MONEY

AVERAGE MORTGAGE APPROVAL IN OCTOBER

€269,000

UP 7% ON OCTOBER 2020

AVERAGE LOAN FOR A MOVER-PURCHASER RISES

11.9%

TO A RECORD €304,000

SOURCE: CENTRAL BANK OF IRELAND

Rookie investors ride the share-trading revolution

Online platforms let you play the markets from the comfort of your own bedroom, but beware the hidden charges, writes *Eithne Dunne*

ALAMY

Even a bull market can throw the armchair investor who fails to take the right precautions

A growing number of investors are bypassing traditional broker routes in favour of online platforms, according to recent research from the consumer protection watchdog.

Degiro, Plus500, Etoro, Interactive Brokers and Bux Zero, as well as Davy Select and Goodbody Connect, all offer ways to invest simply – online or through an app – on an "execution-only" basis, meaning they offer no advice. The platforms make it easier and, in most cases, cheaper to get into the stock market.

Whether you think these represent a democratisation of investing, by opening markets to the masses, or a disaster waiting to happen, these stripped-down investment portals are striking a chord.

The Competition and Consumer Protection Commission (CCPC) found one in four people use online trading or financial provider apps to invest. The preference was particularly marked among those under the age of 35, with more than one in three saying they would use an online trading platform such as Etoro.

A similar percentage would use an online financial services provider such as Revolut to invest. Just 22 per cent said they would invest through a bank or investment company. Only one in ten would use a traditional broker.

Derek English, an engineer who blogs through engineermyfreedom.com and hosts the *Dividend Talk* podcast, has set his sights on achieving financial independence. He has used both Degiro and Interactive Brokers. While he generally prefers to support Irish firms, he found domestic online broker offerings far more expensive.

"My strategy involves buying shares of individual companies every month from a portion of my salary; therefore, fees will hugely impact my total returns," he says. "Both Degiro and Interactive Brokers' fees are extremely low. I pay roughly 50c for 100 shares of an American company on both. I use Degiro for mostly European companies, and pay €4 for 100 shares."

English says he initially chose Degiro because of its low fees and its reputation via online reviews. "I have reached out to their customer service team a couple of times and found them outstanding."

He says the platform's user experience is good. "While a little bare, the dashboards are clean and it is easy to find what you are looking for."

English subsequently opened an account with Interactive Brokers to take advantage of a wider choice of American companies. He says the fees are similar but the platform is more challenging to navigate. He would recommend either platform to novices, particularly those starting with smaller balances and planning to add cash regularly.

"Do your homework and start small. Get familiar with the platform, then deposit and withdraw a small amount to see if you like it and are comfortable leaving your investment with the broker."

Ben Luong, a freelance Google Analytics consultant based in Limerick, has accounts with Degiro, Interactive Brokers and Bux Zero. He sees no point in paying higher fees to use the platforms of the longer-established Irish brokers. "A share in Google is a share in Google; it doesn't matter which app you buy it through," he says.

"You pick the stock you want to buy, and they buy on your behalf. Some have certain shares or funds you can buy while others don't, but if you're a middle-of-the-road investor who wants to buy, say, an S&P 500 fund, they're all pretty much the same."

Luong has done some spread betting online – this is tax-free as it is deemed gambling – but says he would not touch cryptocurrencies with a bargepole.

Charges

Online, execution-only platforms generally charge far lower fees than the traditional route. That said, some charge markedly more than others.

There are broadly two types of fee: trading fees or commission when you conduct a trade; and non-trading fees for when you leave your account inactive, or deposit or withdraw money. Trading fees are low across most platforms, with some notable exceptions, and often cheaper platforms do not apply non-trading fees.

For example, Bux Zero charges €1 per trade on EU shares and exchange-traded funds (ETFs) and nothing on US shares, while Degiro introduced commission-free trading on US shares last month.

Degiro also offers free trades on a selection of ETFs but charges a small commission elsewhere, and from December 20 will introduce a "handling charge" of 50c on most trades.

Goodbody has a minimum fee of €25 per trade, and charges 1 per cent up to €25,000 and 0.5 per cent thereafter.

