

The online Trading Game



New Tools, New Traders & New Markets!

Online trading firms are using technology to help take individual traders into the hidden corners of the market. New opportunities have also opened up, with options on fire and growing interest in currency trading. With each online trading company claiming the most bells and whistles, shop around to find out which platform has the technology that's right for you.

BY GREGORY BERGMAN

There are four kinds of traders, according to Jay Prestricelli, Managing Director of **TD Ameritrade's** Active Trader Group: fundamental, technical, hybrid and emotional. Which one are you?

"The fundamental trader looks at traditional measures like p/e ratios, quarterly earnings and relative bargains such as Mad Money's Jim Cramer shouts about," says Pestricelli. "The technical trader looks strictly for technical momentum opportunities and wants to be the first in and first out. Then there's the hybrid trader who we see a lot of now. He trades on technical opportunities but restricts his universe of stocks to fundamentally strong securities. So he might get into Wal-Mart because of some technical opportunity but also because he thinks that Wal-Mart is just a funda-

mentally strong company that will never go bankrupt."

In spite of the increasing sophistication of the new trader, there's still one kind of trader out there who doesn't have what it takes. The emotional trader, who trades based on a hot stock tip from his uncle is still with us. "We try to help these unfortunate traders find their niche and get out of the recipe for failure," he sighs. "You have to take emotion out of buying and selling to be successful." Easier said than done.

Recently there has been increased emphasis on trading costs. And why not? Price matters. But whether you are talking about a \$7 online commission trade or an \$8 trade, technology and service is what the new trader should care most about, especially the more active one.

All of the online trading firms have their unique products. The defining

factor really depends on what kind of a trader you are and what platform you would feel most comfortable with.

Novices Need Not Apply

If you're relatively new at the online trading game, I wouldn't suggest you sign on with **Interactive Brokers**. In truth, neither would they.

"If you need a lot of hand-holding to understand what is a put and a call, you're better off with another firm," says Interactive Brokers Managing Director Steve Sanders. "But if you're an institution or an experienced, professional trader, then Interactive Brokers is the place for you."

The above privately-held online broker started as an options maker on the AMEX 30 years ago. "We are the dominant market maker in options around the world" claims Sanders. "As a leading market maker we have

thirty years experience in developing the best technology. Our biggest value to an active trader is that we offer them the same technology that we use for our own market making endeavors."

One of the few companies to offer foreign stocks and options on its trading platform, Interactive is tapping into the new trader's voracious desire to globalize. "We are very proud of our universal account," says Sanders. "It allows traders to both trade all asset classes from one account as well as trade in markets around the world."

Using the Interactive's universal account, a trader can trade foreign stocks using U.S. dollars. "For example, you could trade Japanese stocks in Japan by depositing U.S. dollars in

online trading pioneer **CyberTrader**. "We were bought not because of our client base but because of our technology," says CyberTrader Director of Sales and Marketing Trey Robinson. "Schwab realized the power of giving direct access to the individual trader."

Using CyberTrader pro, Schwab's platform for active traders, customers can take advantage of a robust charting package (customers can open as many charts as they want at no extra cost) as well as upwards of 50 different statistical studies. "We also see a lot of traders taking advantage of our back testing application," says Robinson.

"This allows traders to input a strategy against historical market results, enabling them to find any technical or theoretical flaws and gain confidence

market motion detector allows clients to analytically view the marketplace in a graphical format," says Pesticelli. "This helps clients identify how fast a stock price is changing."

The Market Motion Detector displays both price change velocity—the speed at which a stock's price is moving—and acceleration, the rate of change in that velocity. This helps traders pinpoint stocks that may be experiencing big price changes in short-term trends. Clients can widen or narrow their search to find the types of stocks they're interested in monitoring. They can screen by price, volume, time frame and the exchange on which the stocks trade.

This product is an especially useful tool for traders who want to get in and out of positions quickly. By

"It's more important to have the technology background than the market background. Markets move so fast now that it's better to be a programmer who can make sense of new information than a broker with 30 years market experience."—Steve Sanders, Interactive Brokers.

one of two ways," explains Sanders. "You can use the U.S. dollars as collateral for a loan to take out yen or you can use our forex platform to convert U.S. dollars to yen to buy the stock."

If You Like Options...

More beginner-friendly though still focused on active traders, Chicago-based **OptionsXpress Holdings** boasts that over 99% of their business comes from retail customers. "When it comes to trading technology to help our active, retail investors succeed, a lot of little equal a whole lot," says CEO David Kalt.

One example, "Portfolio Tags," will soon be available to help customers dig deeper in evaluating their portfolio performance. "Portfolio Tags will allow investors to group and track different trading strategies or assets," says Kalt. For example, a security may be categorized as tech, midcap, ETF, or growth and each group measured."

In 2000 Charles Schwab acquired

in their strategy before applying it to the real markets." If you lose money in a back testing dry run, you won't waste money trying a flawed technique in real time.

The underlying theory behind back testing is that any strategy that worked well in the past is likely to work well in the future and conversely, any strategy that performed poorly in the past is likely to perform poorly in the future. The growing use of such a product is a good example of the fact that today's traders are not just more informed or technically savvy, but also more disciplined.

"The days of 2000 and 2001 taught traders that they must have a definite trading strategy and be disciplined about its execution," says Robinson. Applications like CyberTrader's options level II and new "scanners" help customers find options contracts that meet particular investment objectives in today's sizzling options market.

