

The Future of the current retail FX & CFD brokerage model- Guest Editorial

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Australia, UK and Germany are now becoming extremely mature markets in the CFD & Forex space, with a few of the largest brokering firms enjoying a stranglehold on the majority of retail traders. Given how mature the market is, it is becoming harder for the small, up and coming CFD or FX firms to enjoy the success of their much larger counterparts.

Today I'm going to take a look at the future of the Forex & CFD companies, given the warning signals showing up and how companies might be able to better position themselves for the change in direction.

From 2014 to 2015, the Australian CFD industry grew a meager 2%, from 42,000 traders to 43,000. In contrast, during the boom period, the CFD market was growing at a staggering 100% per annum, but then the GFC put a dampener on that.

Cost to acquire a new Forex or CFD client

Back in the heyday, securing a new client who deposited funds and actually placed a trade was as low as \$100 – \$150. Then costs began to escalate over the years until \$600-\$700 was considered the norm.

Nowadays, it is not uncommon for most companies to be paying in excess of \$1,000 – \$2,000 per live trading account. The CFD & Forex industry is an expensive business due to the escalation of global competition, in this very lucrative field.

Remuneration to IBs and affiliate partners

Another red flag is the lucrative Introducing Broker (IB) and affiliate space. Many years ago the smart brokers formed alliances and partnerships with the top educators in the key countries, ran endorsed email campaigns and joint seminars, and secured a solid revenue stream for the new partner. It was a golden period of time.



Ashley Jessen

Unfortunately, there has been a track record of some of the biggest CFD & FX brokers cutting their affiliates off and taking over the very nice income stream from the partners' clients, leaving a sour taste in the affiliates mouth.

Zero pip spreads and ultra-low brokerage fees

You may have noticed how razor thin Forex spreads are getting, with many brokers now offering zero spreads across a wide range of currency pairs. Granted, you normally have to pay a nominal brokerage fee in order to access these fleeting zero pip spreads, but still, they are there. I have seen them.

With spreads and brokerage rates falling faster than the Swiss Franc on January 15, where is the money coming from in order to pay IBs and earn commissions?

Binary Options providing a window of opportunity for CFD & Forex brokers

Binary option brokers have started to pop up everywhere, with many of the big players introducing them as part of their offering. Here are a few of the top binary options brokers in Australia.

- CMC Markets Countdowns
- IG Sprints
- GO Markets Binaries

High Low Markets

Binary Option brokers are renowned for giving highly incentivised deposit bonus opportunities, with many of the offshore Binary options sales people among the most persistent in the industry. Many family members and friends continue to tell me how often these offshore binary options brokers call them to get them to open an account with cash bonuses.

So long as you understand the nature of Binary Options and are not under the expectation you are going to be swimming in a literal pool of cash from trading them, then the product itself actually provides an opportunity unlike normal CFD trading.

Veteran traders aren't interested in the Binary Option concept but many newbies seem to gravitate towards them. The reason for that is the simplicity of the product. If you have a spare 5, 10, 30 or 60 minutes, you can allocate a small portion of money to the trade and literally have a punt on the direction after the set time frame.

Being able to trade on a lower time frame is the real appeal of this product. I often think of a group of traders sitting around a lunch room with the binary options platform on their mobile device having a bit of fun between them, going for quick 5-10 min Forex bets to see who can turn \$5 into something bigger.

The nature of Binary Options brokers

The very nature of off-exchange Binary Options is that you are taking a punt on the direction of the instrument you are looking at and trying to predict if it will be higher or lower after a set time frame. Local regulators such as ASIC and the FSA have done a great job in ensuring CFD, Forex and Binary Options companies are not able to promise the world or suggest they are a potential path to riches.

Short term gains

So many brokers have jumped in to the lucrative Binaries space, including the big players, but before long, they are going to run in to the same situation as both the CFD & Forex space. The amount of new 'blood' required to keep the dollars ticking over, means the marketing budget has to continue to get bigger and bigger in order to net the same result.

The Forex & CFD market continues to become more educated

One of the positives of all this is the retail market has continued to become more informed and are now starting to ask more qualifying questions of their brokers. Finally, we are starting to see the less scrupulous CFD & FX brokers going by the wayside, whilst the more established brokers, offering a secure price feed and doing the right thing by their clients, continue to gather more and more market share.

