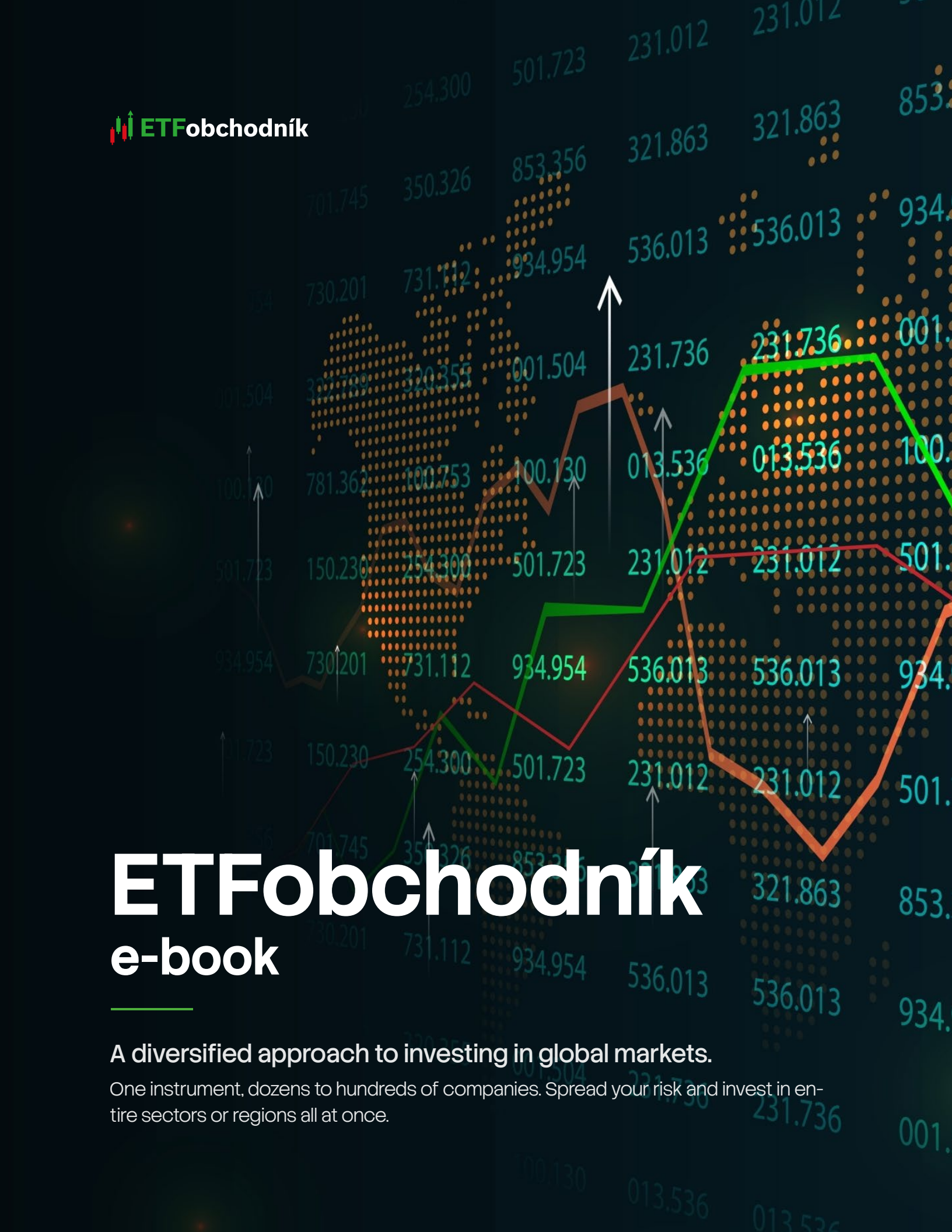
ETFobchodník



# ETFobchodník
## e-book

### A diversified approach to investing in global markets.

One instrument, dozens to hundreds of companies. Spread your risk and invest in entire sectors or regions all at once.

## Introduction

The content of this informational material constitutes a marketing communication and has been prepared with the utmost care and to the best of our knowledge and belief. However, the content of this e-book does not take into account the personal situation, investment experience, or current financial situation of individual readers. ETFobchodník provides no guarantee regarding the content and its completeness, and accepts no liability for any losses arising from the use of this informational material, which is for informational purposes only and serves solely the needs of its recipients. It does not constitute an invitation or a recommendation, and does not relieve the recipient of the obligation to act at their own discretion when making investments.

## About the Company

ETFobchodník is a brand name of CAPITAL MARKETS, o.c.p., a.s., with its registered office at Slávičie údolie 106, Bratislava - Staré Mesto, 811 02 Bratislava. The company is registered in the Commercial Register of the Municipal Court Bratislava III, Section: Sa, Insertion No.: 4295/B, Company ID (IČO): 36 853 054, Tax ID (DIČ): 2022505419. CAPITAL MARKETS, o.c.p., a.s. is an investment firm pursuant to Section 55(1) of Act No. 566/2001 Coll. on Securities and Investment Services and on amendments and supplements to certain acts, as amended (hereinafter referred to as the Securities Act). On October 30, 2007, by Decision of the National Bank of Slovakia No. OPK-2297/2007-PLP, it was granted an authorization to provide investment services within the meaning of Section 54(2) in conjunction with Section 59(2) and (3) of the Securities Act.

Furthermore, it is an active member of the Association of Securities Dealers (since 2008) and the American Chamber of Commerce. If you are interested in more information, you can find details here.

## Why Trade with Us?

- On the market since 2008
- EUR 50,000 investment protection
- 0% account maintenance fees
- Slovak customer support 5 days a week

# 01

## Getting Started

Are you deciding to enter the world of investing? It may feel like unfamiliar and uncharted territory, but that is exactly what we will try to change. With the help of this e-book, we will show you how to effectively manage your finances and achieve long-term financial stability and peace of mind. For those who have not yet focused on growing their financial wealth, investing can be an entry into a new world of possibilities and opportunities.

At the outset, it is crucial to realize that before you start investing, you should build a so-called "financial cushion" for a rainy day. This amount should be equal to at least 3 to 6 months of your salary, and it is wise to keep this money set aside so that it is readily available for unexpected life situations—such as job loss, emergency expenses for repairs or doctors—essentially any unforeseen circumstance that it can help you get through efficiently. Once you have built your financial cushion and paid all monthly expenses, you can proceed to the next step: investing your remaining "disposable funds."

In the first chapter, we will look at basic terminology. To understand how investing works and why it matters, we must first explore the essence of the term "investing" itself. We will explain why it is beneficial to invest, highlight the importance of a long-term time horizon, discuss what to avoid when making decisions, and explain why investing can be an effective tool in the fight against inflation.

## 1.1 Definition of Investing

An investment represents the deployment of capital with the aim of achieving appreciation and gaining additional income or profit. It is therefore a deliberate decision to allocate money into financial, real estate, or movable assets with the expectation of a return and an increase in the investment's value over time. To help you better navigate the world of investments, we will now introduce the fundamental factors that are crucial for anyone who decides to step onto the floor of financial markets.

## 1.2 Why Invest?

Investing is a cornerstone of long-term financial planning and success, and people may have various reasons for choosing to enter the world of investment. Your decisions can be influenced by your personal preferences, life situations, or set goals. Here is a list of the most important reasons why it pays to start investing right now.

### Capital Growth

Investing allows your capital to grow over time. Thanks to returns and the compounding/appreciation of investments, you can potentially increase your financial wealth, which can serve as a solid foundation for other future financial and non-financial goals.

