countrymen to invest in financial instruments, in one form or another. Further on, I am going to share my experience with those who are ready to conquer these markets, as well as to dispel popular myths and conventional stereotypes that prevent one from earning on them. All 'fallacies' are taken from real life.

Myth One. Financial Markets Are Meant For Professionals Only

There are two main types of investments - investment in funds and independent trade.

The first option does not require specific knowledge and is available to anyone. One can acquire shares of different funds run by experienced managers. As a rule, the fund's securities are well balanced and, when buying a share of the fund for, say, EUR 1000, you become a co-owner of a part of a portfolio of securities you could hardly buy yourself for such an amount.

There are plenty of different funds. They offer investments in securities of different regions, branches of economy and stock indices, raw materials and precious metals, derivative instruments and many other things. In such a case, you can always analyse the history of the specific fund, see what markets it works on and with what classes of assets, assess the risk level and evaluate whether it is appropriate for you.

The second option is to trade independently. In fact, it is also available to anyone who even has small capital. However, one should not start such activities without theoretical training. The good news is that today one can obtain the required knowledge independently, by using special literature and the internet.

Myth Two. To Earn Something, One Must Invest A Lot

Some banks set the minimum amount of investment in their funds as EUR 1. As the expression goes, no comment. Looking at things realistically, I can say that one can count on a noticeable income when investing an amount starting from EUR 10 thousand, which by modern standards can be regarded as capital of a fairly moderate size.

Certainly, in practice, there are exceptions, and some talented investors, starting from very small amounts, increase them successfully and consistently. But with what amounts and in what way to start - this has to be decided by an investor himself. It is important to understand one thing - millions are not necessarily required.

Myth Three. Profit On The Financial Market Can Be Huge

Miracles happen, but one should not count on them. As a rule, the yield from operations is correlated with the risk level and it means that the pursuit of quick profit can turn out as a big loss - financial markets in this aspect are similar to any other business.

For example, an experienced investor can use leverage when trading, including a loan for the acquisition of securities provided to him by a bank or a broker company. This is a good way for growing the volumes of operations and the potential profit. However, such prospects should not turn your head.

Leverage allows one to increase the amount of transactions dozens of times and, having invested your own 10 thousand, you can start trading with 300 thousand - but, in this case, any unfavourable movement of the market will eat up all of your own money. Therefore, it is expedient to restrain oneself and increase the amount by leveraging not more than three times, i.e. in the given example, to trade with no more than 30 thousand.

Myth Four. One Can Earn Fast And Leave The Market At Once

Generally speaking, such an opportunity cannot be excluded. However, if one's intentions are serious, investments in financial instruments should be considered as a long-term business.

In my opinion, the optimal term for investments is 7-10 years. A long period, as a rule, opens an opportunity to receive a higher total revenue (as in the example with

DowJones). One should not forget about dividends, which from year to year are paid out to holders of stocks of profitable companies.

Besides, from time to time, securities appear on the market, the value of which multiplies within a few years. One of the recent examples is stocks of the rapidly growing German company Wirecard, which cost about EUR 10 per stock in 2008 and now about EUR 150 (these securities are included in the DAX index).

Myth Five. One Should Invest All Available Free Funds At Once

Regardless of the undisputable advantages of financial markets, to invest all of one's money at once is not the most reasonable decision. The markets are a living organism - today they grow, but in a few months they may start falling. And it can be painful.

Psychologically, it is important to divide the funds invested on financial markets from the rest of the capital at once. One should not even mentally convert for comparison, short-term incomes or losses into any vivid material units, like dinners at a restaurant, fashionable smartphones, recreation at resorts, cars, diamonds, etc. Such an approach prevents one from taking weighted decisions - this is checked in practice.

A decision about the share of funds to be allocated for investment on financial markets is always individual and invariably personal. An option for the most careful persons is to invest 10% of one's funds to start with.

Myth Six. Special Knowledge Is The Most Important For Success

Undoubtedly, theoretical training is important. But this is not all. In reality, psychological qualities and simple common sense are also of major importance.

