

The Australian

Traders' market: solo trading

- James Dunn
- From: The Australian
- December 08, 2010 12:00AM

Recommend

Be the first of your friends to recommend this.

6 retweet

ONLINE broking may have begun as an "execution-only" service, with cheapness of brokerage the main attraction, but it is unrecognisable now.

Research, stock-trading ideas, alerts on stocks whose price and volume are behaving unusually, tax management tools: all of these are common.

Clients are looking for investment and trading ideas as well as the ability to act quickly on those opportunities. And while the law doesn't allow brokers to give advice, they can certainly provide trading ideas.

"With the growth in the market we are dealing with everyone from beginner investors to highly active traders," E*Trade head of retail Matt Loughnan says. "The former wants a 'micro-site' where they can start to learn about the stockmarket. The latter wants independent research from the likes of Fat Prophets and Wise-Owl to give them trading ideas from the small-cap and micro-cap end of the market.

"The offering has to be very broad these days because the range of clients is very broad."

The most recent independent research on the online broking market, from Investment Trends, found that the number of Australians trading shares online rose by 50,000 last year to reach 650,000.

The online brokers say this bears out what they see in their own businesses, but they also say clients are different these days in what they want.

"Post-global financial crisis, we've seen a huge increase in the number of investors wanting to be self-directed, which certainly helps the online trading market. In particular, over the past year we've definitely noticed people wanting more research, and on a bigger range of stocks," Loughnan says.

"That's why we partnered with Fat Prophets and Wise-Owl.

"We find a lot of traders will have a view of a stock, but they might want a bit of support of confirmation for what they're going to do, or they might want to have trading ideas generated for them."

CommSec general manager of distribution Brian Phelps says online broking is no longer just about providing clients with the access to the market and the means to trade; it's about providing much more in the way of tools and information and education and services.

"You can't just be the cheap provider, but nor can you be the one with the most bells and whistles," Phelps says.

"The clients have changed. These days, you actually have to package up what you offer so that clients can use it properly; you have to add the tools to help them drive it properly.

"They're after a one-stop shop. The cheap rate does not win the market share: the breadth of offering, and the value it adds, does."

Bell Director chief executive Arnie Selvarajah says the average client who trades on their own account is much

more sophisticated than before the GFC and much more sophisticated than the common perception of the day traders hunched over their charting (technical analysis) software, punting away online.

"We certainly still have active traders, whom you would call day traders, because they are in and out of stocks a lot of times during the day, looking to make anywhere from \$200 or \$5000 to \$10,000 on a successful trade, but I would say that even the day traders are not relying solely on their charts, they're looking at the underlying information on the company," Selvarajah says.

"From speaking to our clients, I find the level of education and knowledge of the market and about how things work is substantially higher than it was five years ago. Some of the comments I hear from clients now when they're looking at a particular stock or company, they will discuss the management team: 'I like this stock because the management team has been there for a while, and they've done this and that,' or 'This guy has come to this company, he's had a lot of experience in this industry.'

"Five years ago, you would never have heard clients talking about that. That's how fund managers talk about companies when they look to invest in them."

This increased sophistication means the online brokers have had to adapt their offerings, Selvarajah says.

"We think there's too much information in the marketplace and clients need help in filtering it, so what we're really focused on is trying to cut through the noise with relevant and actionable information, and delivering that to clients quickly."

Selvarajah gives the example of a section on Bell Direct's website called Bell Intel. "We've got eight or nine different tools there, with things like an 'unusual volume' tool, which serves up to the client any stocks where there is a change in volume or price relative to their six-week moving average: the client is alerted to that and they can follow it quicker," Selvarajah says.

"We provide directors' trading; once again it's served up in that particular area so they can follow what the management team is doing. We have research recommendations from both Bell Potter and Southern Cross Equities.

"It's all about listening to clients about what the triggers are for them that help them make decisions on trading and investing, and trying to deliver tools to them to give them information for those triggers."

Phelps says clients want "the whole gamut" of exposures on the one platform. They want an offering that incorporates equities, margin lending, cash management, exchange-traded options, contracts for difference, international shares, exchange-traded fund, managed funds, research, charting, trading and investment ideas, and they want that all wrapped together."

This has taken online brokers away from being execution only and getting very close to being full service, but that's not a term Phelps uses.

"We see it as being a wealth-creation partner with our clients," Phelps says. "It's not full-service broking, but it's definitely providing a much broader range of tools and services than an online broker provided prior to the GFC.

"But we don't forget that while there might be 1.5 million clients here, it's only really the top 2 [per cent] to 5 per cent [who] are the sophisticated, high-value clients [who] are trading frequently.

"There's still the other 95 per cent [who] are looking for a fairly basic model, and we need to make sure that is still efficient and speedy, while maintaining a reasonable margin for us to keep the business profitable."

Recommend

Be the first of your friends to recommend this.

6 retweet

Copyright 2010 News Limited. All times AEDT (GMT +11).

All times are EST. © MarketWatch, Inc. 2008. All rights reserved. Subject to the **Terms of Use**. Designed and powered by **Dow Jones Client Solutions**. MarketWatch, the MarketWatch logo, BigCharts and the BigCharts logo are registered trademarks of MarketWatch, Inc. Dow Jones is the registered trademark of Dow Jones & Company, Inc. Intraday data delayed at least 15 minutes. "Intraday data is provided by **Interactive Data Real Time Services** and subject to the **Term of Use**." FXQuote™ provided by GTIS, an Interactive Data Company "Historical and current end-of-day data provided by **Interactive Data Pricing and Reference Data**". FTSE (Footsie) is a trade mark of the London Stock Exchange and the Financial Times and is used by FTSE International under license.