### An Effective Tool in the Fight Against Inflatio

Inflation is a process that increases the general price level of goods and services, tending to erode the purchasing power of money over time. In practice, this means it devalues the money you keep in bank accounts or at home "under the mattress," and you can buy less for the exact same amount of money. Investing is an important tool for protecting the value of your money to maintain long-term financial health.

### Achieving Goals

Through investing, you can achieve your goals and dreams, such as financial freedom, buying a home, funding your children's education, or traveling. Investing can help accumulate the necessary funds to reach these milestones.

### Retirement and Long-Term Stability

Investing is also critical when planning for retirement. If you do not want to rely on state pension benefits later in life, but want to ensure that your financial stability is secured during this stage as well, investing can be an effective tool to help you achieve this goal.

## 1.3 Negative Factors to Avoid

It is useful to keep in mind that investing carries certain risks, making it important to be aware of the potential consequences. For your financial future, how you allocate your assets is crucial to avoid running into unnecessary difficulties. Investing funds that are required for daily living expenses creates a potential conflict between financial stability and asset growth. Keep your money under control and avoid the most common mistakes investors make.

### Never Invest Money You Need

Investing is always associated with a certain risk of loss. If you were to invest money needed for routine and essential expenses, a poorly performing investment could expose you to financial pressure and put you in a difficult life situation. Always invest only those funds that you can afford to lose. Determine what percentage of your salary you are able to invest based on your individual goals, financial situation, and personal preferences. It is generally recommended to invest at least 10% of your gross income.

### Avoid Emotional Decision-Making

Emotions influence not only daily life choices but also investment decisions. The feelings that can impact you while investing often stem from your private or professional life, and include overconfidence, greed, and fear. It is important to realize that market developments—especially temporary downturns—trigger emotional responses. In investing, it is therefore vital to put emotions aside; when they do arise, you must learn to recognize and manage them. Focus on long-term goals and let your investments work.

### Do Not Trade Without Adequate Information

If you are enthusiastic about an investment and want to commit funds to it, you must thoroughly familiarize yourself with all the benefits and risks of the chosen asset. Ensuring that your selected assets have a positive impact on your portfolio is a complex process with no guarantees. However, with the right strategy and continuous education, you will better understand the market, thereby increasing your chances of success.

02

## Creating an Investment Plan

Investing is similar to any other activity in life—it requires planning to help us achieve our set goals. Before you start building anything, you need a clear idea, professional blueprints, materials, a budget, and a timeline. When preparing for a vacation, you choose your route, mode of transportation, and destination before you leave. Similarly, having a clear plan is essential when investing. Without it, you can easily lose your way and find yourself in an unfavorable situation facing financial losses.

Therefore, the second chapter focuses on creating an investment plan, which is an indispensable step on the path to potential financial stability and success. The first point is an analysis of your financial situation, which provides a fundamental overview of your financial resources and liabilities. Another crucial aspect is determining your risk tolerance and capacity to invest. Subsequent vital steps include portfolio diversification, which helps minimize risk and better achieve your established goals.

## 2.1 Financial Situation Analysis

A personal analysis of your financial situation is the foundational step in creating an investment plan. It gives you a comprehensive view of your financial resources and helps establish the groundwork for successfully achieving your financial goals. Here are a few steps on how to create one:

1

### Reviewing Your Financial Situation

Identify all sources of income and liabilities. It is essential to know the state of your assets and be aware of any planned major expenditures in the near future (e.g., home renovation, buying a car). Summarize an overview of all your expenses, debts, savings, and investments. Categorize this information to better understand your actual financial situation.

2

### Calculating "Net Worth"

Add up the value of your assets (everything you own) and subtract your liabilities (what you owe). This will give you an overall picture of your total net assets, known as NET WORTH. Your net worth represents the amount left over after selling everything you own and settling all debts and liabilities. Since you calculate your wealth as of a specific date, it is important to value all assets as of that same date (for example, if you own a car that you could currently sell for EUR 5,000, then this is its current value to be included in the calculation).

3

### Taking Control of Your Money

Even being able to earn plenty of money does not guarantee financial stability, although it is a good prerequisite for effectively building wealth. Far more important than the amount of earnings itself is how you manage your money, how much of your income remains each month, and how effectively you can invest. Set up a financial management plan. Your expenses must always be lower than your income. If necessary, review your expenses and try to reduce them. Determine the amount you want and can save each month, as well as the amount you want to invest, and stick to your plan.

4

### Regularly Reviewing Your Plan

If the established plan stops suiting your needs over time, adjust its current settings to yield more effective results. In addition to reducing your expenses, you could, for instance, look for ways to increase your income.

## 2.2 Setting Investment Goals

Setting goals is another essential step in creating an investment plan that you must define. With clearly established goals, you can more easily monitor whether your portfolio is moving in the right direction while regularly evaluating the results achieved. Concrete, measurable goals with a defined timeframe facilitate progress tracking and the optimization of investment decisions in line with specific expectations.

### Definition of Financial Goals

Clearly define your short-term and long-term financial goals. As mentioned in the introductory chapter, these can be goals associated with retirement, investing, housing, or other personal ambitions. A clearly set goal forms the foundation for subsequent motivation to successfully stick to your plan, choose the right investment products, and manage your investments over time.

### Establishing a Time Horizon

If you have multiple goals, assign a time horizon to each one. Short-term goals may have a horizon of a few years, whereas long-term goals can span decades.

### Calculation of Required Funds

Calculate the financial resources needed to achieve your set goals. Take into account expected costs, inflation, and potential risks. Do not forget to plan whether you want to invest a single lump sum or contribute funds gradually and regularly. After all, inflation steadily eats away at uninvested money. If you are interested in calculating the potential future return on your investment, you can use the Inflation Calculator on our website, which will visually demonstrate how your money can work effectively through investing.

### Setting Priority Goals

Prioritize your goals based on their importance. This will help you allocate funds more efficiently and focus on key areas.

# 03

## Education

Investing is a process that constantly evolves and adapts to new trends and events. Regardless of your experience level (beginner / advanced), continuous education is the key to success in the financial world. Understanding how markets and financial concepts work not only enhances your decision-making ability but also helps you achieve your set goals more effectively.

Therefore, this chapter addresses one of the most vital aspects of successful investing: the continuous pursuit of education and the development of knowledge regarding financial markets. We will delve deeper into the importance of continuous learning and explore where relevant information can be sourced.

## 3.1 Continuous Education

Investing in your own development contributes to a better understanding of financial markets, enhances decision-making capabilities, and helps you better plan your established goals. Do not limit your education only to traditional sources like books and seminars; instead, utilize modern tools brought by digitalization, such as online courses, webinars, podcasts, and many others. There are numerous reasons why education in the world of finance is essential, and here are some of them:

### Rapid Changes in Financial Markets

Continuous education is indispensable given the rapid changes and dynamics within financial markets. New trends, regulations, the geopolitical environment, and various other events impacting the global economy can significantly alter the investment landscape.

### Improving Investment Skills

Acquiring new knowledge strengthens your investment skills. Learn market analysis, the evaluation of risks and opportunities, as well as how to select the right investments or re-evaluate current ones.

### Adapting to New Trends

Market dynamics, technological progress, and shifts in investment approaches require the ability to adapt to new trends. Education will help you keep pace with new trends in the investment world, enabling you to better identify potential opportunities for further investment or foresee future negative trend reversals.

