

Never an easier time to trade on the sharemarket

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If there is one aspect of the sharemarket in Australia that stands out at present, it's how easy it is to be a trader. Whether through direct shares or derivatives of shares like contracts for difference, exchange traded options or warrants, there is no shortage of options for those wishing to engage in trading activities.

A combination of online access via the internet, leverage through derivatives and reductions in the cost of transactions have continued to broaden the trading market.

That market has also lately become increasingly competitive as brokers have tussled to win market share, says Pawel Rokicki, senior analyst with financial market researcher Investment Trends.

While the online trading area is dominated by major brokers CommSec and E*Trade, with CommSec claiming it has just under half the market, they are facing some robust challenges from smaller firms like Bell Direct and CMC Markets.

According to Arnie Selvarajah, chief executive of online broker Bell Direct, it's not a bad time to be a challenger given traders are very cost-conscious in the current market environment.

Though in the difficult market conditions of 2011 many traders have moved to the sidelines, a solid core of serious traders remains.

Selvarajah says there are two main categories of traders: frequent traders who try to make a profit on every trade, and active investors who are building up portfolios by actively moving stocks in and out over time. While they ultimately all want to make money, the way they trade is quite different, he says.

What both groups have in common, he reckons, is a growing awareness of the costs of trading.

Rokicki says a focus on costs has led to smaller brokers like Bell and CMC making an impression in various ways by competing on brokerage, especially for new clients.

A feature of the past year has been downward pressure on brokerage rates with smaller brokers making impressive gains in the new accounts area. New traders are an important group with an estimated 27,000 newcomers starting to trade in the last six months of 2010, according to Investment Trends.

Bell Direct has strongly advertised a \$15 brokerage rate, and 9 per cent of new traders chose it as their primary broker; a further 21 per cent opened a second account with the broker. CMC Markets attracted 7 per cent of new clients, significantly higher than its overall 3 per cent market share.

While CommSec continues to be the market leader among traders, its 48 per cent share at the end of 2010 is a reduction on its 51 per cent share in a previous survey in May last year.

E*Trade followed in second place, with a steady 18 per cent of primary broking relationships, while Bell Direct overtook NAB OnLine Trading to rank equal third among frequent traders who trade at least four times a month.

Rokicki says costs are an issue among traders and as a result larger brokers have been looking to offer lower brokerage in a strategic way. But an Investment Trends survey of more than 6000 investors, which included 1500 frequent traders, noted that brokerage costs were not the major issue that influenced their trading involvement.

Whether they stayed trading or not was more likely to be driven by how the markets were performing. Trading and active investing is something that can see tens of thousands of investors each year move into and out of markets.

The most recent estimate by Investment Trends put the number of share traders and investors at about 520,000, down from about 590,000 a year earlier. Those who dropped out did so because of the market, with many, especially active investors, indicating they were choosing to sit on the sidelines while markets were directionless.

Where traders have continued to be involved in the market, Rokicki says, most are generally happy with the service they have been getting but are no doubt encouraged by strategic reductions in brokerage costs. Both Westpac and E*Trade, for example, have in recent times introduced lower minimums that allowed online trades

Buyer's market

- The big online traders such as CommSec and E*Trade are facing a robust challenge from smaller operators.
- Smaller brokers are winning a greater share of new clients as competition puts downward pressure on fees.
- Those dropping out are doing so because of a lack of direction in the market, not a lack of satisfaction with their brokers.

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About one in 20 indicated they might change their broker because they weren't happy with the service. But where brokers were charging competitive brokerage most people appeared to be more lenient about the service they accepted, he says.

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