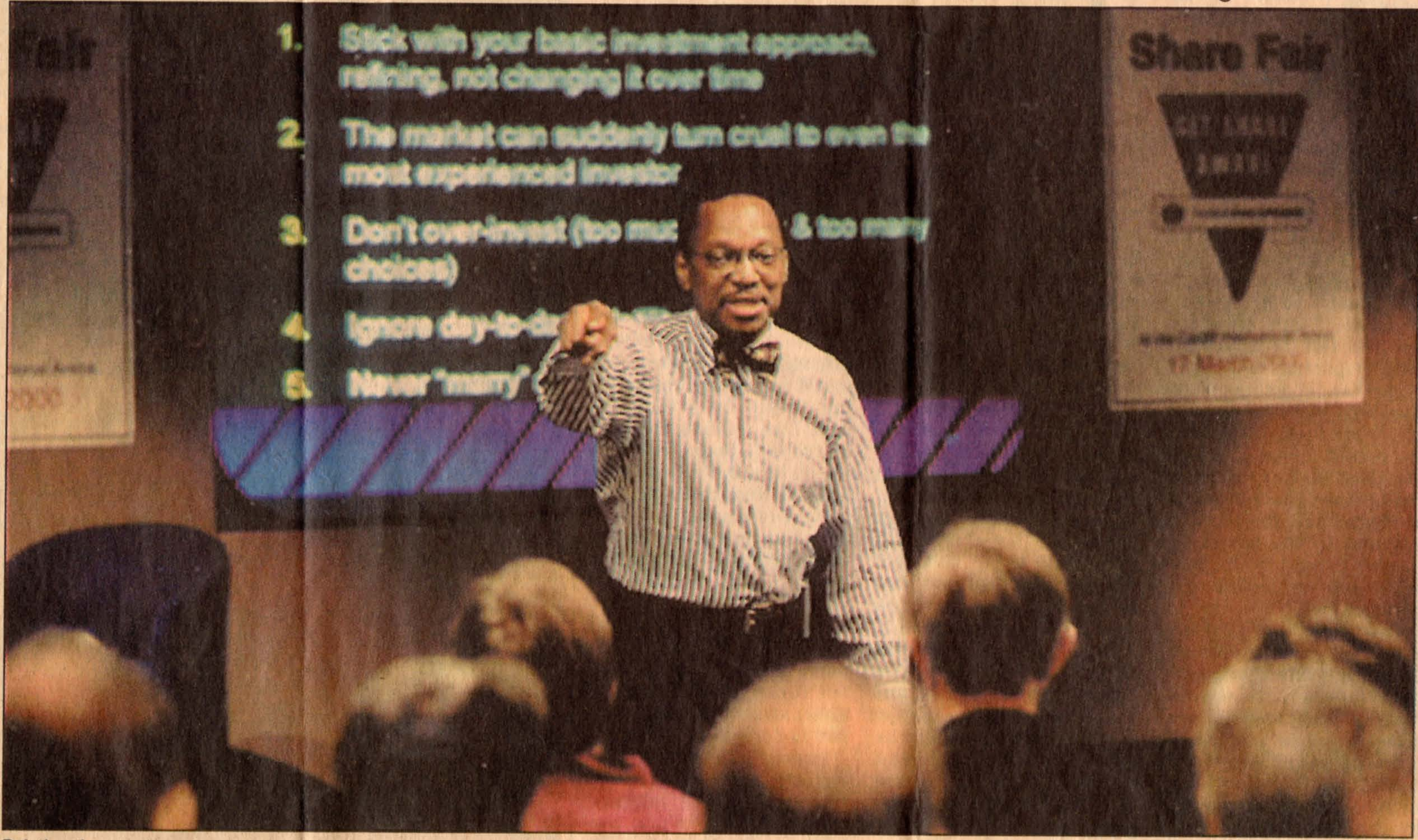
Private online investors get a raw deal

Patrick Jenkins says internet share-trading remains costly because there are too few brokers to meet the fast-rising demand



Pointing the way: investment guru Alvin Hall at a London Stock Exchange seminar in Cardiff. Of the UK's 12m private shareholders, only 1m trade reasonably actively

Stockbrokers have been dragged, with briefcases flying, into the 21st century. Whether you're flicking through the weekend newspapers, driving past billboards or watching peak-time television, you will be confronted with upbeat images of share-trading internet sites.

Yesterday's launch of two new online brokers – Virgin Money and Comdirect, the UK arm of Germany's leading online broker – takes the number in this country to 25, nearly twice as many as a year ago.

For a competitive market, however, prices are still high. In the US, online brokers buy and sell shares for as little as $8 (£5.20) a deal. In continental Europe, too, commissions are lower at as little as €12 (£7.60). In the UK, most online brokers charge at least £13 or £14.

The reason? The number of private investors trading online is growing faster than the number of stockbrokers. "I reckon there are between 300,000 and 350,000 people trading online," says Peregrine Rivière, financial services analyst at Morgan Stanley Dean Witter. "That's three times as many as a year ago."

The resulting lack of competitive pressure means private investors are getting a raw deal – on prices and on service too.

UK websites tend to lack the technical wizardry evident on sites in the US and Sweden, for example. The choice seems to be between slow-running fancy graphics and added value or fast but embarrassingly simple sites with no back-up.

"In Sweden, you get speed and quality," says Susan Sternglass, a board member at Swedish broker Avanza. "Deals cost a flat €12."

The range of shares available to UK online traders is also poor. Only five of the 25 sites allow trading in foreign shares. The only one that gives access to a decent range of European shares – e-cortal – hosts corrupted software and has no physical presence in the UK.

The sites' failings may explain why trading volumes have fallen away over the past few months. But the stock market itself must share some of the blame – not least for the burnt fingers that many new investors got in the technology stock frenzy late last year and early this year.

To its credit, the London Stock Exchange is trying to convince potential investors of the merits of long-term investment and the demerits of short-term speculation. A programme of recent "share aware" roadshows around the country will culminate in Sharex, a two-day show at the London Olympia exhibition centre in September.

Signs of improvement among the brokers are emerging too. Flat-rate dealing is replacing the traditional broker model of charging on a sliding scale for bigger deals.

I-Dealing's launch last month – with £10 a deal flat commissions – kindled hope of lower flat-rate prices market-wide. Even Barclays Stockbrokers, one of the sector's most traditional operators, admitted average prices would probably stabilise at that kind of level – but saw no reason to cut its own.

New launches since then have thwarted talk of a price war, with flat-rate commissions pitched at between £12.50 and £14.95. But Virgin and Selftrade, France's leading broker, may have sounded the death knell of the annual management fee.

The UK has about 12m private shareholders, of whom only 1m trade reasonably actively. The fast growth in online dealing has been because of the migration of those regular traders from telephone or face-to-face business to internet dealing. But observers expect the supply of easy business to run out soon.

Finding new customers will be more challenging. "The UK is already an equities culture," says Mr Rivière. "There'll just need to be a stimulation of those 11m inactive shareholders."

If online dealing is going to get cheaper, that is when it will happen.