### Error Prevention and Risk Reduction

Constantly updating your investment knowledge reduces the risk of making flawed decisions based on outdated information. Preventing mistakes is key to effectively managing your portfolio and achieving your set goals. You can also supplement your knowledge on our website in the Academy section, where you will find an Investment Glossary, extensive educational materials, as well as news and articles covering the latest market developments.

## 3.2 Modern Educational Tools

Nowadays, there is a plethora of sources you can draw from, ranging from publications by renowned authors to media channels of various investment intermediaries. These sources should ideally be independent of specific brokers and brands, ensuring the objectivity and diversity of information. As an example, we list some types of sources you can use, along with specific titles:

### Books

If you are among those who enjoy reading, you can choose from a wealth of books by experienced investors that can provide valuable information and advice. Some of the most popular include:

- **"The Intelligent Investor" by Benjamin Graham:** An investing classic that emphasizes the importance of value investing and a long-term perspective.
- **"A Random Walk Down Wall Street" by Burton Malkiel:** Provides insights into efficient markets and passive investing strategies.
- **"The Little Book of Common Sense Investing" by John C. Bogle:** The founder of Vanguard Group offers a perspective on passive investing and building a robust portfolio.

### YouTube Channels

In today's modern era, we have access to a vast array of technological tools that can assist us in investing. Video blogs and YouTube channels are popular ways to learn more about investing. You can follow this content on:

- **Kurzgesagt – In a Nutshell:** Provides simple and engaging animated videos, including topics on economics and finance.
- **The Plain Bagel:** Explains financial concepts in a simple manner using practical examples.
- **TED-Ed Finance:** Offers short animated lessons on financial topics delivered by experts.

### Websites

Additionally, there are online websites that offer insight into current events in the financial world. Thanks to them, you can improve your overview of the national or global economy and adapt your strategy to current developments. For example:

- **Bloomberg (bloomberg.com):** Real-time information on global events impacting the economy and financial markets.
- **Investopedia (investopedia.com):** Provides extensive and reliable information on investment topics, including articles, tutorials, and videos.
- **Morningstar (morningstar.com):** Provides analytical tools and information on investment funds, stocks, and ETFs to guide investment decisions.

# 04

## Choosing an Investment Strategy

The fourth chapter is dedicated to choosing a strategy as a key element in building your personal portfolio. We will compare different approaches to investing, including active, passive, and hybrid strategies, to help you understand their advantages and disadvantages. It is important to comprehend these various approaches because the final choice depends on your personal financial goals, risk tolerance, and investment horizon. Understanding these strategies will allow you to better manage your investments and achieve long-term financial success.

## 4.1 Determining Risk Tolerance

Since different strategies offer different approaches, determining your risk tolerance is crucial to understanding your preferences. It helps you understand how much risk you are willing to accept when investing, allowing you to better define your focus on individual assets. The level of risk in investing takes into account the degree of uncertainty or probability you are able to withstand, knowing that your investments may experience negative performance in the future. It is important to know the rule that the higher the level of risk, the greater the potential for large profits, but at the same time, for large losses. Conversely, a low level of risk can mean more stable returns but with less potential growth. Therefore, you should carefully consider how high your tolerance for potential investment loss is compared to your potential rate of return. If you have a higher risk tolerance, you may opt for a more aggressive strategy, and conversely, if you do not favor uncertain investments, you may choose a more conservative approach.

**Conservative Approach**

Prefers capital preservation and risk minimization. Often associated with passive strategies and a low allocation of stocks.

**Balanced Approach**

Combines different asset classes to achieve a balanced risk-to-reward ratio.

**Aggressive Approach**

Focuses on high potential returns and accepts higher risk. It is often associated with active and sector-specific investments. The investor is willing to accept even temporarily significant losses.

**Recommendation**

Markets are constantly evolving and offering new investment opportunities that may fall within your risk criteria. Therefore, it is necessary to update your established goals and adapt them to your current life circumstances or changes in your objectives. If needed, it is advisable to consult your situation with a financial advisor to ensure alignment between your investment approach and individual goals.

## 4.2 Comparing Different Strategies

It is important to choose a strategy that aligns best with your preferences, and it should be well-thought-out, taking into account your personal financial goals and risk tolerance. Thorough analysis and regular reviews ensure that your strategy remains aligned with current needs and circumstances. The preferred strategy can vary, for example, depending on age, volume of money, time available for investing, experience, risk aversion, and various other variables. Below, we present individual strategies along with the advantages and disadvantages they bring.

### Active Strategy

Active investors try to outperform market developments by actively selecting and trading individual investments with growth potential based on specific criteria—such as strong fundamentals, undervaluation, etc. They believe that intensive research and analysis can lead to above-average returns. If you are someone who wants to keep your investments under constant control, this way of investing will suit you best.

**Advantages:**

- Potential for higher profits
- Ability to adapt the portfolio to current market conditions

**Disadvantages:**

- Higher transaction costs
- Risk of potentially higher losses
- Investing requires a lot of time and experience

### Passive Strategy

In contrast, a passive strategy does not try to outperform the market and can be the right choice if you do not want to spend hours working on the correct composition of your investment portfolio, or if you simply lack the time and energy for it. Simply put, passive investing aims to maximize returns while minimizing the number of buys and sells. The most common implementation of passive investing is buying the best-known stock indices, which include the shares of the world's most prominent companies.

**Advantages:**

- Lower risk
- Lower transaction costs
- Historically more stable performance in the long run
- Suitable for inexperienced investors or investors with a lack of time

**Disadvantages:**

- The necessity to "buy and hold"
- Less adaptable to current market conditions

### Hybrid Strategy

Combines the active and passive approach. In this case, you can hold passive investments for core market exposure while simultaneously adding active investments to gain additional advantages.

**Advantages:**

- Portfolio diversification
- Combines the benefits of both approaches
- Ability to adapt the portfolio to current market trends

**Disadvantages:**

- More complex portfolio management
- Need to actively monitor and adjust the strategy

# 05

## Various Types of Investing

A properly chosen investment strategy and a clear understanding of risks are essential aspects before selecting the right types of investments for your portfolio. Once you have a clear grasp of these aspects, you can proceed to choosing specific types of investment products, which is the focus of chapter five. There is a truly diverse range to choose from, spanning stocks, commodities, currency pairs, indices, bonds, and a whole host of others. Each type of investment has its specific characteristics, advantages, and disadvantages, making it important to understand their core nature and how they work. It is necessary to dedicate sufficient time to making the right decision, as this will allow you to more easily diversify your investment portfolio and tailor it to your needs and the risk you are willing to tolerate.

## 5.1 Definition of Various Forms of Investments

Before we dive into an in-depth analysis of individual investment products, it is important to note that each product has its own characteristics and risks, and yields different potential returns. For a beginner, the wide selection can be quite confusing, which is why we will introduce the most common investment products you might encounter.

### Stocks (Shares)

Stocks are one of the most common forms of investment and form the cornerstone of most investment portfolios. When people talk about stocks, they usually mean physical shares, which represent an ownership stake in a company. By purchasing a certain amount of physical shares, you become a shareholder. This carries voting rights and the right to participate in general meetings as part of important decisions, including electing management or approving corporate strategy. If the company generates a profit, it may decide to distribute a portion of these profits to shareholders in the form of dividends. Shares of publicly traded companies can gain or lose value depending on their performance and overall conditions in the financial markets. Investors can realize a potential profit or a potential loss when selling shares.

### Commodities

Commodities are tangible items, primarily raw materials and resources, traded on various exchanges. Trading them is relatively simple, making them popular among investors as a form of portfolio diversification.

