

New kid on the block brings in business

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David Cameron's election posters may have failed to persuade 16,000 people to become first-time Tory voters – the number he fell short of for a parliamentary majority, according to the psephologists at Plymouth University – but posters about the Conservative leader did encourage thousands of opinionated individuals to become first-time forex traders.

IG Index reports that its billboard adverts depicting Number 10 Downing Street, and asking "what would a new resident mean for sterling?" attracted enough new spread betting clients to swing a key marginal.

City Index and Spreadex even believe that the new resident of Number 11 can become a poster boy for trading UK retail derivatives. "There is a feeling George Osborne's impending emergency Budget could serve to highlight the tax efficiency of spread betting," explains Joshua Raymond of City Index.

As politics and government debt began to dominate the April and May headlines, it seems voters who had never considered spread bets chose to put their money where their X was.

"Our advertising made the connection between cause and effect, how everyday events in the real world events affect financial markets," says Tim Hughes, managing director of IG Index. "We asked people to think about Cameron, and what he would do for sterling – and it's not a giant leap to say that you are as informed as the next person. When financial news gets on front pages, people think: Where's the opportunity here?"

IG Index helped boost beginners' confidence in their own convictions by sending overnight election tweets on the social networking website Twitter. While the marketing campaign was running, the firm signed up first-time traders – of sterling, equities and other assets – "in their thousands".

Even with a newly austere Con-Lib government in place, betting firms continue to report an increase in brand-new traders.

"At Spreadex, we have seen a noticeable increase in the number of first-time spread betters in recent weeks with the main catalyst for this being the proposed hike in capital gains tax by the coalition government," says marketing manager Andy MacKenzie.

"We have had dozens of phone calls and e-mails each day for the past few weeks – mostly from people with no experience whatsoever in financial spread betting.

"We have seen a lot of new business from people who have been surprised at the opportunities provided by transferring the capital into a spread bet," he says.

City Index expects many existing share traders will now become first time spread betters. "Regular share dealers and first time traders alike will continue to be attracted to the product for the tax efficiency," argues Mr Raymond.

"Research has shown that a high majority of first-time spread betters have a share dealing background and so naturally this remains a target market."

Spread betting providers see this client acquisition as a significant development, after a survey last year by Investment Trends suggested that only 83,000 people traded spread bets in the UK – and much new account opening involved those same people opening a second or third account.

In 2008, three in 10 spread betting clients were being churned in this way.

"Investment Trends was forecasting 80,000 rising to 120,000 [traders], and that's 50 per cent growth, but not in the mainstream," admits Mr Hughes. "So we've made a concerted effort to convey the benefits of spread betting to a wider audience, and broaden the appeal beyond a relatively finite number."

He says his aim is to change preconceptions of what spread betting is about: "The transition from the 1980s cliché of a wideboy trading the value of a Porsche in an afternoon, to the everyday, is continuing."

Gary Thomson, director, sales trading at WorldSpreads, already reports some success. "At present, 85 per cent of customers are male – but we would like to see more savvy, cashy, techy and opinionated woman coming on board in larger numbers."

Many of these new customers are being attracted via new media. IG has targeted commuters with digital media at railway stations showing how easy it is to trade "everyday" events.

Spreadex says: "We have been upping our presence on social media sites such as Twitter and Facebook, ensuring that posts are helpful and relevant to traders by, for example, offering links to technical analysis of popular currency pairs, topical stocks or volatile markets." Paddy Power gives its market views on LinkedIn.com.

"CFD providers are indeed constantly striving to broaden the market by demystifying products and providing educational material, whether online or via seminars," says its head of product, Paul Inkster.

"I believe that the market is indeed opening up for leveraged products and they are becoming more mainstream.

"Their appeal is also being boosted by financial market conditions – as investors look to either hedge their 'long only' portfolio or profit from price falls."

City Index takes a similar approach with spread bets and is launching a range of webinars and trading workshops designed for a new audience – these will include strategies and tactics to help identify trading opportunities.

At Capital Spreads, the range of educational events has now been expanded to take in "Learn to Bet", "Advanced" and "Trading Strategies" seminars – the last two of which are hosted by experienced investors who are independent of Capital Spreads.

Following successful sessions in Birmingham, Manchester and Leeds, the seminars will soon be moving to Glasgow.

For Paddy Power, it's about striking a balance. "We work hard to develop tools onsite that educate the novice spread better and we hope it helps them trade smarter," says commercial manager Davin McAnaney.

"This helps not just in the beginning but throughout their spread betting career. We also try to use a lexicon on our site that appeals to sophisticated traders while not being too filled with jargon for a novice."

Novice traders can now take smaller first steps, too, as a number of firms have reduced their minimum stake sizes and their total risk exposure.

"The facility for new clients to trade in reduced sizes is extremely popular as it permits them to familiarise themselves with specific markets as well as the product in a much less risky environment," says Mr Inkster at Barclays.

IG already offers limited risk accounts and WorldSpreads is now introducing them – it also has a new client offer that provides a £300 (\$430) cashback to cover any losses in the first eight weeks of trading.

But it is not just minimising losses that appeals to first-time traders. Maximising profits, through the narrowest spreads, has proved a draw for this year's new intake. Paddy Power's Mr McAnaney says: "New clients are as price-conscious as experienced spread betters and the fact that we have low spreads such as 1 point on the FTSE and euro/dollar helps attract novices who are looking for good value as well as informative and reliable platforms to trade upon."

Or as Mr Hughes at IG puts it: "I don't think it's a limited pool of traders we're competing for, but we need to be competitive."

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