
Online broking booming

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Investment is a click away. Photo: Illustration: Karl Hilzinger

Price is one factor that attracts investors but websites are also offering goodies to help pull in even more punters, writes Bina Brown.

Online brokers are now the preferred trading method for almost half of the country's shareholders. Whether it is a transaction over the internet or via a phone, about 46 per cent of investors use online brokers as their main method of trading, according to the Australian Securities Exchange 2010 Australian share ownership study.

The head of retail distribution at CommSec, Brian Phelps, attributes rising trading volumes online to the growing disenchantment with the advice investors received throughout the global financial crisis?

"A lot of people have decided to make decisions themselves," Phelps says. "And the beauty of online broking is they can do it in their own time and in their own space; all the tools are there."

With more investors looking to take control of their own investment decisions, competition for your online broking dollar is fierce. But with so much choice, where should you start? Independent outfits such as Canstar Cannex provide useful starting points for your own research (see "online trading stars"). Much depends on the type of investor you are or plan to be – whether you wish to buy and sell shares daily, or invest on a multi-year time horizon. And, of course, cost plays its part.

The bottom line

While the ASX survey didn't ask what it is about online broking that attracts investors?, independent research suggests price has a lot to do with it.

"Price is important but an online broker has to have a good, reliable service, otherwise it wouldn't get past the starting gate," the chief operating officer at research house Investment Trends, Tim Cobb, says.

Cobb says its latest online broking report reveals competition is intense between online brokers, which should spur existing providers to improve and innovate, as well as luring new entrants into the industry. All of which is positive for consumers.

And with a lot of investors still sitting on the sidelines, another area of competition is the interest rate?brokers are prepared to pay? customers with a linked cash account.

"There has been some very successful and competitive pricing going on between the providers," says Cobb, who adds? that market leader CommSec is doing well to hang on to its 50 per cent market share despite the competition.

After CommSec, 18 per cent of people who use an online broker say they use E*Trade, 8 per cent use Westpac, 7 per cent use National Australia Bank and 5 per cent use Bell Direct.

"If you haven't got the service or the product suite, then people will just get up and walk," Phelps says. He puts the online broker's continuing dominant position down to offering a broader product range to its 1.5 million clients.

CommSec's partnership with the Royal Bank of Scotland in international shares has been a big winner with its clients.

"Brokerage has been very strong because of the genuine interest by Australian investors to get involved in some of the big US companies and pick up some of the exchange-rate differential," Phelps says.

As well as rolling out a new website in the coming months, CommSec will be unveiling new offerings to its high-value customers including better research and charting to support its contracts for difference (CFD) and option-trading clients.

Cost is clearly a consideration to Westpac Online Investing, which recently slashed its brokerage from \$24.95 to a starting rate of \$19.95 for those customers who also hold their cash with the bank.

"Not only has brokerage become competitive but cash is an attractive proposition," the head of Westpac Online Investing, James Staltari says.

The 5.65 per cent interest paid by Westpac Online Investing is made up of a flat rate of 4.75 per cent for any cash balance, plus 0.9 per cent when a customer trades three or more times a month.

Staltari says while brokerage is clearly competitive, feedback from its customers is that price is not the only thing they look at when choosing an online trading platform.

Westpac has been focusing on expanding its research, range of investment options and building its mobile application. He says while shares remain the main focus of customers, increasingly they are wanting to invest in a broader range of assets, including foreign exchange, commodities, indices, contracts for difference, international shares, exchanged traded options and managed funds.

Beyond brokerage

The features you'll want from your online broker will tend to differ depending on whether you are a casual or active trader. Regardless of your investment style, the amount of company information and research available online is likely to be a useful springboard for your own thinking, the managing director of E*Trade, Stuart Sayers, says.

E*Trade has joined Commsec and Westpac in offering international share trading. A tax-reporting tool is also offered by E*Trade.

Customers who get the subscription service can also get access to "what if" scenarios that detail the tax implications of selling certain parcels of shares depending on when they were bought.

A financial analyst at Canstar Cannex, Joshua Zenas, says providers are ultimately trying to bridge the gap between what they offer in relation to their competitors. Some standard offers include the dynamic trading platform, research and analytical tools and educational resources. The offer of a linked margin loan and competitive interest rates for the cash sitting in settlement accounts is another enhancement.