We categorize them into:

- Agricultural products (grain, coffee, soybeans, or cocoa),
- Energy products (oil, coal, or natural gas),
- Metals (industrial metals like steel, iron, lithium, and precious metals like gold, silver, or platinum).

Commodities are generally influenced not only by supply and demand, but geopolitical events also play an important role, as they can impact exports and subsequently increase prices. Climate conditions and weather are equally important, as is the case with agricultural commodities. Precious metals (especially gold), on the other hand, are perceived as an ideal hedge against adverse economic events and times of uncertainty.

### Currency Pairs (Forex)

A currency pair is the price relationship between two currencies. If you decide to trade currency pairs, you can open positions on the rise or fall of one currency's value against another with the aim of making a profit. Currency pairs consist of a so-called base currency and a quote currency. For example, in the case of EUR/USD, the Euro is the base currency and the US Dollar is the quote currency. If you decide to invest in a currency pair, you are buying the base currency and selling the other (the quote currency), or vice versa. During the purchase or sale of a currency pair, you are interested in their exchange rate, meaning the value of one currency relative to the other. Forex pairs are divided into two main groups—Majors and Crosses. Major currency pairs are the most heavily traded and include the US Dollar (USD), Euro (EUR), British Pound (GBP), Japanese Yen (JPY), etc. Cross currency pairs are the remaining pairs that usually do not include the US dollar as a counterparty; it is important to note that many times these are pairs that lack sufficient liquidity, making them costly, and you should be cautious when trading them.

Trading currency pairs takes place on the international financial market called Forex, which is considered one of the riskiest markets due to high volatility, where even experienced investors can lose large sums of money.

### Indices

Indices are representative indicators that measure the performance and development of a group of companies or assets in the financial markets. Their value is determined by the prices of the respective underlying assets in their composition. The companies selected in a specific index can represent a certain sector, a certain country, or the entire market. If the price of the vast majority of stocks in the index goes up, the price of the index will also rise. If the price of most stocks goes down, the index price will decrease.

Index weighting can be equal, where each company has the same share, based on market capitalization, where larger companies have a greater impact on the value of the index, or based on price or volatility. Indices are regularly updated based on changes in composition or weighting. New companies may be added, while others may be removed.

Indices provide an important tool for monitoring and evaluating financial markets and can serve as the basis for various investment strategies and products, such as index funds and ETFs (Exchange-Traded Funds). They also serve as a benchmark to compare the performance of your investments. If your portfolio achieves a higher return than a given index, it is considered above average.

**Examples of Global Indices:**

- **S&P 500:** An American index comprising 500 large companies from a wide range of industries.
- **Dow Jones Industrial Average (DJIA):** An American index containing 30 large companies that have a significant impact on the industrial sector.
- **FTSE 100:** A British index containing the 100 largest companies traded on the London Stock Exchange.
- **Euro Stoxx 50:** Includes 50 of the largest and most liquid companies from the Eurozone. This index serves as a benchmark for the overall development of European equities.
- **DAX (Deutscher Aktienindex):** A German stock index that tracks the performance of the 40 largest and most liquid companies on the Frankfurt Stock Exchange.
- **Nikkei 225:** A Japanese index comprising 225 leading companies traded on the Tokyo Stock Exchange.
- **Shanghai Composite Index:** One of the most important stock indices in China. It includes shares listed on the Shanghai Stock Exchange.

## CFD (Contract for difference)

Contracts for Difference, abbreviated as CFDs, are financial derivatives that allow you to speculate on the price movements of various assets without actually owning the asset itself. In the case of CFDs, you do not own the physical asset; instead, you trade the value of the underlying asset.

When trading CFD contracts, you can speculate on a price increase, but unlike physical assets, you can also speculate on a price decline. Your invested capital rises or falls depending on how the price of the underlying asset moves. Opening a "short" position—speculating on a drop in prices—allows you to achieve a potential profit even when the value of the asset is falling. If you want to speculate on a rise in the asset's price, you open a "long" position.

CFDs are commonly traded on online trading platforms, providing you with relative liquidity and allowing you to easily buy and sell CFDs at current market prices across a wide spectrum of assets, including stocks, commodities, currency pairs, indices, and even cryptocurrencies. Compared to some other forms of trading, CFDs typically feature lower transaction costs and fees.

### Financial Leverage

Financial leverage is a characteristic trading tool specifically for CFD contracts. When using it, you can trade a larger volume of assets than you could using only your own funds. This is possible by borrowing a portion of the funds needed to open a position in the financial markets. This increases potential profit, but also the risk of loss.

Investing in CFDs is associated with significant risk, particularly given the possibility of high leverage. It is crucial that investors understand the major risks and consider their experience and knowledge before they begin trading CFDs.

## Bonds

Bonds are debt securities issued by an issuer (a company or government) to raise funds from investors. These investors, called creditors, provide a loan to the issuer and in return receive regular interest payments during the bond's term, including the face value of the bond at maturity.

### Key Terms

- **Issuer:** The entity that issues the bonds. This can be a government, corporation, or other organization that needs to finance its activities.
- **Creditor:** Investors who buy bonds. In this way, they lend money to the issuer and become creditors.
- **Interest Rate (Coupon Rate):** Set when the bond is issued, it expresses the rate at which the bond will generate interest. Bonds have either a fixed or variable interest rate.
- **Maturity Date:** The period over which the issuer repays the loan and returns the face value of the bond to the creditor. This can be a short period (e.g., one year) or longer (e.g., 10, 20, 30 years).
- **Face Value (Nominal Value/Par Value):** The original value of the loan that the issuer promises to repay at maturity. Interest is calculated based on this value.
- **Rating Agencies:** Entities that evaluate bonds, providing an assessment of their creditworthiness. This helps market participants assess the risk of the investment.

### Most Well-Known Types of Bonds

- **Corporate Bonds:** Issued by private companies to finance their business activities. They carry higher risk but also higher yields.
- **Government Bonds:** Issued by a government to finance public spending or projects. They usually have lower risk but also a lower yield compared to corporate bonds.
- **Municipal and Regional Bonds:** Issued by local governments to finance projects like building roads, schools, and infrastructure.
- **Index-Linked Bonds:** Their yield is tied to the performance of a specific financial index.

**Note**

Bonds are an important part of financial markets, and because they offer various interest rates and maturities, they can be a key component of diversified investment portfolios.

### ETFs (Exchange-Traded Funds)

An ETF is a type of investment fund traded on a stock exchange. An ETF is a collection of assets—such as stocks, bonds, or commodities—tracking them as an underlying asset and subsequently replicating their price movements. Investors can buy and sell ETFs on the exchange during trading days, with the price determined by the value of the assets the ETF represents.

#### Main Characteristic

An ETF typically holds a portfolio of different assets, providing investors with diversification and helping to minimize the risk associated with individual investments. ETFs are traded on public exchanges, ensuring high liquidity. They offer transparency regarding their portfolio; the current status of the portfolio is published daily, allowing market participants to track the composition and value of the assets. Compared to some other investment funds, ETFs usually have lower management fees. This means investors keep a larger share of the investment returns. Passive ETFs track the performance of a specific index or sector, while active ETFs are managed by fund managers who attempt to achieve above-average returns through active selection and portfolio management. Due to the structure of ETFs, tax liabilities can be more efficient compared to some other funds, though this always depends on the specific country. There are many types of ETFs with various strategies, including sector ETFs, smart beta ETFs, and others.

Exchange-Traded Funds are a popular tool due to their liquidity, transparency, and the aforementioned low costs.

