



# Online investing

## Web-based dealing on the rise

**Investors are steadily turning towards online brokerage, writes James Dunn**

TO many stockbrokers, last week's release of the 2008 Australian Securities Exchange share ownership survey may have made gloomy reading, showing as it does that 41 per cent of the adult Australian population own shares, down from 46 per cent in 2006 and 55 per cent in 2004.

But the nation's online stockbrokers will have seen plenty in the report to put a spring in their step.

The proportion of direct shareholders who have used an online broker to trade shares during the past two years has jumped from 53 per cent to 70 per cent.

The study also reveals that investors seem to be moving away from service-based relationships with brokers towards transaction-based relationships: 53 per cent of direct investors last year said they had a broker with whom

they had a service-based relationship, compared with 58 per cent in 2006.

It's this latter dynamic that has online brokers — who are rigidly transaction-only — feeling confident in their outlook.

“There has definitely been an influx of people to online broking who were being advised, who had a full-service relationship with a broker, but who now want to be self-directed,” says Arnie Selvarajah, chief executive of online broker Bell Direct. “Largely, they're moving online.”

Selvarajah says ASX statistics show that 12.5 per cent of trading in 2007-08 took place online. “That's been steadily increasing and by April-May we estimate that online market share was running at 15 to 16 per cent. That's because a lot of institutional investors were pulling back from the market, taking a wait-and-see approach, while retail investors were going back into the market.”

Online broker E\*Trade Australia managing director Stuart Sayers agrees. “There are an awful lot of investors out there who have suffered some poor returns, whether in full-

advice broking or managed funds. Worse, they feel they have paid a lot of money to lose a lot of money for much of the time. We're finding that a growing number of people who are confident in their own decisions are looking at online broking and deciding that it meets their needs better.”

Sayers says the rise in online broking's market share indicates that active traders — or day traders — have tended to stay more active while institutional investors have stepped back, and clients who traditionally have been heavy users of larger, full-advice firms are moving online.

“They're now saying: ‘I can do a bit better myself.’”

Online broker CMC Markets Stockbroking managing director Barry Odes says a lot of brokers “talk about investors now wanting to do it themselves”, but his firm wants to put some real numbers behind the theory. “We've had a survey done by Investment Trends that looks at the self-directedness of clients, given the

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global financial crisis," Odes says. "We see the move to self-directed investing happening, but the Investment Trends study is the first piece of proper information I've actually seen on it.

"The study showed that 48 per cent of people currently invested in managed funds agreed with the statement: 'I no longer trust fund managers and will invest directly in the future,'" Odes says.

"It was very interesting for us to see that because it indicates that there are good growth prospects for online broking."

Selvarajah defines three main types of retail sharemarket participant. "There's the diehard advised investor, who has a full-service relationship that meets all of their needs," he says.

"At the other extreme, there's the diehard self-directed investor, and then there's the in-between group, which has some money under advice — particularly super money — but has a discretionary part of their portfolio that they're keen to trade. We believe we'll see a lot of growth in those second and third categories."

The entire broking-advice market is in a state of flux, Selvarajah says. "You have the whole commissions debate in financial planning, and it seems fairly clear that the whole revenue model is changing. We think that is bound to have an impact on the platforms.

"Wraps have evolved into a major distribution channel for managed funds, but because a lot of

clients have consolidated their investments within wraps they also hold their direct share positions within wraps, but on a funds-under-management base model they're paying for those equity positions.

"Clearly that's not how we charge, we charge on a transactional basis.

"The market is up in the air, but one thing is for certain; everybody is much more aware now of exactly what they pay and what it is for, particularly self-directed investors, who've shown that they are prepared to vote with their feet.

"We certainly think there's a fair chance of picking up a bit more of that action."

Sayers says the advent of exchange-traded funds — listed stocks that represent an index, portfolio or commodity — has given self-directed investors very simple and cheap exposure to asset-class returns, and this is made even simpler if bought online.

ETFs are structured to provide single-stock exposure to the beta (market performance) of the stock index or portfolio, can be bought and sold with normal brokerage, and can be held for an annual management fee that may be as low as nine basis points (0.09 per cent) a year. ETFs yield no commission, upfront or trailing, paid to an investment adviser.

"ETFs are made for the self-directed investor because they give you the index returns in one stock," Sayers says.

"Historically, if you'd gone to a financial planner or somebody to

give you advice, they've tended to create a portfolio that broadly tracks an index, and then adding stocks to give specific exposure."

People are starting to realise that they can do that themselves very cheaply by buying an ETF to get the index exposure — or a number of ETFs — and then buying specific stocks if they want to get more significant exposure to an individual company or sector.

"I think that will become a more prevalent style of investing," Sayers says. "With just a couple of purchases you can get quite a wide spread of exposures, and it makes sense to do that in a transaction-only environment."

Technological advances should also boost the online market, according to Sayers.

"Before online brokers, there was discount stockbroking, which the internet revolutionised. Now we're seeing things like the iPhone and BlackBerry becoming common. We're seeing a surprisingly high number of people checking quotes and actually trading on those devices now.

"People used to sit at their computer and trade, but if they can do it outside, sitting in a cafe or in the bus, they will as well."

As improved broadband penetrates the nation, Sayers says that, too, should bring growth.

"Speaking for ourselves, our website is not that heavy in terms of the bandwidth it needs, but obviously more bandwidth and increased internet speeds can only help online brokers," he says.

