

Time to take stock of online brokers

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Trading volumes are gradually increasing after the credit crisis and online brokers are offering greater ease of use and more powerful tools. **Photo: Michele Mossop**

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Investors seeking an online broker are shopping around against a backdrop of intense competition which spells better brokerage rates and trading tools. Three providers have slashed their rates in the past nine months while nearly all, from market leader CommSec to the smaller independent providers, are bolstering their overall offerings.

Shaky sentiment last year led 40,000 people to stop trading, a survey by Investment Trends found, with the S&P/ASX 200 Index posting a mere 1.36 per cent return.

The use of online trading platforms lifted during and immediately after the credit crisis, when some investors became disillusioned with the value of full service shops, but has since dropped back. Trades conducted through online brokers comprised 11 per cent of all ASX volumes in 2010 down from 13.4 per cent a year earlier, or 8.5 per cent by value down from 10 per cent in 2009.

In response, online brokers are trying to lift the perception of their value through all market cycles.

Westpac's head of online trading, James Staltari, points to a gradual recovery. "Our trading volumes continue to increase since the start of the year, and more in March with the increase in volatility," he says. "The bulk of these customers are retail."

Trading platforms linked to the big four banks have more than a collective 80 per cent share, and the advantage of allowing customers to consolidate their other accounts online with a single provider. They also represent familiarity and stability to many investors, following the collapse or closure of some small brokers in recent years. Larger brokers are not immune from issues, with Commonwealth's CommSec and ANZ's E*Trade both suffering system blackouts on days of heavy trading during the credit crisis, though they have since invested to fix these problems.

Brokerage is a key consideration for investors. Cannex financial analyst Mitchell Watson notes that, for infrequent low-value traders, a higher brokerage will lengthen the amount of time required to break even. "But if retail investors go for low brokerage they will need to weigh up whether a platform has all the features and products they need," he says.

There is broad uniformity in brokerage rates among platforms owned by the big four.

Both Westpac and E*Trade have cut their minimum rates to align with CommSec's \$19.95 brokerage. This leaves NAB Online Trading as the outlier with a standard \$29.95 rate for retail clients who trade smaller amounts infrequently.

Retail investors generally place a high value on reputation, security and education. Watson says, "mums and

dads are looking for educational tools more than the high-level analysis, with a site that is easy to use and allows them to invest with confidence." He suggests CommSec for its extensive educational tools, with further research upgrades planned for the site this year. E*Trade offers the widest range of independent research while Westpac offers research by Morningstar plus LexisNexis news feeds and market commentary. Major independent research offered by NAB OnLine Trading includes Aegis, Morningstar and Reuters News.

Smaller brokers such as CMC Markets and Bell Direct are attempting to woo frequent traders rather than competing with the big four for retail investors. Watson says these traders need sharp rates.

"Brokerage starts to form a larger part of their costs, so frequent traders need value or trading will affect their bottom line," he says.

CMC Markets last year undercut the sector with a \$9.90 brokerage while Bell Direct offers \$15 trades.

Among major banks, NAB's Online Trading senior product manager Richard Forsyth suggests its platform is suited to higher value frequent traders. "Our customers' average trade size is over \$18,000, therefore these trades would not qualify for the \$19.95 headline brokerage rate advertised by our competitors," he says.

"Customers trading larger volumes should look at the percentage rate charged for these trades. For example if you placed a \$30,000 trade with NAB Online Trading, Westpac or E*Trade you would pay \$33 in brokerage, while at CommSec this would cost \$36.

"Frequent traders need to consider both the advertised rate and the impact of frequent trader discounts."

Forsyth says that for a trader who places 15 trades of \$27,500 in a month, NAB OnLine Trading's brokerage is 29 per cent cheaper than CommSec and 22 per cent cheaper than E*Trade and Westpac.

Investment Trends senior analyst Pawel Rokicki says that for frequent traders, Bell Direct and CMC Markets are perceived as offering the best value for money among smaller brokers.

He says CommSec and E*Trade rank well among large players, according to its annual survey of more than 6000 active share traders.

For frequent traders, the ease of executing a trade may be crucial. CommSec requires three steps to complete a trade, E*Trade and NAB call for two steps, and Westpac requires one click.

All three online brokers offer live data, with the option to upgrade to dynamic data (which refreshes automatically). Neither CommSec nor Westpac charge for live pricing, while E*Trade charges \$19.95 per quarter unless one trade is conducted every three months or clients have a total account value of at least \$10,000. Bell Direct charges \$10 monthly.

The collapse and closure of some smaller brokers has incited apprehension in potential clients.

In response, Bell Direct chief executive Arnie Selvarajah points to their financial backing by Bell Financial Group, which has tangible assets of \$47.8 million. He notes that some peers have shut shop after straying into riskier securities lending, such as Opes Prime and Tricom, or higher capital requirements imposed (Minc Financial Services).