### Futures Contracts

Futures contracts are agreements between two parties to buy or sell a specific asset at a predetermined price at a specified time in the future. These contracts are standardized, meaning they have preset parameters such as the quantity of the asset, specifications, and the duration of the contract. Futures contracts are traded on organized exchanges.

#### Main Characteristics

- **Standardization:** Contracts have defined specifications, including the quantity of the asset, price, expiration date, and other conditions. This standardization facilitates trading, clearing, and transparency.
- **Expiration Date:** Futures contracts have a specific lifespan that ends on a certain date (the expiration date). On this date, the contract must either be settled or rolled over.
- **Long vs. Short:** Similar to CFDs, if an investor expects a price increase, they open a "long" position; conversely, if they expect a decline, they look for a "short" position.
- **Margin Trading:** Trading futures contracts does not require the trader to deposit the full amount of money; they only need to deposit a fraction into the account as a margin (collateral). This collateral serves to cover potential losses. The investor also utilizes leverage, much like with CFDs.
- **Clearinghouses:** Futures trading involves clearinghouses, which act as intermediaries between the buyer and the seller and ensure that both parties fulfill their obligations.
- **Speculation and Hedging:** Futures contracts are used by some investors for speculation or hedging. Investors and businesses use them to minimize the price risk of assets they own or plan to purchase. An example would be a steel mill that knows it will need iron or coal at a specific price at some point in the future.

Futures contracts are traded across various assets, including commodities, stocks, indices, currency pairs, and bonds. Their use depends on the needs and strategies of investors and traders. Due to their speculative nature, they are highly risky.

## 5.2 Product Offering of ETFobchodník

- Physical Stocks
- ETFs
- CFD Stocks
- CFD ETFs
- CFD Forex
- CFD Commodities
- CFD Indices

# 06

## Current Market Trends

The world is constantly changing and evolving, and the investment landscape cannot escape these events. Global trends have an increasing impact on investor decisions, making it crucial to stay informed about the latest directions and developments. The sixth chapter will be dedicated to three major areas: the technology sector, the pharmaceutical industry, and green investments. Each of these fields presents its own specific opportunities and challenges that are important to explore.

Investing is a dynamic process that continuously responds to shifting conditions in the economy and society. Understanding current trends and developments in individual sectors can provide you with an edge and an opportunity to optimize your investment portfolio. The dynamics of global markets require constant attention and the adaptation of strategies so that you can achieve your financial goals and minimize risk.

## 6.1 Technology Sector

The technology sector offers ample space for new companies and startups. For you, as investors, it can be interesting to monitor Initial Public Offerings (IPOs)—the moment a company becomes publicly traded—with the option to invest in fresh, innovative projects.

Overall, the technology sector is highly attractive due to its growth potential, dynamics, and capacity to drive changes in the economy and society. Before investing, however, you should thoroughly research specific companies, their strategies, and current trends within the chosen industry.

### High Growth Potential

The high growth potential in the technology sector stems from its capacity to constantly innovate and redefine how businesses and consumers utilize technology. Innovations in artificial intelligence (AI), automation, cloud computing, and other technological areas are changing how companies operate and how people live. Rapid technological development opens up new possibilities for creating more efficient processes, improved products and services, and even entirely new markets. Companies in the tech sector are often at the forefront of innovation, drawing the attention of investors seeking high growth. Investments in tech companies can yield high potential returns but are simultaneously associated with a higher degree of risk. The speed at which the tech sector changes requires active monitoring and the adjustment of strategies according to current trends and events in this dynamic industry.

### Role in Future Economic Development

Tech companies are the drivers of research and development (R&D), where they create and implement new solutions, leading to the creation of competitive advantages. Innovation in the technology sector can lead to the emergence of completely new markets and opportunities, which attracts investment and fuels economic growth. Given these factors, the tech sector is expected to play a pivotal role in shaping and supporting economic growth and innovation in the future. Investments in this sector can be an attractive option for investors due to its dynamics and potential impact on future economic development.

### Opportunities Within Various Subsectors

The technology sector encompasses various subsectors, including artificial intelligence, cloud computing, biotechnology, and others. This provides investors with a wide range of opportunities to select investments according to their interests and strategies. Among the leading companies engaged in technological innovation, we can mention Microsoft Corp., which is investing heavily in OpenAI's ChatGPT and continues to invest in cloud services. Similarly, Alphabet, the parent company of Google and YouTube, holds a key position in the world of AI, which it utilizes across all its products. Other giants in the tech sector include Amazon.com Inc., Nvidia Corp., Meta Platforms Inc., and others. [1]

### The Importance of Technology in Daily Life

The ever-increasing use of technology in everyday life creates demand for innovative products and services, which can be an attractive factor. The growing significance of technology demonstrates that investments in tech companies are sustainable over the long term and possess strong growth potential.

### Opportunity in the Transformation of Traditional Industries

Technology also drives transformation within traditional industries and legacy business models. If you can accurately identify how these disruptions impact various sectors, it opens the door to strategic investment opportunities. The tech sector serves as a lens to monitor emerging trends and evolving demands, which frequently spark innovation and widespread modernization across other traditional fields.

## 6.2 Pharmaceutical Industry

The pharmaceutical industry represents another compelling alternative worth considering when selecting products for your investment portfolio. It is widely viewed as a defensive and stable sector with a proven ability to withstand economic downturns, sustaining constant demand due to its provision of essential healthcare and life-saving products.

### Innovation, Research, and Development (R&D)

Innovation plays a critical role in this sector, whether through developing groundbreaking medications, refining treatment methodologies, or transitioning away from animal testing. Each breakthrough not only delivers enhanced outcomes for patients but also generates substantial profits and bolsters corporate reputation. Investors seeking a balance of innovation, stability, and high-margin return potential may find these companies a highly suitable addition to their portfolio.

### Long-Term Demographic Trends

With an aging global population and rising demand for healthcare services, the pharmaceutical industry benefits from powerful demographic tailwinds that support long-term secular growth. This trajectory is clearly visible in countries like Switzerland, which projects a 30% increase in public healthcare expenditures by 2050. A similar narrative is unfolding in Asia, where the economic implications of an aging society are already being felt in South Korea and China. [2]

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[1] https://money.usnews.com/investing/articles/artificial-intelligence-stocks-the-10-best-ai-companies

[2] https://www.zs.com/insights/trends-shaping-pharmaceutical-landscape-2024-and-beyond

### Treatments for Chronic Diseases

As the global prevalence of chronic conditions continues to rise, the demand for long-term maintenance and management therapies expands in tandem. This trend signals sustained, long-term growth opportunities for the pharmaceutical sector. Medical science and clinical research are advancing at a rapid pace; recent developments offer promising leaps in therapeutic interventions that move beyond mere symptom management toward the potential for definitive cures. Much of this innovation is concentrated in cell and gene therapy (CGT), fields that offer a revolutionary approach to medicine. [3] Research-focused enterprises continue to target the world's most complex healthcare challenges, such as Alzheimer's disease and opioid addiction, aiming to discover highly effective treatments that can deliver a profound, positive societal impact. [4]

### Patents and Competitive Moats

Pharmaceutical firms frequently rely on robust patent protection for their proprietary molecules, granting them exclusive commercialization rights for a specified duration. This legal framework typically secures a monopoly over the invented drugs for up to 20 years, creating an extended window for high profitability free from generic competitive pressures. For investors, this represents a strong buy signal when looking to deploy capital into equities characterized by long-term structural stability. [5]

### Globalization and Emerging Market Growth

Expanding access to healthcare within developing nations, combined with broader globalization, provides multinational pharmaceutical corporations with significant opportunities to scale into new international territories. This geographic expansion drives up the aggregate volume demand for medications and medical technologies while unlocking high-yield revenue streams for expanding enterprises.

