

The Analysis of the Online Brokerage Market in Canada and the Review of Questrade

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1. Introduction

As the home of Toronto, one of North America's most important financial centres, Canada is the home of several online brokerage firms. It's a rapidly growing industry with firms in various sizes offering a wide variety of financial assets.

The first objective of this Capstone Project was to gain a general knowledge on the Canadian online brokerage market, identify its key companies, their backgrounds, the products they offer and the regulators who supervise them. The second objective was to select was to write a detailed review and provide a comprehensive analysis to the client, Brokerchooser, on a specific brokerage firm by testing their services.

2. Client Company

The sponsoring firm is Brokerchooser, a Hungarian startup company founded by two finance professionals, Tibor Bedő and Gergely Korpos. Brokerchooser's goal is to help aspiring investors find the online brokerage firms that suits all of their unique needs. In order to do so, they regularly publish analytical, comprehensive reviews on online brokerage firms and have an online tool to compare them. Additionally, Brokerchooser provides general advices and tips on investing in the form of articles.

3. The Online Brokerage Market in Canada

Twelve major online brokerage firms were identified in the first phase of the research project. Three firms are independent, private companies with no banking background. The rest of the firms are owned by large Canadian banks with billions of dollars under management, such as the Bank of Montreal, the Royal Bank of Canada or the Toronto-Dominion Bank. All of the banks are listed on the Toronto Stock Exchange and most of them are listed on the New York Stock Exchange as well. Unsurprisingly, as a British bank, HSBC is listed on the London Stock Exchange too. The three independent online brokerage firms are not listed on any exchanges.

As registered investment dealers, each firm is a member of the Investment Industry Regulatory Organization of Canada (IIROC) and a member of the Canadian Investor Protection Fund (CIPF).

In terms of the variety of available financial products, there is no major difference between independent brokerage firms and major banks. The variety of available products in the

Canadian market is highly impressive. Each online brokerage firm deals stocks, exchange traded funds, mutual funds and foreign exchange pairs. IPOs are available at most firms as well. Some of the more exotic financial products, such as precious metal certificates, banker's acceptances and mortgage backed securities, are only carried by a handful of companies.

One of the key factors in choosing the online brokerage firm for reviewing was affiliate programs. Affiliate programs are critical for Brokerchooser, as they generate returns when an investor opens an account at the online brokerage firm through the Brokerchooser website. Only to firms owned by banks have such programs: Scotia iTrade and BMO InvestorLine Self-Directed. BMO's program is non-cash. As of now, the only independent brokerage firm that offers a cash-based affiliate program is Questrade.

Overall, the wide variety of available firms and financial products indicate that Canadian online brokerage market is healthy and individuals are encouraged to invest using either an independent firm or a bank.

4. The Review of Questrade

4.1 Company History and Financial Regulation

Questrade was founded in 1999 and it is one of the most popular independent Canadian discount brokerage firms with over 50,000 new accounts opened every year. As independent firm and a private company, Questrade has no banking background and is not listed on any stock exchanges. Questrade is regulated by Investment Industry Regulatory Organization of Canada (IIROC) and is a member of the Canadian Investor Protection Fund (CIPF).

IIROC is a self-regulatory organization which oversees every investment dealer and trading activity in Canada on debt and equity markets. CIPF is not-for-profit corporation, created to protect the eligible clients of a member firm, such as Questrade, if the member firm becomes insolvent. There is no requirement that a trader has to live in or be a citizen of Canada to be eligible. CIPF offers \$1 million coverage to eligible clients of Questrade while Questrade offers an additional \$10 million if it goes out of business.

4.2 Fees

There are three types of fees related to online brokerage firms that were analyzed: trading fees, financing rates, and non-trading fees.

Questrade's trading fees are high. On the other hand, the fee structure is transparent and easy to understand. Questrade offers low stock, bond and fund trading fees. On the other hand, the company's forex, options and CFD fees are generally high.

Questrade's financing structure is simple, even though their financing rates are relatively high. Regardless of the product, Questrade charges a base rate and markup for margin trading. The base rate is 3.5% for loans in CAD\$ and 5.5% for loans in US\$. The markup depends exclusively on the debit balance. It is 3.5% for a debit balance below \$100,000 and 2.5% for a debit balance above.

Questrade has average non-trading fees. Questrade does not charge an account opening or closing fee. Electronic fund transfers are also free above CAD \$50,000 or US \$25,000. On the other hand, Questrade does not charge a withdrawal fee. There is an inactivity fee, \$24.95 per quarter if you have less than CAD \$5,000 on your account and didn't trade in the last quarter. There is no inactivity fee for forex and CFD accounts, however.

4.3. Account Opening, Fund Deposit & Withdrawal

Account opening is easy and fully digital for Canadian citizens. For international clients, the process is slow and it requires them to physically mail documents. The minimum account balance to start investing is \$750.