The pricier brokers also apply maintenance-type charges. Goodbody's is €100 a year while Davy's is €50 a quarter, or €200 a year, although any commissions you pay will be deducted from this. Degiro, meanwhile, charges a maximum of €2.50 per exchange a year.

While the lower-cost online brokers generally have low or zero minimum investment thresholds, Davy and Goodbody require at least €500 and €5,000 respectively to get started.

According to Ken Darmody, head of transformation and digital channels at Goodbody, the firm is satisfied its average customer is not paying significantly more than customers of discount brokers. "While we have self-service features like discount brokers have, we do not charge online customers extra if they want to communicate with us via any of our other channels, or if they want to visit us in one of our offices," he adds. "That one-on-one service is a key differentiator."

Regulation and risks

If the worst happens and you invest via a platform that goes bust, you should have some comeback as long as it is regulated.

Davy, Goodbody and Interactive Brokers are regulated by the Central Bank of Ireland and therefore come under the Irish investor compensation scheme. Others, such as Degiro, Etoro and Bux Zero, are regulated in other EU member states. They have "passported" their services into Ireland, and although the Central Bank oversees them for conduct of business rules, investors are not covered by the Irish compensation scheme.

They may be covered by a similar scheme depending on where the platform is regulated. Degiro is regulated in Germany, Etoro in Cyprus and Bux Zero in the Netherlands.

Colin Gregan, managing director at the Institute of Investing & Financial Trading, says regulation is important. He cites the example of MF Global, which collapsed into bankruptcy in 2011, and its founder Jon Corzine, who used customer funds to cover more than $1 billion in losses.

Gregan's other tips to online investors include keeping an eye on the spread: basically the difference between the bid and ask price for a particular asset. "The wider the spread, the more expensive the stock or product becomes," he says.

Finally, he advises new investors to remember that some platforms allow leveraging – that is, buying and selling more than you have deposited – which he warns can be dangerous. He says: "Contracts for difference [a leveraged product] caused a lot of grief for Irish investors during the financial crash."

A spokeswoman for the Central Bank says its main advice to investors using online platforms is never to invest more than they can afford to lose.

The regulator has also issued warnings on investing during periods of market volatility, and investing in cryptocurrencies, which are available on some platforms such as Etoro.

"Investment products can be highly complex so it is essential consumers understand the type of product they are investing in," Grainne Griffin, director of communications at the CCPC, says.

"There is a danger that some could find themselves in a financially precarious position where they have invested in a product that does not suit their needs or is too risky given their circumstances."

She says investors need to be clear on how their investment product works, whether it is regulated, and what taxes and fees apply. One in six investors do not understand the fees and taxes involved, according to the CCPC's findings.

For example, check whether you will pay exit tax or capital gains tax on your profits. The first is 41 per cent and applies every eight years, while the second is 33 per cent and applies when you sell.

€? QUESTION OF MONEY

I have been sitting on about €140,000 in my current account for the past year. It's what was left over when I sold a property. I keep reading about inflation and how banks are paying no interest and might start paying negative interest, and so on.

I'm starting to panic this money will drop in value if I leave it, but I don't know what to do with it. I don't need the money for anything in particular now. I'm not married, have no children or mortgage, and have what I think is a decent pension through work. I will go to an adviser but I prefer to have some ideas myself about what I should do with it before going in. I would appreciate some ideas of where to put this money and how much to keep back in my account.

GS, Co Tipperary

Your question is one that is on the lips of thousands of people in Ireland. Even in times of normal inflation the purchasing power of money reduces quickly. Current high rates of inflation are a big problem for savers.

Many people who have contributed to a pension all their working lives have a — not unreasonable — expectation that they will have adequate income in retirement, but this is not always the case. The rise in life expectancies means a substantial fund is required to provide an income for a typical retirement, which could now be as long as 25-30 years, or more.

Even if you are one of the few who retain a defined benefit-type pension, the percentage of income it promises, your length of service and whether it is integrated with the state pension can all affect its adequacy. I would strongly urge you to have this reviewed by a fee-based adviser before making your investment. Ultimately it's a personal decision but the level of emergency fund that should be held back is generally between three and six months' income.

In terms of what to allocate your investment to, this is something that can be determined only in the context of a full assessment of your attitude to risk, your capacity for risk and your risk tolerance, plus the investment return required to achieve your investment objectives.