### Demand for Vaccines and Therapeutics

Global systemic challenges—including pandemics and age-related degenerative diseases—generate robust ongoing demand for vaccines and therapeutics, making the sector highly resilient. The COVID-19 pandemic starkly underscored the critical value of rapid biopharmaceutical innovation. This unprecedented surge in demand presented the industry with both a massive public health challenge and an extraordinary commercial opportunity. Investors who closely monitored these developments and capitalized on companies at the forefront of COVID-19 vaccine and therapeutic development experienced substantial capital appreciation.

While all these tailwinds position the pharmaceutical industry as an attractive, defensive, and forward-looking sector with strong multi-year growth potential, investors must remain cognizant of sector-specific risks. These include stringent regulatory approval hurdles, patent cliffs (expiration), and intense post-patent generic competition.

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[3] https://www.globalpharmatek.com/blog/top-12-pharmaceutical-industry-trends-in-2024/

[4] https://www.scientificamerican.com/article/when-choosing-what-diseases-to-develop-drugs-for-it-all-comes-down-to-funding/

[5] https://minesoft.com/the-role-of-patents-in-the-pharmaceutical-sector/

## 6.3 Green Investments

In recent years, "green investing"—along with the corresponding reallocation of capital toward projects and enterprises dedicated to delivering positive environmental outcomes—has moved to the forefront of global financial markets. The primary objective of these strategies is to fund sustainable technologies, renewable energy infrastructure, resource efficiency initiatives, and other eco-friendly practices. Beyond corporate environmental, social, and governance (ESG) mandates, the primary catalysts behind this structural shift are a highly value-driven younger generation and tightening sovereign regulatory standards.

### Renewable Energy Sources

Capital allocations into solar, wind, hydro, and other renewable utility infrastructures form the bedrock of green investment strategies. This shift is clearly demonstrated in the US energy matrix, where renewable resources already generate approximately 20% of total domestic electricity. On a global scale, a multitude of corporations are actively combatting climate change by executing aggressive decarbonization roadmaps centered on renewable procurement. Prominent pure-play and diversified operators listed on the New York Stock Exchange (NYSE) include utility-scale wind and solar pioneer NextEra Energy, renewable asset manager Brookfield Renewable, and clean energy infrastructure provider Clearway Energy—all boasting multi-billion dollar market capitalizations. [6]

### Energy Efficiency

Global industrial sectors are rapidly adopting systems and technologies engineered to optimize energy efficiency across manufacturing pipelines, logistics networks, and real estate assets. Industrial facilities achieve substantial cost savings by replacing legacy machinery and low-efficiency electric motors with modern counterparts that are thriftier, quieter, and structurally more reliable. Another prime example of industrial optimization is the deployment of Combined Heat and Power (CHP) systems, which simultaneously generate electricity and capture thermal energy to be used for localized heating or cooling applications. Furthermore, across corporate facilities, municipal infrastructures, and residential sectors, the widespread transition to advanced LED lighting frameworks is yielding up to a 75% reduction in localized electricity consumption. [7]

### Sustainable Transport

Various countries are scaling up deployments and capital allocations into electric vehicles (EVs), public transportation networks, and infrastructures that support sustainable mobility. In January 2024, the State of Washington in the US announced an ambitious $85 million plan to fund EV charging infrastructure, reinforcing its strategic transition toward cleaner transportation. This structural shift toward a more sustainable mobility model is unfolding not only in the United States but across other global regions as well. India, for instance, is aggressively converting its municipal fleets to electric buses, demonstrating its environmental commitments and active efforts to mitigate greenhouse gas emissions. These initiatives signal a landmark transformation within the transportation sector while actively advancing global efforts toward a sustainable future. [8]

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[6] https://www.fool.com/investing/stock-market/market-sectors/energy/renewable-energy-stocks/

[7] Taktiež môžeme pozorovať v mnohých firmách, mestách či domácnostiach zavádzanie LED osvetlenie, ktoré môže znížiť úsporu energie až o 75 %.

[8] https://www.startus-insights.com/innovators-guide/whats-currently-happening-in-sustainable-transport/#indias-electrification-endeavor

### The European Green

This vision of a sustainable future is fully shared by the European Union, which introduced the European Green Deal in January 2020—a comprehensive package of legislative measures engineered to drive a sustainable ecological transformation. [9] Its ultimate objective is to achieve net-zero greenhouse gas emissions by 2050, with an updated intermediate target for 2030 establishing a mandatory threshold of 42.5% for the share of renewable energy. [10]

### Drivers of Green Investments

Allocating capital into companies focused on sustainable energy represents a major step forward in terms of ecological stewardship, aligning portfolios with surging consumer demand for eco-friendly services and tightening sovereign regulatory mandates. Beyond aiding ecosystems, these investments can provide a structural competitive advantage and long-term portfolio stability, as sustainability remains a core secular trend. Companies operating in the sustainable energy sector frequently exhibit resilient performance and can be significantly less susceptible to short-term market volatility.

### Financial Instruments and Products

Several financial vehicles enable retail and institutional investors to deploy capital directly into sustainable projects. These instruments include:

- **Green Bonds:** Debt securities issued by corporations or sovereign entities specifically to fund low-emission projects or other defined environmental initiatives.
- **Green Stocks:** Equities of publicly traded companies that maintain clear, verifiable sustainable initiatives and corporate roadmaps.
- **Green Funds:** Investment funds and ETFs explicitly structured to target eco-centric projects and sustainable corporations.

**Advantages and Disadvantages of Green Investing** Green investments directly capitalize projects and industries that safeguard the long-term sustainability of the planet, inserting capital into sectors characterized by accelerating innovation and growing consumer demand. Conversely, short-term yields on green investments can sometimes underperform when compared to legacy, high-emission industries. Furthermore, rapid updates to environmental legislation and shifting political landscapes can abruptly impact their near-term growth trajectories. Ultimately, green investing is no longer just an ethical decision; it has evolved into a strategic investment alternative capable of generating competitive financial returns alongside a quantifiable, positive environmental impact.

## 6.4 Artificial Intelligence and Data Analytics

Artificial Intelligence (AI) and data analytics have become indispensable components of the modern investment landscape. AI represents the capacity of computational systems and advanced software to emulate human intelligence, whereas data analytics concentrates on examining and interpreting massive datasets to extract actionable insights. By processing historical market data, AI can effectively identify recurring patterns, enabling superior predictive accuracy regarding future financial market trends. It excels at detecting complex structural anomalies and subtle trend reversals that might easily elude conventional quantitative analysts.

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[9] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Renewable_energy_statistics

[10] https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_en

### Strategy Customization

By evaluating an investor's personal risk profile and financial data, AI algorithms can formulate bespoke investment strategies, tailored asset allocations, and specific trade recommendations. These systems process vast volumes of unstructured data in milliseconds, allowing for a faster and far more efficient resolution of complex financial tasks. Because AI operates purely on data-driven frameworks, it eliminates emotional baggage and psychological biases from the decision-making loop. Additionally, it identifies latent market risks by cross-referencing multi-variable factors, resulting in highly effective, real-time risk management.

### Integration into Trading Systems

Artificial intelligence can be integrated directly into algorithmic trading systems, enabling the programmatic execution of trades based on strict, predefined rule sets. Furthermore, advanced models possess a contextual understanding of data, allowing them to better interpret the intricate relationships between disparate macro factors that influence global financial markets.

