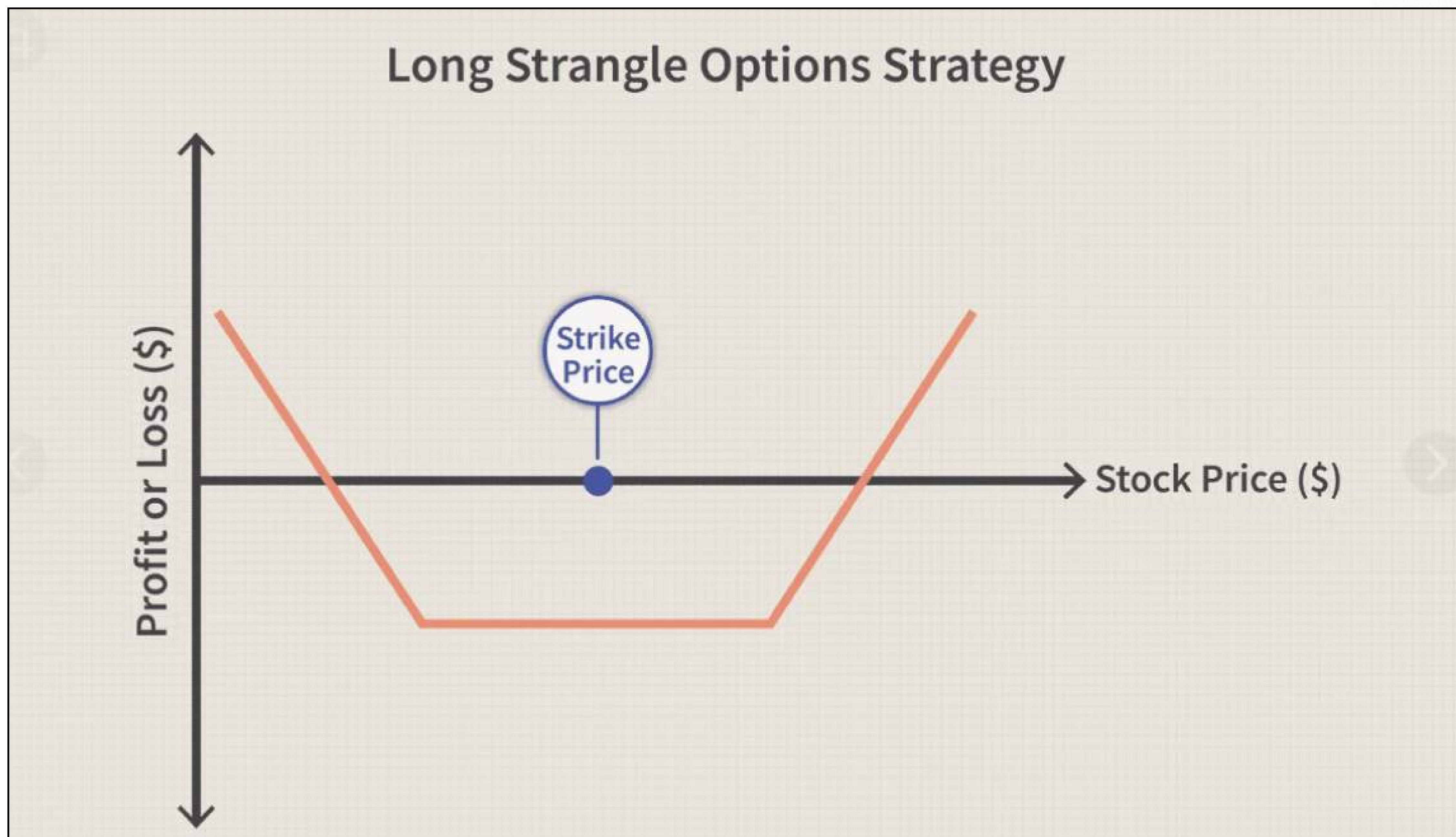
1. What Is a Position Trader?

A position trader buys an investment for the long term in the expectation that it will appreciate in value. This type of trader is less concerned with short-term fluctuations in price and the news of the day unless they alter the trader's long term view of the position.

Position traders might be seen as the opposite of day traders. They do not trade actively, with most placing fewer than 10 trades in a year.



2. Understanding the Position Trader

Position traders are, by definition, trend followers. Their core belief is that once a trend starts, it is likely to continue for some time.

A distinction can be made between position traders and buy-and-hold investors, who are classified as passive investors and hold their positions for even longer periods than do position traders. The buy-and-hold investor is building a portfolio of assets for a long-term goal, such as retirement. The position trader has spotted a trend, made a buy based on that trend, and is waiting for it to peak in order to sell.

This trading philosophy seeks to exploit the bulk of a trend's upwards move. As such, it is the polar opposite of day trading which seeks to take advantage of short-term market fluctuations. In between these two are the swing traders, who might hold an investment for a few weeks or months because they believe it will soon see a price pop.

3. Tactics for Position Traders

To be successful, a position trader has to identify the right entry and exit prices for the asset and have a plan in place to control risk, usually via a stop-loss level.

Position traders may use technical analysis, fundamental analysis, or a combination of both to make their trading decisions. They also rely on macroeconomic factors, general market trends, and historical price patterns to select investments which they believe are about to go higher.

A big advantage of position trading is that it doesn't take a lot of time. Once a trade has been initiated and safeguards have been implemented it's a matter of waiting for the desired outcome.

The main risk is that minor fluctuations that a trader chooses to ignore can unexpectedly turn into trend reversals. Another drawback is that it ties up money for a prolonged period of time, possibly causing opportunity costs.