Active and Passive behaviour of firm:

Active and passive traders are those who take different approaches to a similar problem. One way of describing the difference between these two types of traders is by imagining the difference between the actions of an individual versus those of a group. Active traders work voraciously and quickly; they read as much as possible, study stocks, subscribe to podcasts and updates, and so on. They have a variety of motivations, but regardless of what their aims are, they usually take stock of as much as they can in order to make decisions. They typically have a short-term goal of making money off of their trades as quickly as possible. They tend to hold onto stocks for days or weeks, not months or years.

Active trading

There is more to being an active trader than just the time frame under which they operate, although this is important. Active traders attempt to eke out a profit from the daily price fluctuation of target stocks. They also make multiple trades during the day.

Passive trading

On the other hand, passive traders are usually those who are interested in investing their money without the same kind of time commitment as active traders. They sometimes put their money into the hands of a trusted broker and then walk away. That’s not to say, though, that passive traders don’t conduct research or make significant plans. They do; however, passive investors tend to be slower and more deliberate about their decision-making. They take a look at a company’s value, assets, debt, and opportunities for success, and when they’ve made an investment, they tend to leave it alone. Often, passive investors will not make moves unless their stock holdings fall by a given percentage (10% is a common rule among passive traders).

Passive traders rely on the general upward trend of the market, knowing that over time the market has tended to rise. Retirement savings accounts and investments are often examples of passive trading.

Pros and Cons of Active vs. Passive Trading

There are advantages and disadvantages to both active and passive trading strategies. Of course, the time commitment and the risks are higher with active trading, but the potential for rewards based on short-term market fluctuations are high as well. Passive investing requires less time and energy, but there is also a higher amount of pressure on the individual investment decisions that a passive trader makes. Passive trading tends to bring a slower, steadier stream of profit than active trading. Also, passive traders can’t completely neglect their holdings, or they may find that they’ve lost out on potential profits. On the other hand, if they spend too much time fretting about their positions, they run the risk of becoming overactive for their strategy.