IT Tech Essay, Research Paper

Full-Service Firms Will Bring More Spice to Web-Trading War

Investors who have invested online at discount web sites may drop their current service provider and go to a full service firm. Full service firms such as Merril Lynch, Salomon Smith Barney and Paine Webber have entered into the online web trading war. The only catch is, unlike the discount firms; the full service firms offer professional advice. The full service firms have dropped commission rates and fees for online trading. The prices are still not as low as the discount firms, but worth the price for the available advisors and their expertise. Industry analysts have suggested that a lot of the discount firms will lose a lot of business due to the recent service offerings by the big names.

Merril Lynch & Co. led the way this summer by pulling in $16 billion in assets from its online trading. It accumulated those assets in the first three months of its program. A similar fee based program without web trading took five years to attract $24 billion in assets. Lynch offers human advice and unlimited web trading for a flat annual fee. The stronger growth rate for Lynch?s new advice/web trading account might be an indication that investors were looking for a full service firm to step up and offer cheaper flat-fee rates. It could suggest that Internet trades with access to professional human advice, which is a key asset of full-service brokerage firms, could stunt the growth of the discount web firms, with their cut rate commissions and little advice. Lynch says that most of its assets in the web program came from existing customers that transferred from other plans. Yet, the firm says 20% of the asses came from new accounts. Lynch?s total account assets amount to $1.5 trillion.

Analysts say that as online investors become older, wealthier and more adverse to risk, they will seek out these full service firms for more guidance rather than going with decisions based on their opinion only. From 1992 to 1995, values of the portfolios of online more than doubled. ?As this market has matured, more risk averse people have come online,? says Rob Sterling of Jupiter Communications. Also as more and more money gets involved, investors will seek out advice from the pros. Guy Moszkowski of Salomon Smith Barney said investors won?t want risk trading on their own ?an amount of money that?s not peanuts. Forrester Research n Cambridge Massachusetts has some interesting estimates. They expect the amount of money in an online investor?s account to grow on an average from $69000 to $121000 this year. They expect accounts to grow to $3 trillion in 2003 from $374 billion this year. The number of accounts will explode to 20.4 million from 5.4 million currently. They also predict that full service brokers share of online assets will grow to 45% by the year 2003. Forrester also says that the number of accounts at full service firms will increase by more than 4000% within the next four years.

Etrade Group Inc. saw its account base grow by 310000 in the 3rd quarter. Fidelity Investments surpassed Charles Schwab Corp. as the No. 1 web broker in terms of accounts in the third quarter. Both have accounts totaling over 3 million. This shows that the full service firms still have way to go before putting the discount firms out of business. ?The net has empowered people more. They want a lot of choice in financial services,? says Mr. Moszkowski. Nevertheless, discount brokers have recognized the trend towards advice and management as well. They have been stepping up their own offerings as far as advice and other added services. The race is on and will be close for many, many years to come.