Essentially, they are catering to the need of an investor who does not want to miss the opportunity to trade at a particular price and time, Zenas says.

Interest rates on settlement accounts range from 1 per cent from Macquarie Bank to 5.65 per cent from Westpac. CommSec and Westpac Securities also offer upfront credit for trading. Online brokers' main pitch is the ease with which clients can trade and the provision of tools required to make an informed decision - and all that with competitive pricing.

Providers are also keen to keep abreast with technological trends and developing applications so trades can be made using iPhones, iPads and Android smartphones.

All in a day's work

ANGELO CARAPELLA prefers to call himself a short-term trader rather than a day trader - even though he does most of his share trading in one day.

Most days start at 7am as he assesses what has happened in global markets overnight and predicts the likely impact on the local exchange.

Seated in front of three monitors - one for CommSec where he does his trading, one for "watchlists" of the stocks he's interested in and one for live company announcements and newsfeeds - his busiest times of day are at the market opening and close.

"As a short-term trader I look to enter a stock and take a small profit before I sell it and I might do that with the same stock several times a day," he says.

Having traded for himself for almost 10 years and with 20 years' experience in the financial markets, he has developed his own criteria for what and when to buy.

"I like high volume and a lot of liquidity. I like to know that when I buy a stock I can sell it just as easily. I also look for positive momentum and positive announcements associated with the company, which might drive the price up," Angelo says.

He has also learnt to stay disciplined and do nothing if he has to.

Angelo estimates 70 per cent of his time is spent reading and researching stocks.

When it comes to choosing which provider to go with, Angelo says: "It's the total package really. It's not just about the brokerage rates but if there is a technical difficulty with the trading platform, I know I can make a phone call and help will be there."

Battle on over fees

ONLINE brokerage pricing is no doubt a competitive area, with all players chopping and changing to boost their client base. With fees forming such a large part of their share-trading experience, this is good news for users.

Average brokerage fees on trades ranging from \$1000 to \$100,000 have fallen by 14.22 per cent this year.

CMC Markets led the charge by more than halving their brokerage from \$19.95 to \$9.90 for trades up to \$9900.

Traders spending more than this also benefited from a drop in trades above \$990 to 0.1 per cent. Canstar Cannex says this dramatic move in rates charged forced others to rethink their pricing.

Westpac and E*Trade followed CMC into the war in an effort to increase their market share. Westpac Securities reduced its brokerage of \$24.95 and \$29.95 to \$19.95 for trades up to \$18,137 and 0.11 per cent for higher amounts.

E*Trade moved a little differently by adjusting brokerage based on the number and value of trades. E*Trade's standard brokerage rates have dropped from \$32.95 to \$19.95. Brokerage is now \$19.95 on trades up to \$5000; \$24.95 on trades between \$5001 and \$10,000; \$29.95 on trades between \$10,001 and \$28,000; and 0.11 per cent for larger trades. The charge for a second trade and any subsequent trade each month is \$19.95 on trades up to \$18,000. After that, it is 0.11 per cent.

Canstar Cannex says the brokerage will affect different users in different ways. For infrequent low-value traders, a higher fee will lengthen the time

required to break even. Those with high trade volumes will find large brokerage rates will eat into their overall return.

The best platforms for market players

CANSTAR CANNEX rated 35 online broking platforms to determine which offered the best value for three different user profiles: casual investors, active investors and traders.

Casual investors transact about 10 times a year with an average transaction value of about \$10,000. For them, education tools, simplicity of use and cost really matter. Active investors average 60 trades a year, at about \$35,000 a transaction. They use the latest market information and data to determine their portfolio holding, so the quality of research tools and cost are important.

Traders are those who transact on average 480 times year, averaging about \$15,000 a trade. They use the latest market information to determine their portfolio holding. The availability of derivatives and a dynamic trading platform are also key considerations.

Canstar Cannex awarded brokers five stars across the three investor profiles. For casual investors, best value were CMC Markets' trader account, Bell Direct's silver platform and CommSec's internet preferred platform.

For active investors, Canstar's picks were Morrison Securities' htmliRESS platform, CommSec's internet preferred platform, Westpac Securities integrated account platform and E*Trade's standard platform.

For traders, CMC Markets' trading account, Amscot Discount Stockbroking's AmscotOnlineValueRate and First Prudential Market's webiRESS platform got five stars.

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