Before the financial crisis, brokers had to hold \$100,000 in liquid assets but this has since risen incrementally to \$5 million and is mooted to reach \$10 million by next July. Selvarajah says Bell Direct could comfortably meet this. "We used new technology to reduce our cost base when we launched in 2007 and since then have sought to lift the bar on service and trading," he says.

The Bell Direct chief says the company is pitching to frequent traders with sophisticated tools but has an ease of use for all investors. While Bell's product range is limited, Selvarajah says it can match bank-aligned online brokers on research and trading tools.

On the advantage of smaller providers, Rokicki says, "The smaller players offer value for money and have good service because they have a smaller customer base so can hand hold them more. We are starting to see newer entrants challenge the bigger players, particularly for the frequent traders."

Any trader who wants to respond to market events quickly may find credit access useful. CommSec clients who use its cash management account can access up to \$25,000 in credit if they transfer the relevant amount within three days.

Westpac clients are given a cash trading limit between \$10,000 and \$50,000 depending on the number of products and relationship they have with the bank.

This limit is further lifted by the value of their portfolio, so a client with a \$20,000 cash trading limit and \$70,000

portfolio can conduct a \$90,000 trade if they settle the account within three days. Neither E*Trade nor NAB Online Trading offer credit, so clients must have funds in their account before trading.

Investors wishing to trade derivatives or products other than equities are best served by choosing a broker linked to a major bank as smaller providers tend to have a more limited suite. Bell Financial for example only offers equities trading. But Selvarajah says it will soon expand to include contracts for difference [CFDs], options and international shares. As well as shares, CMC Markets offers CFDs, which is the company's core product globally. Both Bell and CMC Markets offer margin lending through third parties – Bell Direct clients must source a margin loan from another lender while CMC offers a Suncorp or St George margin loan.

For high net-worth traders, Watson points to CommSec and E*trade as good options. Watson says investors making trades of around \$15,000 to \$20,000 will pay a percentage of their trade value, and should compare this rather than standard headline rates.

“Because these trades tend to be at higher values, brokerage is important because these investors would pay considerable brokerage,” he says. “They also want fundamental and technical analysis because they are more sophisticated than mums and dads but perhaps [not as much as] frequent traders.”

Settlement accounts hold funds for the execution of a trade, so earning interest can be a significant factor for investors with large balances.

Westpac and CommSec pay the best interest rates on their settlement and investment accounts, while E*Trade pays the lowest.

Most major banks allow clients to use any local bank account with the capacity for direct debit as their settlement account but offer interest rate inducements to use their own.

Westpac's cash investment account pays 4.75 per cent on the full balance of the account or 5.65 per cent for customers who settle three or more trades each month.

CommSec only pays 0.25 per cent on its cash account but customers can transfer funds instantly to an investment account which pays 5.50 per cent without criteria. The NAB Cash Manager account pays 4.25 per cent while E*Trade pays between 0.1 percentage points on balances up to \$19,999 and 4.75 per cent on balances of more than \$100,000.

Online brokers are also using technology and social media to an increasing extent.

Many platforms enable clients to trade through their iPhones while Macquarie Edge allows investors to create trading communities.

Investors who have agreed to be in the same community can view the holdings of others in their network, chat, and see most held, traded and viewed stocks. CMC Markets is launching a markets blog which offers trading insights on the top 400 stocks.

The broker's co-head in Australia, Louis Cooper, has said the company wants to add several other applications in social media.

Tax reporting can be a time consuming task and E*Trade offers an integrated tax reporting tool which automatically captures clients' transactions to provide a detailed report for their tax return. Acting on client feedback, Bell Direct also offers a free financial summary report for tax purposes.

Stacking up

Comparing online brokers

Company name	Product name	Brokerage on trade value of \$10,000 (\$)	Brokerage on trade value of \$25,000 (\$)	Settlement account interest rate @ \$10,000 balance (%)	Credit availability
Amscot Discount Stockbroking	amscotOnline valueRate	14.85	22.00	4.75	No
Bell Direct	Silver	15.00	25.00	4.05	No
CMC Markets Stockbroking	Trading Account	11.00	27.50	1.85	No
CommSec	Share trades Internet Preferred	19.95	29.95	5.50	Yes
E*Trade	Standard	24.95	29.95	0.10	No
First Prudential Markets	FP Online	14.95	25.00	4.00	No
Macquarie Bank	Macquarie Edge (Regular Client)	28.95	30.00	1.00	No
Morrison Securities	htmlIRESS	20.00	20.00	0.00	No
NAB OnLine Trading	Casual	29.95	29.95	4.25	No
Bankwest	Casual	27.00	27.00	0.75	No
St George directshares	directshares Power	24.95	29.95	3.50	No
Suncorp	Share Trade	21.95	29.95	4.00	No
Trader Dealer	Rapid Trader Standard	19.50	27.50	4.25 - 4.75	No
Westpac Securities	Integrated Account	19.95	27.50	5.65	Yes

SOURCE: CANSTAR CANNEX (DATA AS OF APRIL 30, 2011)

The Australian Financial Review

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