Three Reasons why CFD Traders Are Sitting on the Sidelines

Contrary to the expectations of many, the Australian CFD market has declined considerably in 2016 - why is this?


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View the full article at http://www.financemagnates.com/forex/bloggers/three-reasons-cfd-traders-sitting-sidelines/

Despite ongoing market volatility, the Australian Contract for Difference (CFD) market shrank in 2016 according to the latest industry survey.

The 2016 Investment Trends report showed that the Australian CFD market declined despite increased market volatility during the survey period. In 2015 there were 49,000 active CFD traders in Australia. In 2016, this number dropped to 37,000 active traders.

Surprise in numbers

“The numbers came in as somewhat surprising because in earlier years we’ve seen more traders get into the market when volatility sets in. But this time, it seems that volatility has not attracted as many traders as expected,” said Dr Irene Guiamatsia, senior analyst at Investment Trends.

“The number of those entering the market for the first time was on par with a year ago, but many previously active clients stopped trading as they struggled to identify good investment opportunities,” she added.

During last year’s survey Investment Trends was forecasting a healthy influx of CFD traders due to the positive sentiment and expression of interest from new traders. But somehow the positive intentions did not translate to actual numbers of CFD traders this year.

# of Active CFD Traders in Australia

YEAR	# of Traders
2014	42,000
2015	43,000
2016	37,000

Source: Investment Trends

CFD providers confirm numbers

While Investment Trends was surprised with their findings, it seems that CFD providers were not. In fact, the providers confirmed the survey figures, which suggest that CFD providers knew all along that the number of active traders was dwindling.

As of writing, no CFD provider has responded to our request for comments on these latest results.

Top three reasons why CFD traders are sitting on the sidelines

Last year, Investment Trends said it was expecting a healthy number of new CFD providers to enter the market based on trader indication and sentiment. But the fact that the numbers declined this year means that those who intended to trade did not.

If we look closely and consider what happened in the market during the survey period, we could see at least three reasons why CFD traders are sitting on the sidelines, which explain the drop in the number of active CFD traders.

Reason #1 – Market volatility

While before market volatility could inspire and attract traders into the market, it seems that the market volatility this year did the reverse for traders. It discouraged them from trading.

Volatility could create trading opportunities, but if volatility is too much, it could also create fear and uncertainty in traders' minds. And this year, it seems that traders were overwhelmed by the volatility in the market, hence their decision to stay on the sidelines.

Looking at the numbers closely, the survey found that there's no lack of new traders coming into the market. But what happened was those who were already trading have scaled down on their trading activity. And most of those who expressed their intentions to start trading last year, did not actually carry out their plans.

Reason #2 – Regulatory changes

While Australia is one of the most tightly regulated CFD markets in the world, more regulations continue to be introduced and implemented by the Australian Securities and Investments Commission (ASIC), the country's premier regulatory body for financial services.

At the same time, there were some industry shakeups that saw a number of overseas providers closing shop or abandoning their Australian operations. Whether this was due to increasing regulatory requirements for CFD providers or the fact that it is getting harder to get new trading clients in Australia, is still debatable.

Reason #3 – Need for more trading education

One of the interesting findings of the survey revolved around trading education. Apparently, CFD traders, particularly the new ones, want more trading education from their providers. Whether it is through seminars, webinars or other education materials, it seems that new traders recognise their need to be educated on CFD trading and trading in general.

And this is one area where CFD providers seem to be focusing this year, with a number of providers beefing up their webinar and seminar programs. While the days of face-to-face seminars may not come back to their previous levels, these days traders are more willing to attend webinars offered by CFD providers.

CFD traders want to switch providers

According to the same survey, the number of CFD traders looking to switch providers is on the rise.

Just under half of active CFD traders are open to switching providers over the next 12 months (44%, up from 35% a year ago). The survey found out that a third of that group is undecided as to which provider they will choose.

"There is a clear need for providers to uphold the highest possible standard of service to keep their clients happy. At the same time this shows that client acquisition opportunities abound for those who are better able to showcase their value proposition to traders open to making a move," said Guiamatsia.

An interesting detail from the survey showed that the big CFD providers are not winning new clients in a big way. But they are able to keep their active trading clients. Other providers though are very successful in attracting relatively new and younger traders who want to switch providers, which explains the cut-throat competition in this segment of the market.

The regulatory environment

Su-King Hii, principal at InnoInvest, a premier advisor in the Australian Financial Services sector, said: “ASIC will continue to apply a close scrutiny on the CFD and FX industry in the foreseeable future.”

At the same time, he said that there are pending laws and regulations that may also bring more changes to the industry including:

- Pending legislation or new laws to further tighten client money rules
- New laws that will give ASIC more enhanced powers to approve change in ownership of licensees, and the power to intervene in product designs.

According to Mr Hii: “We are about to see potentially more changes in the regulatory environment. It is not inconceivable to think that ASIC may be very proactive in dictating how CFD and FX products are delivered.”

Tough regulatory environment a boost to providers

As a compliance and regulatory advisor, Mr Hii said the existing regulatory environment in Australia is healthy and provides a strong level playing field for CFD providers.

He said: “I don’t believe ASIC’s tough regulatory approach should deter brokers from thriving. In fact, there are many brokers who do the right thing and operate their businesses in a compliant manner,”

“A lot of the issues raised by ASIC are matters of common sense. It is not difficult to put a proper compliance framework in place, and it is not hard to monitor the employees and representatives, and document the processes.”

Possible industry consolidation

As we’ve pointed out in an earlier article about the CFD and FX industry, the coming of binary options and fintech companies may also impact this industry. However, the more immediate possibility is that of consolidation – whether through mergers and acquisitions or joint ventures among current CFD providers.

While the market continues to attract new entrants – both internationally and locally – the economics of acquiring, retaining and keeping trading clients active has changed rapidly over the past few years. This means the market is getting more competitive each day and with new regulations coming in, it may be just a matter of time before we see more consolidation in the industry.