Successful investing isn't about trying to forecast which fund will outperform, as few do for extended periods. A well-diversified portfolio increases in value over the long term.

When investing for shorter periods, the risk of loss will be greater. Taking a level of risk that is appropriate to your circumstances, having an investment strategy, and sticking to it during times of volatility, will serve you better than any amount of crystal ball gazing.

Rather than investing only to beat inflation, I recommend that you broaden the conversation to one about defining your financial and life objectives, and devising a strategy to fund them. If the figures indicate that you have more than you need to achieve your objectives, this will open up possibilities.

Live your best life. As someone once said, the last cheque you write should be to your undertaker, and you want it to bounce.

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Send your personal finance or consumer-related questions to money@sunday-times.ie

James Buckley

When chips are down, bank on the tech giants

There is no great secret as to why technology has dominated the investment landscape for the last two decades.

The rise of the tech sector has been inexorable, particularly in the US, where it makes up some 30 per cent of the S&P 500 index by weighting, compared with 20 per cent a decade ago.

The significantly higher weighting of technology in the US index compared with Europe, where it stands at about half the US level, is often cited as a reason for the material outperformance of American stocks since the 2008 financial crisis.

This trend should be no great surprise, nor is it about to end. There are estimated to be 40 billion connected devices in use today, making about five for every person in the world. This is only a staging post on the way to an estimated 350 billion over the next decade, which would make everyone on the planet the proud owner of more than 40 devices.

These connected devices – mobile phones, tablets, wearable technology, TVs, laptops, fridges, MRI scanners – are the product of the increasing digitisation of our daily lives. The same process is facilitating global technological megatrends such as cloud computing, 5G, artificial intelligence, gaming, visualisation and the internet of things.

Many of the tech giants driving the digital economy are American and household names, such as Amazon, Apple and Microsoft. Yet Europe does have global leaders in the industry, albeit not quite as well known.

The Dutch multinational ASML describes itself as "the most important technology company you've never heard of". Microchips are at the heart of the world's connected devices: in 2019 more than 634 billion chips were manufactured around the world. ASML is a global leader in the design and production of lithography machines, a vital component in chip manufacturing. Lithography determines just how small the transistors on a chip can be. The smaller transistors are, the more can be fitted and the more powerful the chip.

This process, known as shrinkage, is a key manifestation of Moore's law, which states that computing dramatically increases in power and decreases in cost at an exponential rate. ASML's machines help chipmakers produce smaller, faster and more powerful chips. All the big chip suppliers use ASML's lithography machines.

Among the household names, Apple has been very busy on the product launch front in recent months, bringing to market the new iPhone 13 and an updated MacBook Pro. These, together with an enhanced audio range, are in strong demand from consumers, with waiting lists of up to several weeks.

Advance orders for the iPhone 13 were said to be the highest for a new iPhone since the X in 2017, despite only relatively modest enhancements.

The new MacBook Pro is the first to use Apple's M1 Pro and M1 Max processors. These are specifically designed for use with the Mac and offer the enhanced processing power that users increasingly desire.

Microsoft's ubiquitous appeal is due to its world-beating integrated software which helps us connect through the internet and write notes, letters or novels while calculating our tax returns on a spreadsheet. Its Xbox gaming system is also going toe to toe with Sony's PlayStation series in the expanding gaming sector. Microsoft also provides digital operating and server application software to enterprises ranging from small businesses to the world's biggest companies and government agencies.

In the year to June 2021 its digital server and office products alongside cloud services accounted for over half the company's revenue – a revenue line that grew an average of 17 per cent a year over the past four years.

During the pandemic, increased reliance on remote working and consumers using more IT connections to lead their daily lives saw demand for Microsoft's services and products grow steadily.

These companies enjoy high levels of profitability and a commitment to returning capital to shareholders. This makes them more resilient in any market or economic downturn than more conceptual tech companies, where profits, and in some cases revenues, can be some way off. They are also at the forefront of engagement with investors to improve their ESG ratings.

Technology continues to revolutionise how we live and work, and these three companies – all global leaders in their field – provide the bedrock for this digital revolution.

James Buckley is a senior equity research analyst at Cantor Fitzgerald