The classical example of common sense is Charlie Chaplin, who became one of the few wealthy persons in the USA who did not suffer from the stock market crash in October of 1929. Not being a professional investor, he took an ingenious financial decision by selling his stocks shortly prior to the start of the crash. The great actor and director was guided by simple logic - having read about the high rate of unemployment and the huge reserves of ready goods in warehouses, and comparing these two things, he came to the conclusion that there would be no buyers for these goods and that the economy would crash (Charlie Chaplin describes this case in his autobiography).

Generally speaking, one should enter the labyrinths of financial markets with a cool head and a clear mind. Qualities such as a lack of confidence, anxiety, a tendency for unrest and panic can result not only in neurosis, but also in considerable material losses. These should be opposed by calmness, composure, consideration of possible scenarios for the evolution of events. And also to develop a certain share of submissiveness to possible losses, as not ALL of your investments can realistically become successful.

Myth Seven. In The Event Of Bad News, One Should Sell

This stereotype has its own antipode stating that, in the event of bad news, one should buy the securities that lose their value. In reality, everything depends on the situation. The main thing is to distinguish between the fundamental factors that can affect the prices irrevocably and the news from the world of politics and economics that merely cause short-term fluctuations.

Thus, a political crisis in Brazil that took place a couple of years ago and was accompanied by a negative news background, provoked a downward movement of the market. Dollar public bonds with maturity in 2030 were traded in that period with a yield of 7.5% and, when the crisis was over, already of 5%.

Stocks of Brazilian companies behaved in the same way. First, they fell in price considerably: the IBOVESPA index dropped by about 35% from the peak in 2015, having completely restored the loss by mid 2016. The ones who understood that the panic would subside inevitably earned a lot on this.

Certainly, it can turn the other way. And it is very important to interpret news correctly. By the way, it has always been topical - the character of the famous novel Count of Monte-Cristo impoverishes one of his enemies by sending false information to newspapers about a takeover in Spain, causing the man to sell all his stocks from the Madrid bank cheaply...

Myth Eight. The Lion's Share Of Income Will Be Taken By Intermediaries

The Latvian financial sector today is a part of the common European market - this refers not only to banks, but also to all of its participants. This market is regulated strictly. Therefore, an investor is safe from traps and pitfalls, unfair practices or other intrigue or troubles on the part of a bank or a broker company. All commissions are absolutely clear, information about them is accessible, their size is very moderate and transactions are fully transparent.

The same can be said about issuers of securities - the operation of these companies is controlled by national regulators much more rigidly than those who do not enter the public market with their securities.

It is a different story, if you operate via a broker registered in a region with weak regulation - in this case, you have to be careful.

Myth Nine. Invest In Stocks Of Familiar Companies

Today the economic climate (and not only) is considerably influenced by marketing, advertising and PR. As a result, there are companies and brands on the global and local markets which are, as the phrase goes, on everyone's lips. But it does not necessarily mean that all these issuers are prospective, profitable and will bring good yield to their shareholders. Therefore, cases when the acquisition of stocks of hyped brands becomes a bad investment decision are not rare.

So, if you cannot imagine your life without social networks or intend to acquire an electric car, it certainly does not mean that you have to include stocks of the respective companies in your portfolio. A much more reliable and proper way is to evaluate the financial performance of such enterprise impartially.

Myth Ten. It Is Better To Start In Your Own Market

Modern technologies have removed obstacles for global trade. Today any investor can make transactions easily in practically any market - actually, the geography is of no importance.

As to the Baltic stock market, meanwhile, it is in the stage of development and its total daily turnover only slightly exceeds half a million euros. And the turnover of the Latvian stock exchange often does not reach EUR 50 thousand. There are quite a few transactions with debt instruments. New issues of bonds appear, but, in comparison with the developed markets, their volume is very low.

All these facts, certainly, do not mean that the Baltics should be ignored, but it is important to look at the market from a wider perspective, always remembering the necessity to diversify one's investment portfolio.

And in conclusion. A decision about investing funds on financial markets is always individual. But nothing prevents those who will decide to start, from doing so without delay, as there really are very ample opportunities for this today. In fact, all you need is to select a bank or a broker company and open your investment account. And go ahead!