Instead of asking for the best deposit bonus or account opening offers, the more informed retail trader is now asking about:

- How strong are your price feeds?
- What Prime of prime brokers are you using?
- Do you have a direct relationship with a Prime Broker (PB)?
- Where do you aggregate your prices from?
- What FX brokerage rate can you offer if I'm turning over X yards per month?
- What platforms do I have access to?
- What is your back office reporting like?

- What incentives or rebates do you have for doing X volume per month?
- What access do I get to your top analysts?
- As you can see, the conversation has moved away from deposit bonuses or free mobile phones (got a few of these back in the day) to the actual things that help you become a more consistently profitable trader.

So what is the future for Forex & CFD brokers around the globe?

Client retention, sophisticated data analytics and access to quant trading strategies seem to be popping up more and more amongst the leading companies.

Think about it...

If you already have significant market share, brokerage rates and spreads continue to get more competitive, the cost to acquire a new client continues to rise and sales staff are getting more edgy, then the key focus has to be client retention.

Client retention and doing everything you can for your key clients is the business now

In every market there is a golden period of time. The period when you mix new technology with existing markets and the new players don't just get excited, but they actually create a mini revolution to get on board the rising tidal wave.

For the CFD and Forex space it was 2004 – 2007, then again from 2012 – 2015, albeit the later years were not nearly as exciting as the first period.

In reality, the big CFD & Forex brokers have secured a pretty hefty market share and they aren't likely to lose control any time soon. Instead, their focus is on providing the best tools, customer service and education they can in order to keep their clients satisfied. They will do this through a mix of content marketing, online video (getting bigger and bigger) and partnering with recommendation services who are good at what they do.

An exciting new Fintech product launch

Here at Profile Booster, we have been in touch with a new startup company who will be launching mid-2016, providing portfolio management tools which are the most advanced we have ever seen. This innovative company has decided to bring institutional style portfolio management tools, along with advanced algorithms to determine the most probable direction of price movement, to the retail trader.

To be honest, I've never been so excited about a product launch as I have sitting with this man, hearing his vision and the technology underpinning his new service. We promise to let the cat out of the bag in due course. We'll update this post when it happens.

Fintech tools and the future for Forex and CFD brokerage firms

There is no mistake in the rise and rise of the new breed of Fintech companies. Some of the most innovative technologies and services are hitting the market with amazing regularity.

One angle some CFD & FX companies are taking is to offer ETFs in with their current range of trading instruments. This allows the less aggressive trader to access ETFs with leverage and diversify their portfolio with the one instrument. We saw last year that IG had partnered with Blackrock in order to offer ETFs as part of their overall suite of trading instruments.

Thematic investing and simplified portfolio investing

One of the biggest entries into the investing world over the last few years is thematic and managed investing, allowing investors to build a managed, well diversified portfolio and in many cases, significantly reduce their management fees.

Here is a list of some of the biggest managed/personal investment (Robo Advice) companies both here in Australia and abroad:

- Motif Investing
- StockSpot
- Quiet Growth
- InvestSmart
- Ignition Wealth
- Capital U
- Covestor
- Wealth Front
- Betterment
- Folio Investing
- Merrilledge

To be honest, it is hard to keep up with the new robo advisor style companies popping up, there are just that many of them. The good news for you and I as investors, is that the more competition, the lower our costs of doing business. All of these companies are focused on the growing Self Managed Super Fund (SMSF) space and for very good reasons.

There have been a number of articles written about the Robo Advice companies such as [here](#), [here](#) and [here](#).

One of the first companies to access the thematic portfolio management services in Australia using leverage was InVest. Their PortfolioInvestor product allows traders and investors to identify their preferred market themes (such as cyber security, driver-less cars and biotechnology and robotics to name a few) , and have their portfolio

professional managed and rebalanced throughout the year as market conditions change.

The future of Forex & CFDs companies is looking good

The next wave of technological advancements and innovative product offerings are starting to become more common place among the retail investment public. Not only that, but CFD & Forex providers are starting to add these tools to their current platform providing more resources for the savvy investor to take advantage of.

So whether you are an established broker, a new broker looking to grow your book or an individual retail trader/investor, the future is looking extremely bright.

Photograph courtesy of NASDAQ