Together, artificial intelligence and data analytics form a powerful tandem that is fundamentally transforming how investments are analyzed, modeled, and managed. They exert a profound influence on improving market forecasting while delivering highly personalized strategies for institutional asset managers and retail investors alike.

## 6.5 Online Trading Platforms

Online trading platforms are digital ecosystems that empower investors to execute trades across a wide spectrum of financial instruments, monitor market fluctuations, and access relevant financial intelligence in real time. These platforms provide instantaneous market access from the comfort of a home or office. Users can seamlessly track and manage their portfolios directly via desktop interfaces or smartphone applications, resulting in ultra-fast order execution that eliminates the latency of telephone confirmations common in past decades.

### News and Analytics

As a user, you gain immediate access to breaking market news, expert commentary, and real-time portfolio metrics. Platforms frequently come equipped with sophisticated analytical toolkits for both technical and fundamental analysis, enabling traders to make thoroughly informed, data-driven decisions.

### Live and Demo Accounts

In addition to live funded accounts, brokerages typically provide fully functional demo accounts. These simulated environments allow investors to backtest strategies and accumulate market experience without risking actual capital.

## 6.6 Blockchain and Cryptocurrencies

Blockchain is a decentralized ledger technology designed to record transactions across a distributed database. It functions as a chronological chain of cryptographic blocks, where each block contains specific transaction data and is immutably linked to its predecessor, creating a transparent and tamper-proof ledger. Cryptocurrencies are digital or virtual currencies that leverage blockchain architectures to guarantee transaction transparency and systemic security. This transparency is a fundamental pillar for building trust within the ecosystem.

### Decentralization

Decentralization means that no central governing authority or clearing house holds monopoly control over the network, rendering the blockchain far less vulnerable to single points of failure or coordinated cyberattacks. Cryptocurrencies utilize advanced encryption protocols to secure transactions, and the underlying blockchain architecture facilitates direct, peer-to-peer (P2P) transfers. This entirely bypasses traditional financial intermediaries, significantly driving down transactional overhead while accelerating settlement times.

### Asset Tokenization

Blockchain networks enable the tokenization of diverse asset classes. This means that physical properties or traditional financial instruments can be structurally represented as digital tokens and subsequently fractionalized and traded on secondary blockchain platforms.

### Smart Contracts

A smart contract is a self-executing digital protocol programmed to automatically enforce the terms of an agreement between counter-parties without the need for a trusted third party, such as a bank, notary, or centralized legal authority. Smart contracts serve as the foundational architecture for cryptocurrencies, utility tokens, Decentralized Finance (DeFi) protocols, Non-Fungible Tokens (NFTs), and decentralized applications.

**Example**

Within the Ethereum blockchain network, a smart contract can be programmed to automatically disburse an insurance payout the moment an external verified data feed (an oracle) confirms that a specific covered insurance event has occurred.

### Access to Financial Services

Blockchain architectures and cryptocurrencies can empower unbanked or underbanked populations—who lack access to traditional institutional banking systems—by allowing them to secure capital and transfer value globally using digital assets.

### Innovation in Payments and Financial Services

Blockchain is driving radical innovation across payment clearing networks and retail financial services, reshaping how global citizens store, transfer, and utilize money. Ultimately, blockchain networks and digital assets are unlocking entirely new frontiers in corporate finance and asset management, introducing not only technological disruption but also a fundamental paradigm shift in how we conceptualize ownership, systemic transparency, and financial inclusion.

07

## Selecting an Intermediary or Broker

Brokers play a vital role in the investment world, acting as the bridge between those who want to buy and those who want to sell in the financial markets. Their primary responsibility is to provide investors with a comprehensive suite of services that support their deployment of capital. From order execution and investment advisory to providing access to educational materials and advanced analytical toolsets, brokerage firms serve as the critical link between private investors and global financial markets.

There are several types of brokers that you, as an investor, can choose from. The seventh chapter of this e-book focuses precisely on this topic, outlining the structural differences between various brokerage models and the key criteria to consider during your selection process. Every investor eventually faces the question of which broker best aligns with their specific needs and financial goals. Understanding these distinctions and operational factors will empower you to make an informed decision, setting the stage for successful and efficient investing.

## 7.1 Key Factors to Focus on During Selection

When choosing a broker, it is crucial to evaluate several fundamental parameters that can directly impact your investment decisions and overall financial success. Keep in mind that the ideal choice depends heavily on your personal preferences, investment objectives, and level of market experience. It is highly recommended to compare multiple providers to find the one that best fits your specific profile. Checklist for Choosing a Broker:

### Available Investment Instruments

Verify the exact lineup of available financial products. Some brokers may offer a limited asset selection. If you plan to allocate capital into specific asset classes, ensure the broker provides direct and reliable access to them.

### Ratings and Reviews

Thoroughly study peer reviews and ratings from other active investors. Examine the company's long-term market reputation and the verified quality of their customer service.

### Regulation and Security

Ensure the broker is fully licensed and regulated by reputable financial authorities—ideally within the European Union, where investor protection criteria and regulatory frameworks are among the strictest in the world. Additionally, verify the specific tier of deposit protection insurance provided for your capital.

### Platform Accessibility

Assess the flexibility and user-friendliness of the broker's infrastructure. Is the trading platform available online, stable, and seamless to operate across multiple devices?

### Customer Support

Alongside platform flexibility, reliable technical support is paramount when software hitches occur. Find out how easily you can contact the broker and whether live customer support is readily available in your local language.

### Risk Management Frameworks

Evaluate the broker's approach to risk mitigation and check whether their platform provides necessary automated tools to minimize potential capital losses.

### Fees, Deposits, and Withdrawals

You must secure a transparent breakdown of all operational costs to understand exactly how much you will be charged for basic actions, such as opening a position or holding a position overnight (swap fees). Furthermore, verify the supported deposit and withdrawal methods; it is vital that both processes are seamless and settled within a few business days.

### Educational Materials

Review the quality of the educational resources the broker provides. Are they clear, structured, and relevant to your needs? Look for high-quality webinars, seminars, and written guides that can deepen your market understanding when you need it most.

08

## Risk Mitigation

The eighth chapter focuses on core strategies designed to structurally mitigate risk within your investment activities. We will explore the vital importance of allocating capital across diverse asset classes, industrial sectors, and geographic regions, as well as the necessity of continuously monitoring and updating your portfolio to match shifting market conditions and personal financial goals.

Beyond diversification, we will examine other key risk-management tools, such as systematic portfolio evaluations and the implementation of stop-loss orders. These frameworks will allow you to adapt fluidly to market fluctuations and protect your principal capital. Mastering and applying these principles will help you build a resilient, high-performing investment portfolio throughout your wealth-building journey.

## Diversification: The Critical Importance of Asset Allocation

Diversification is the ultimate foundational tool for managing the inherent risks associated with investing. This strategy dictates that you spread your capital across separate asset classes, industries, and jurisdictions to ensure that an isolated underperformance or failure does not jeopardize your entire portfolio. The Core Pillars of Diversification:

**Reduction of Unsystematic (Specific) Risk**

Specific risk refers to the volatility tied to one particular company, stock, or narrow asset class. Spreading your capital across non-correlated assets drastically reduces the impact of isolated negative corporate events.

**Asset Class Variety**

You can distribute risk across fundamentally different asset classes, such as equities, fixed-income bonds, tangible commodities, real estate, and cash equivalents. Each class possesses unique attributes and responds differently to identical macroeconomic conditions.

