

# GFC gives online trading a boost

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Despite a market that has been doing little more than shift back and forth for months, Australian investors are ditching their financial advisers and taking to online trading in record numbers.

A new survey shows that the number of investors trading online has increased by 50,000 in the past 12 months to total 650,000.

The *2010 First Half Online Broking Report* compiled by the financial adviser Investment Trends, which is based on a surveyed of 7000 active online share traders, shows that newcomers tend to be younger individuals rather than established traders, and that more women are coming onto the market.

Investment Trends senior analyst Pawel Rokicki says the lingering level of distrust of financial institutions had made life difficult for fund managers, but opened the door for online brokers.

"Online brokers have a real tailwind coming out of the GFC," Rokicki says.

"The brokers saw a big pick-up in their business and it's looking like it's going to be this way for some time now."

Rokicki says 43 per cent of those who had started trading in the past two years were under 40, compared to just 27 per cent overall.

Women are also slowly catching up. Historically, about five out of six traders are men, but about 22 per cent of the newcomers were women.

The newcomers also tend to earn lower incomes on average (just \$84,000 compared with \$100,000 overall) and the average portfolio size is much lower among new traders.

"We've also seen [financial] planners switching to direct equities and things like ETFs [exchange traded funds], away from fund managers," Rokicki says.

"Having seen this process really setting in, we think it is what is giving wind to online brokers."

The big four banks dominate the online trading space.

Of the 7000 investors surveyed, 51 per cent said CommSec was their main broker, which was a 2 per cent rise from last year.

The next biggest by market share was E\*Trade (which is owned by Australia and New Zealand Banking Group) at 17 per cent, while Westpac Banking Corporation's Online Investing had 10 per cent of the market, and National Australia Bank OnLine Trading 6 per cent.

Bell Direct was the year's fastest gainer. The online broker doubled its market share to 4 per cent.

Investors say the key deciding factors when choosing an online broker is ease of use, price of brokerage and reputation.

"For brokers associated with banks, linkage to an existing account plays a key role in attracting clients," Rokicki says.

Brokerage houses looking to boost their share of the market should seriously consider introductory offers, the survey found.

According to the survey, half of those investors intending to open an online broking account for the first time say that an introductory offer, such as free brokerage in the initial period, is likely to seal the deal.

And it's volatile markets that draws investors in.

The major online retail brokers recorded numbers in May as worldwide share volatility peaked. The volatility arose as a result of Europe's sovereign debt crisis.

As Australia's benchmark S&P/ASX 200 shed 7.86 per cent in May, the big four banks' online broking arms saw trade increases of up to 32 per cent.

## Turn on, trade away

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- The big four banks dominate online share trading, and CBA's CommSec hold 51 per cent of the market.
- Ease of use, price and reputation influence investors in choosing an online broker.
- A survey found that half of all would-be investors are open to introductory offers that sweeten the online trading deal.

Brokers say hefty falls in the price of retail favourites, including the big four banks and miners BHP Billiton and Rio Tinto, sent day traders and mum and dad investors into a trading frenzy.

But online investors are also likely to keep funds sitting in cash accounts. The online brokers have cashed in on the trend by offering high interest rates for customers with cash.

At E\*trade, Australia's second largest online retail broker, customers can get 6 per cent a year interest on their cash balances.

Australian Investors Association president Jolyon Forsyth says it should come as no surprise that investors have headed online.

"I know my broker, if I deal through him, he charges a minimum of \$100," Forsyth says.

"Sure, he says he'll give me advice. But a lot of people, and I know a lot of our members, are doing their own trading. It's cheaper, and to some extent you have better control over it because you can say 'well ,I only want the trade in for today' or 'I want it if you can get it below this price'."

The Australian Financial Review

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