Placing and withdrawing your deposit at Questrade is not only user-friendly but also free. The process, however, is lengthy and using a debit or credit card is not possible. Questrade does not charge a withdrawal fee for electronic fund transfers up to CAD\$ 50,000 or USD\$ 25,000. Wire transfers cost \$20-\$40 depending on your residency, however.

4.4. Web-Based Trading Platform

Questrade offers two separate web-based trading platforms. On Questrade Trading clients can trade stocks and options. Questrade FX Global is exclusively for forex and CFD trading.

Both web-based trading platforms are user-friendly and have a simple, yet elegant designs. They offer limited customizability, especially compared to Questrade's highly customizable desktop trading platform, IQ Edge.

The search function of both Questrade Trading and Questrade FX Global is basic. Traders can search by using a company's name or an asset's ticker. Both platforms offer user-

friendly and intuitive charting tools but FX Global's is slightly more sophisticated and customizable. Questrade Trading offers customizable smart alerts in e-mail and text form. Questrade FX Global provides customizable pop-up and email alerts. The portfolio and fee reports on both platforms are easy-to-read.

4.5. Mobile Application

Questrade's mobile applications are available on both Apple iOS and Android. Both apps have nice interfaces and they sync with their respective web-based counterparts. Unfortunately though, a two-step authentication and price alerts are unavailable and the order types are limited.

4.5. Desktop-Based Trading Platform

Questrade's downloadable desktop application, IQ Edge, is by far the company's most advanced trading platform. It offers every product available at Questrade, a wide variety of order types and easy-to-read fee reports. Unfortunately, it does not offer a two-step authentication during logins.

4.6. Markets & Products

From common asset classes, like stocks and bonds, to more exotic ones, such as international equities and precious metals, Questrade provides a wide range of products to invest in or trade.

Questrade's list of available products is highly impressive, even compared to major international firms like Interactive Brokers. Unfortunately though, the variety of specific products within an asset class is more limited.

Even though Questrade is primarily a Canadian firm, their clients have access to every North American exchange through them. That pales in comparison to the international reach of Interactive Brokers; however, it is perfect for traders who focus exclusively on the North American market.

Questrade offers 38 currency pairs on its platforms, including all the major pairs, like EUR/USD, GBP/USD or CAD/USD. It's ideal for forex traders who intend to trade the most common currency pairs but less so for traders who prefer exotics.

Questrade offers 1,476 different bonds in various categories, such as municipal bonds, corporate bonds and provincial bonds.

Questrade's number of available option markets is slightly below average. In Canada, traders can sell and purchase options on the Toronto Stock Exchange. In the US, the following options markets are available: BATS, NASDAQ, NYSE AM (AMEX), NYSE ARCA (ARCA). It's also possible to trade OTC options in the US.

Questrade's CFD offering is remarkable. The firm offers fifteen types of stock index CFDs and 630 stock CFDs. What really sets Questrade apart from its competitors is that they offer commodity CFDs which are not available neither at Interactive Brokers, nor at Tradestation. Among the nineteen available commodity CFDs are corn, soybean and palladium.

4.7. Research and Education

Questrade offers a vast array of research and analysis tools, including news and insights; investing and trading tools; along with investment monitoring services. There are four major research and analysis tools available for traders with an open account and Questrade.

Market Intelligence is a fundamental research tool that delivers screeners, quotes and research for free within the trading platforms.

Intraday Trader is a research investment tool that scans and monitors the Canadian and US markets and alerts traders when their target trade is triggered with charts and descriptions. Intraday Trader is only available to subscribers of Enhanced or Advanced Data Packages.

At the IPO Centre, Questrade's clients can subscribe to the firm's IPO Bulletin for information on the latest IPOs and secondary offerings.

Additionally, Questrade offers four types of Market Data Packages that provide information on the North American markets. The following packages are available for purchase at Questrade: Basic, Enhanced, Advanced US and Advanced Canadian.

Questrade offers an adequate amount of educational and tutorial materials for novice and advanced traders alike.

At Questrade traders can use the following tools to deepen their knowledge:

- Demo account
- Platform tutorial videos

- General educational videos
- Quality educational articles
- Blog posts
- E-books

4.7. Customer Service

Questrade offers excellent, award-winning customer service. Questrade's customer service representatives are polite and helpful

Clients can contact Questrade via:

- live chat
- telephone
- email

Customer service representatives provided quick and satisfying answers to generic questions about account opening on every platform.

On the downside, customer service is not available 24/7 and they couldn't answer in-depth trading related questions.

5. Benefits & Summary

The Capstone Project has contributed greatly to my professional development. My knowledge of financial products, the Canadian financial market and financial regulators have increased significantly. Through online trading, I learned about fundamental analysis, order types and fee calculation.

The analysis of the market and the review of Questrade could be the first step for Brokerchooser to enter the Canadian market. The market analysis familiarizes the company with the market, its major players and the trading environment. The deep analysis and review of a Questrade could show Brokerchooser's expertise in the North American market to its future clients. The report's other goal is to draw in new clients.

