

What To Know Before Doing After Hours Trading

After Hours Trading or AHT is the trading of securities on big exchanges after the normal trading time is over. After hours trading, which used to be the privilege of institutional investors is now available for every one. The advent of electronic communication networks or ECN has brought radical changes in the method of stock trading. ECN is a medium that has made buying and selling stocks as easy as the click of the mouse. Moreover, big institutional investors have the advantage of trading without the need to disclose their actions.

Risks Involved With AHT

The advent of after hours trading makes it possible for investors to earn big profits. However, there are several risks and dangers involved with this kind of trading. The biggest drawback of after hours trading is that the number of traders is far less than regular hours. Sometimes this may make cashing in on your shares more difficult, because of low volumes. Another risk involved with low volumes is wide spreads. That means a big difference between the asking price and the bidding price, which makes getting a favorable price more difficult.

Another risk factor associated with after hours trading is volatility. Because the trading is very thin, harsh fluctuations in the prices may make life very difficult for the investors.

Benefits of After Hour Trading

Whenever, you come to know something that may affect the prices, you have the convenience of making deals immediately. Moreover, you can gain from the volatility by intelligent trading and trading at an attractive price.

ECNs have realized the problem of low volume. Several major ECNs are joining hands and agree to share the ask price and bid prices. This is an effective step to attract large investors and to increase the liquidity. Most analysts agree that after hours trading is in its early phase and facing minor growth problems. Level of liquidity and the fragmentation are two major issues that need to be tackled for the growth of after hours trading.

After hours trading makes buying and selling stocks more convenient for international investors. Often international investors operate at different times than the ordinary American stock markets.

The final price of a stock in after hours trading is important. It is an indication to the traders of how it is going to behave when the market opens the next day.

After hours trading is only for the most experienced investors and even then it should be done with the utmost caution. It is one of the riskiest ways to invest in the market. However, some consider the profits to be worth the risks. After hours is often a good time to obtain good prices on stocks.

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About the Author

David Gass is President of Business Credit Services, Inc. His company publishes a free weekly e-newsletter on Small Business Consulting at their web site <http://www.smallbusinessconsulting.com>