Please note: This is a transcription so there may be slight grammatical errors.

As the cost for trading securities such as stocks has dropped to zero, more individuals are feeling empowered to purchase and trade stocks, bonds, and other investments. When it comes to your portfolio, the amount of risk you're willing to take with your money may determine if you are acting as an investor or a speculator. With that in mind, let's talk about the potential risk and return trade-offs based on some of these scenarios.

Let's start with speculation. Buying stocks and then quickly selling them with the attempt to take advantage of short-term changes in price is defined as speculation. This type of trading carries a high amount of risk, especially when a person is focusing on a very small number of stocks or even just a single stock. Typically, most speculators are self-described day traders who rely on their own expertise or instincts to make quick decisions about buying and selling stocks. But the ability to buy and sell investments quickly and cheaply has encouraged a larger number of people to enter the markets as speculators. These inexperienced speculators are often unaware of the risk they take when trading a small number of securities, and they should be prepared to lose their money as quickly as they make it.

Investors, on the other hand, seek long-term returns. By choosing a diverse portfolio of quality investments. Often their investment strategies remain in place for years, like in the case of a retirement account such as a 401(k), 403(b), individual retirement accounts, or a college savings account. Typically, investors are investing in multiple diversified investment vehicles, including mutual funds, exchange traded funds, or managed accounts as a way to manage risk. The difference in risk between holding a collection of stocks over several years and trading individual stocks quickly can be better understood by comparing individual US stock returns over five year holding periods.

According to CAPTRUST data, 36% of individual stocks lost money over five years, while only 2% of US stock mutual funds, which hold a basket of stocks, lost money during that same period. So while no investment can guarantee a positive return, these statistics demonstrate the value of diversification and holding investments for longer periods of time.

In a nutshell, the difference between an investor and a speculator comes down to the quality and the number of investments owned and how long you hold them. The other big piece of this puzzle is taxes. Whether you are a speculator or an investor, it is very important that you take the time to learn about things like long and short-term capital gains and the wash-sale rule. These tax rules are complicated. No one wants a surprise at tax time, so you should consult a tax professional.

There will always be stories about the person who picked a single stock and got rich overnight, but those realities are few and far between. So ask yourself if you are willing to take the risk to speculate or if you might be better off taking the long-term approach of an investor. Of course, it's up to you, but the statistics are on the side of the investors.