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SPECIAL REPORT: Why more planners are going for brokers

written by [Lisa Pennell](#) | September 27, 2010

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Lisa Pennell delves into the world of direct equity investing and reports on the latest trends and developments in products and services.



Amie Selvarajah

The global financial crisis (GFC) wrecked more than just portfolio values – it shook consumer trust in the financial services industry overall. When the dust finally settled, many managed fund investors were left scratching their heads, asking why they had trusted and paid for expert advice from fund managers to end up losing out anyway.

As part of the ensuing fallout, there's been a surge in the use of retail online brokers. The number of Australians trading online rose by 50,000 over the past year to a new high of 650,000 in May 2010, according to the Investment Trends *First Half 2010 Online Broking Report*. And that's just the beginning – the growth in underlying trader numbers should see future high-volume months set new records for the online brokers.

Demand from their clients is thought to be driving a similar behavioural change in financial planners, who are increasingly turning towards direct equity investments for new client funds. Since 2008, advisers have been gradually moving towards direct shares and other listed investments, including hybrids, exchange-traded funds (ETFs), real estate investment trusts (REITs), listed invested companies (LICs) and separately managed accounts (SMAs), but this year in particular, there's been a dramatically larger shift.

Managed funds have clearly been the biggest losers – the June 2010 Planner Direct Equities (& SMA) Report shows that just half of recent inflows were directed to unlisted managed funds, down from 62 per cent the year before. And the trend looks set to continue. Investment Trends say two-thirds of all planners now advise on direct shares and this group expects their allocation to direct equities to rise from the current level of 23 per cent of funds under management, to 34 per cent within the next three years.

“It's built for service, including the capability for data feeds, invoicing and a whole range of tools”

The move away from managed funds and towards direct listed investments is prompting another shift in the financial services industry – leading planners to look for alternative platforms. The Investment Trends report shows many planners are currently using multiple channels for direct equity transactions, with each planner using on average 1.5 different channels. Of those, 64 per cent currently use an investment platform, 42 per cent use a full-service stockbroker and 32 per cent use an online broker that's not on a platform.

Interestingly, how trades will be facilitated in the future is still not clear, although it does seem likely that most planners intend to trade electronically. When the planners were asked which channel they would prefer to be using for direct equity transactions in three years' time, 45 per cent said an investment platform, 20 per cent said an online broker (not on a platform), 16 per cent said a full-service broker, 7 per cent said planning software and 6 per cent said they would prefer to use a white label platform.

Among the investment platforms, BT Wrap, Macquarie Wrap and Asgard eWrap are the most widely used for share trading, and these are also perceived to have the best direct equities offering. On the other hand, there are no statistics currently available on the wholesale market share of the online brokers. According to Investment


Trends, just over half of online Australian retail investors use CommSec as their main broker. E*TRADE, owned by ANZ, has 17 per cent market share, Westpac Online Investing holds 10 per cent and NAB OnLine Trading is at 6 per cent.

In what may yet shape up to be the David and Goliath battle of online broking, the biggest mover over the past year was Bell Direct, whose primary share doubled from 2 per cent to 4 per cent, driven by a combination of low price and high client satisfaction.

Despite the lack of accurate market share data, anecdotal evidence suggests Commsec's retail dominance is reflected in the wholesale arena. The acquisition of IWL three years ago gave CommSec significant market share in wholesale broking, leading to the launch of Core Equity Services in March 2009. After six years' experience with the Commonwealth Bank, most recently as Commsec's CIO, Pete Steel was appointed general manager of Core Equity Services in November 2009.

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1.  [William Mills](#) says:
[September 28, 2010 at 10:09 am](#)

We are all about to enter a brave new world where our clients are King and we are here to serve.

Our success will be dictated by our “Value Proposition” and to put it more bluntly if we don't deliver, then our income will be severed mercilessly.

Clients relationships will be the cornerstone in which successful practices will be measured.

Adviser to client ratio's will change dramatically as most advisers can only service between 50 to 100 clients effectively.

Welcome to our new world.

William Mills

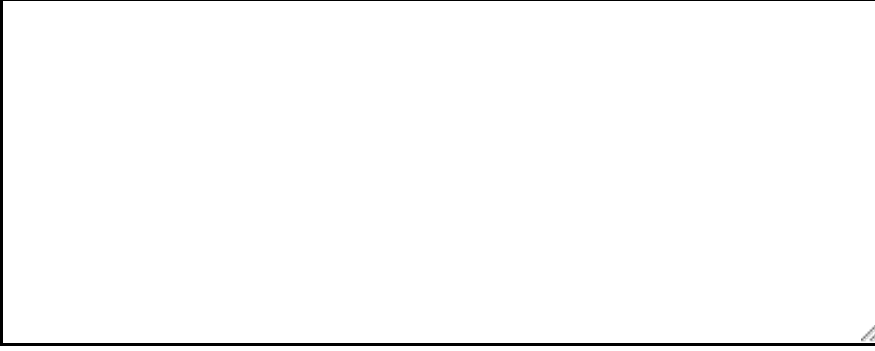
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