**Geographical Diversification**

Investing across varied sovereign jurisdictions helps isolate your portfolio from local political shifts, regional economic downturns, or localized environmental crises. Global asset allocation allows you to capture growth engines in multiple economies simultaneously.

**Sector Diversification**

Allocating capital across disparate industrial sectors helps balance out the specific economic and financial cycles that affect industries unevenly. For example, the technology sector and the defensive pharmaceutical sector frequently react in opposite ways to the same macroeconomic catalysts.

**Balanced Rebalancing**

Maintaining an intentional, proportional distribution of capital across your selected assets ensures that your net worth is never overly dependent on the performance of a single holding.

**Alignment with Goals and Risk Tolerance**

Your exact level of diversification should match your personal time horizon and volatility tolerance. Equities typically introduce higher volatility alongside higher long-term growth potential, whereas bonds can inject vital structural stability into your portfolio.

## 8.2 Periodic Portfolio Rebalancing

Periodic portfolio review and rebalancing is another indispensable step toward maintaining a healthy, efficient, and compounding investment framework. Regular check-ins allow you to capture macro market shifts and changing economic landscapes which, alongside your evolving personal milestones, dictate the net performance of your capital. By adopting this proactive approach, you can systematically flag structural blind spots among your holdings while identifying optimal entry points to maximize future returns.

### Routine Asset Auditing

Conducting regular evaluations of individual positions within your portfolio is necessary to confirm that every single investment continues to align with your foundational thesis and goals. Keep a close eye on fresh market data and corporate news that could impair the asset's forward-looking prospects.

### Portfolio Rebalancing

Systematic rebalancing is crucial to maintaining your desired asset allocation. Over time, market movements will naturally cause certain high-performing assets to overweight your portfolio, skewing your risk profile. Selling winners or buying laggards recalibrates your exposure to safer, target parameters.

### Evolving Investment Horizons

If your career, family status, or long-term financial milestones change, your portfolio composition must pivot accordingly. A classic example is the strategic reallocation of capital out of volatile equities and into capital-preserving fixed-income assets as you approach retirement age.

### Risk Tolerance Updates

If your psychological or practical capacity to tolerate market drawdowns shifts, your asset mix must mirror that reality. A lower tolerance for volatility necessitates a heavier weight toward defensive, cash-generative, and stable assets.

### Macroeconomic Monitoring

Maintaining a sharp focus on macroeconomic indicators—such as benchmark interest rates, inflationary prints, and geopolitical events—makes it much easier to anticipate structural market rotations and broader trend shifts.

### Cost and Fee Optimization

Auditing the compounding drag of management fees, transaction costs, and administrative expenses is vital to preserving your portfolio's efficiency, as discussed earlier. Excessive platform or fund fees can severely erode your net compound returns over a multi-year horizon.

### Tax Code Compliance

Shifts in corporate or personal tax legislation can fundamentally alter the net-of-tax efficiency of your holdings, dictating how you should legally structure or time your exits to minimize tax liabilities.

### Trend Alignment Strategy

Monitoring current market megatrends and structural environments allows you to fine-tune your asset allocations dynamically. Adjusting your active strategies ensures you remain flexible amid market disruptions, keeping your capital tightly aligned with contemporary institutional trends and personal wealth objectives.

## 8.3 Minimizing Potential Losses

Another critical risk-management strategy that you need to master—especially when trading CFDs and futures contracts—is the Stop-Loss order. This is a predefined price point or asset value at which an order is automatically triggered to liquidate an open position. The primary objective of this mechanism is to cap an investor's downside exposure if the asset's price moves adversely against their thesis.

In practice, when the asset price drops to or breaches this designated threshold, the brokerage system automatically executes a market or limit order to close out the position. By implementing a Stop-Loss, you can insulate your capital from devastating drawdowns caused by unexpected, high-velocity market shocks.

A Stop-Loss order is not merely a technical safety net; it is a vital tool for enforcing clinical execution and maintaining strict trading discipline. This order type can be deployed across a diverse spectrum of investments, including equities, commodities, forex pairs, and other financial instruments. The ultimate challenge lies in setting the optimal threshold: it must be broad enough to give the asset room to breathe through routine market noise, yet tight enough to act as an effective emergency brake during periods of extreme volatility.

### Establishing the Baseline Valuation

Before deploying a Stop-Loss, you must identify a critical technical level that represents the logical invalidation point of your trade or investment thesis. This baseline can be derived using technical analysis (such as major support and resistance zones), historical data patterns, or your personal risk-per-trade financial boundaries.

### Dynamic Adjustment Based on Market Volatility

It is highly effective to dynamically adjust your Stop-Loss levels in lockstep with shifting market regimes. During highly volatile cycles, your stop limits may need to be structurally recalibrated to prevent premature shakeouts while still aggressively protecting your principal balance from outsized systemic moves.

### Aligning with Your Investment Horizon

Investors must align their Stop-Loss architecture with their broader temporal horizons and target objectives. Setting these parameters should be a calculated, systematic process rather than an impulsive reaction to intra-day noise. Before committing to a specific level, you should thoroughly weigh contemporary macroeconomic indicators, individual asset behavior, and your aggregate strategy. As the underlying trade trends in your favor, you can lock in accrued gains by regularly trailing your risk upward. To automate this process, traders utilize a Trailing Stop order, which automatically adjusts the Stop-Loss position higher at a set distance as the market price climbs.

Naturally, alongside basic Stop-Loss and Trailing Stop frameworks, a wide range of advanced order types and execution strategies can be integrated to achieve robust risk management.

# Conclusion

We sincerely hope this e-book has served as more than just an informative blueprint, and that it has inspired you while providing a holistic, clear perspective on the fascinating world of investing. Wealth building is not merely an effort to accumulate capital; it is an ongoing journey defined by strategic modeling, continuous education, and deliberate, multi-year planning. It is an inherently dynamic process driven by specialized knowledge, personal development, psychological discipline, unwavering execution, and the agility to adapt fluidly to shifting market conditions. To achieve sustainable compounding success, you must routinely audit your portfolio, optimize your allocations, and remain highly flexible.

It is important to remember that every single investor possesses a unique signature, complete with personalized goals and distinct volatility tolerances. Every financial instrument carries its own specific array of structural advantages and drawbacks; your eventual selection should always map back to your target horizons, risk capacity, and financial milestones. Maintaining a diversified stance across non-correlated asset classes remains the most dependable method to optimize your risk-adjusted returns and cushion your net worth against isolated market shocks.

Tailor your investment framework to your true needs, block out the short-term noise, and stay fiercely committed to your long-term plan. Market cycles and drawdowns are an inevitable reality of the financial system, but equipped with a sound strategy and a solid educational foundation, you are well-positioned to achieve long-term financial freedom.

Always remember that investing is a marathon, not a sprint. The defining trait of a successful investor is structural perseverance. This multi-year journey will occasionally present setbacks and adverse macroeconomic climates, but it is precisely during these testing market regimes that you must maintain patience and completely suppress panic. While paper losses may occur over short-term intervals, a disciplined long-term outlook historically yields stable, resilient growth.

We wish you the very best of luck on your wealth-building path. Invest intelligently, manage your risk, and take that decisive step in the right direction toward your target financial future.

**The ETF Obchodník Team**

## Contact

**etfobchodnik.com**




+421 2 222 009 36



support@etfobchodnik.com



Slávičie údolie 106
Bratislava - Staré Mesto
811 02 Bratislava



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