

Swings in the market provide a playground for traders

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Online investors and CFD traders have reacted to the extraordinary volatility of the market in recent weeks, including the biggest one-day change ever seen on the Australian securities market, by diving straight back in to the market pool.

Online sites and CFD providers report major increases in volume and record numbers of applications for new accounts.

Part of the increase is traders taking advantage of market volatility – big money can be made from big swings for those who read the market correctly – but another part may be investors grabbing perceived bargains.

Louis Cooper, head of Australia and New Zealand for the CFD platform CMC Markets, says the platform received a record number of new applications in August and experienced major increases in volume.

He says part of the attraction is the volatility of the market, with part of the volume consisting of traders using CFDs to both go long and short the main market index product offered by the platform.

Other trading is mostly in foreign exchange, including the popular currency pairs such as the Australian dollar against the US dollar and the Australian dollar against the yen. In addition, there is a lot of trading in resources, notably gold and the main oil price series.

Little of this extra activity is about individual company stocks. When CMC Markets compiles lists of the top 25 of its most active products, the list does not include companies, Cooper says.

A survey of the CFD market by analytical firm Investment Trends conducted in May and released in mid-August found the number of active CFD traders rose slightly from 39,000 to 41,000 in the 12 months to May.

A second survey of 9000 active share traders by Investment Trends concerning online trading, released about a week after the CFD report, shows the number of Australians trading shares remained steady at 610,000 up to June of this year.

But Investment Trends senior analyst Pawel Rokicki says the survey deals with the first half of this year. There is anecdotal evidence that in the two months since the survey was taken trading volumes have increased sharply for all platforms.

Traders can always profit from a downswing in the market by selling short, just as they can profit by going long in an upswing. So the increase in volumes may be due to “investors reacting to the volatility”, Rokicki says.

The trading platforms are certainly reporting strong increases in volumes.

A spokesman for the Commonwealth Bank trading arm CommSec says the service has experienced “exceptionally high demand” with its clients seeing opportunities.

“We have seen strong buying behaviour with our busiest day being the 9th of August 2011, with approximately 170,000 trades. The second-biggest trading day was the 5th of August,” he says.

Chris Weston, an institutional dealer at the CFD provider IG Markets, also says there has been an increase in volumes to record levels, as well as an increase in new account openings.

A small percentage of that increase is due to traders who do not want to sell their portfolios, so they use CFDs to hedge.

Weston does not believe investors are looking for bargains in the present market, although shares are a great deal cheaper. But they are actively trading foreign exchange pairs, notably the Australian and US dollars, he says.

Virtual portfolio

- About 610,000 Australians trade shares online, although contracts for difference and currencies are gaining favour.
- Recent volatility resulted in an increase in volumes, with market leader CommSec hitting a record 170,000 trades in one day last month.
- Online trading platforms have been launched for use with smart phones and iPads.

One fund management group that has recently been urging investors to take another look at the Australian market, following recent falls, is Fidelity International.

Paul Taylor, head of Australian equities at Fidelity, says that due to recent volatility the Australian market is sitting on an average valuation of 10 times earnings, when it traditionally trades closer to 14 to 15 times earnings. It also has an average dividend yield of 5 per cent, which is equivalent to the return on some bank deposits, with the added advantage of franking and capital growth.

He says those are “attractive returns”.

“While I don’t think the Australia market is going to go from 10 back up to 14 to 15 times any time soon, I think maybe we will stay at 10 to 11 times and returns will come from the dividends paid, as well as earnings growth in the market,” he says.

Whatever the attractions of the Australian share market, online traders are shifting towards trading indices and foreign exchange.

Among other attractions in foreign exchange trading frequently cited by analysts is that the currency markets are open 24 hours and are more likely to hold trends. In contrast, security markets may jump suddenly, in particular open much higher or lower, in response to an announcement or to events overnight in another market. Among other problems they have been known to “gap” straight past stop-loss orders.

The most popular trading pair in Australia by far is the US dollar versus the Australian dollar, but the Australian dollar versus the euro and the cross-trading pair of the US dollar versus the euro, the most-traded pair in all markets, are also proving popular.

Through the recent market volatility the structure of the Australian online market has remained the same, with the market dominated by a few providers.

The recent online trading report from Investment Trends found CommSec continues to dominate the market with 50 per cent of active traders, up from 48 per cent in December. E*trade is second with a steady 18 per cent of primary broking relationships, followed by Westpac Online Investing (8 per cent), NAB Online Trading (6 per cent) and Bell Direct (5 per cent).

The report found that traders are less likely to switch brokers than last year, but the frequent traders section of the market is price-sensitive. Brokers who reduced their fees gained share in the frequent-trader section of the market.

Rokicki says e*trade increased its share of that segment when it cut brokerage in November last year, as did Westpac when it reduced charges early this year.

In the related market of CFD trading, the Investment Trend report shows IG Markets increased its share by 5 percentage points to 34 per cent in the year to May.

CMC Markets held its share at 20 per cent, followed by CommSec (8 per cent), then MF global, GFT and Macquarie Prime (all on 5 per cent).

One major factor in recent trading has been the growing popularity of the use of smart phones and iPads in mobile trading. The Investment Trends report notes that trading through smart phones is a fast-growing market niche.

In June, IG Markets launched what it billed as Australia’s first iPhone app to offer direct market access CFDs (that is, trading is directly linked to the underlying securities market, rather than through a CFD platform).

Now CMC Markets has released an application, CMC Trader, that permits trading from an iPad. In addition, CMC is offering a new product that allows a trader to adjust the gearing on his or her CFD portfolio, to suit individual risk strategies. CMC executives say this product is proving popular.

There are many other, similar applications offering a wide range of trading possibilities for different platforms.

The Australian Financial Review

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