Meanwhile, TD Ameritrade keeps improving its technology. "Our new

September, TD Ameritrade will join the select group of online trading firms including CyberTrader and Scottrade which offer Nasdaq TotalView. This next-generation software enables the online trader to see every bid and ask, a privilege formerly only available to powerful market makers.

Best Price Execution?

Another important way online trading firms are leveraging technology to help customers is by improving order execution. "We know what is probably the most important thing to our active traders, so we utilize the technology to give them best execution," claims Pesticelli. "As a result, 99.7% of our orders execute at the best price in the market. And when we don't get the best execution, we track it with our technology and re-bill them after we have found the best price. We do this automatically so the customer doesn't even have to call us."

Locking In Profits & Gains

Perhaps more important than assistance on what and when to buy, is

help on what and when to sell. Other firms use trigger tools and trailing to help traders hedge their risk of serious loss and protect their profits. For instance, you could base your conditions on something like: if my position drops 15% sell it out or if my stock is moving up I want to protect my profits with a trailing stop order." That way if you are forced to sell, your selling price will be continuously higher.

Unlike regular stop loss orders which operate by automatically issuing a sell if the price of the security drops to a certain price (thus protecting further loss), trailing stop orders operate on a percentage of the market price. This allows your stop loss to increase if

With the minefield cleared, millions of newcomers are braving this massive market, taking on the world's largest banks with sometimes as little as \$250 and an internet connection. "This is a new frontier for them," says Joseph Trevisani, Chief Market Analyst for **FX Solutions**. "The new trader doesn't feel pigeon-held to trade the same old things anymore. The greatest growth is in the retail and individual sector. In 2006 our accounts grew by about 100%."

The retail traders in this space are slightly different animals than in equities. "They thrive on volatility," says Trevisani. "There's a lot more inter-day price moves in currency trading so

**"Active trading will always fit in as a part of a client's overall investment strategy."
—Trey Robinson, CyberTrader**

the price of the stock continues to rise, thus locking in a profit.

But it isn't just the big guns in the online trading industry that are empowering the individual trader in a way that no one would have envisioned a decade ago. Smaller firms are also using technology to win new customers and open new markets at the same time.

Betting Against Banks & Hedge Funds

For over 30 years, hedge funds and banks have traded foreign currencies amongst each other, creating by far the world's largest market, with approximately \$2 trillion traded daily. In 1999, retail traders were introduced to this "interbank" or "forex" market for the first time.

Many of the new sheep were shorn. Conmen set up phony companies and stole money from retail traders. Soon these scams became notoriously widespread. Responding in 2000, President Clinton enacted the Commodity Modernization Act, which, among other things, gave the NFA (National Futures Association) and the CFTC (Commodity Futures Trading Association) the power to regulate companies trading foreign exchange. This forced companies to be licensed and adhere to strict guidelines aimed to protect online traders.

there is a lot of action for the active trader." Where there is more action, however, there is naturally more risk too. Forex trading is more volatile because, unlike the equities markets, there are no specialists and therefore no one required to provide an orderly market.

To help customers take advantage of this volatility, FX Solutions has recently released FX AccuCharts, its most advanced charting application to date. "For a trader, nothing is more important than price accuracy," says Trevisani. "The best charting system in the world is second rate if its price information is not accurate, clean and fast. With the FX AccuCharts you not only have a top notch charting system, but you receive the exclusive FX Solutions proprietary price feed, perhaps the best in the business."

Another fast-growing forex trading firm is **Interbank FX**. Growing over 10% each month, Interbank highlights trading technology such as its dynamic trailing stop loss as the reason its customers are making a profit. "Most industry leaders and analysts believe that only 15% of customers are profitable trading forex," claims Todd Crosland, Chairman and CEO of Interbank. "But our data shows that over the last 18 months around 47% of our standard accounts were profitable. Based upon our data, we feel that we have some of the most prof-

itable customers in the world."

The company will introduce Interbank FX debit and credit cards, developed to give traders easier access to their margin account, especially traders outside the U.S. "We have a very busy wire service where we charge about \$25 in fees," says Crosland. "The new debit card will allow a trader to add money to his debit account with no fees." Also, its platinum credit card allows customers to earn air miles for every trade-a bank rewards plan for the active trader.

Market Data Goes Wireless

For the trader on the move, how about real-time streaming market data for hand-held wireless devices? "Right now we are in the really exciting 1994 phase of the internet in relation to the wireless space," says Dave Shworan CEO of **QuoteMedia**. Its Quotestream Wireless operates as an integral part of an overall portfolio management system that has helped QuoteMedia become the Wal-Mart of market data. "We're a one stop shop," says Shworan. "We developed our unique applications because we understood that many traders and investors get different information from a variety of places. We knew that there was a better way for retail traders to get the information they need."

QuoteMedia leverages technology to power other companies' websites seamlessly behind the scenes. High-profile clients include Forbes.com and Nasdaq. "When we got the call that Nasdaq wanted to buy data from QuoteMedia, that was a very good day, indeed," Shworan says with a smile.

QuoteMedia's portfolio management system enables users to access various levels of market data and quotes based upon the entitlements of the user. For instance, if a customer signs up for real-time market data, that customer will be able to access real-time market data powered by QuoteMedia on any one of QuoteMedia's clients' sites. All the customer has to do is log in. "If the customer is signed up for real-time, any product or website we power will be in real-time for that customer. Because our applications are all embedded in our clients' sites, the

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