

THE ELECTRONIC INVESTOR ■ by Theresa W. Carey

Sign of a Bull Market: New Brokers

*Fledgling online firm OptionsHouse offers impressive trading technology, while Just2Trade features a simple interface and low fees, reminiscent of BrownCo before E*Trade bought it last year.*

TWO ONLINE BROKERAGES OPENED their virtual trading rooms last week, aiming to provide a new home for experienced electronic traders and their assets.

Their arrival is notable not only for the new technology and competition they bring: Online brokerage has been in a steady decline since the Internet bubble popped so spectacularly back in early 2000.

For most of the intervening years, the brokers—conjuring images of day traders playing the momentum in tech shares—have been disappearing, usually into bigger entities like E*Trade or what's now TD Ameritrade seeking scale.

But last year's surge in the Dow, coupled with the business' diminished ranks seems to have opened new opportunities.

Both entrants, OptionsHouse and Just2Trade, were created by established firms. Their resemblance ends there, however.

Market maker PEAK6, which provides liquidity for more than 2,000 U.S. and European-listed equity options, gave The Electronic Investor a tour of the new site just before it launched OptionsHouse (www.optionshouse.com) on Jan. 8.

The technology is impressive, especially for those interested in trading options. OptionsHouse features real-time quotes and options-chain lookups, which one would expect, but also has a variety of options-specific tools. The quote view shows price and size data for every exchange, and highlights the NBBO (National Best Bid/Offer).

Features known as the Call Spread Investigator and Put Spread Investigator scan U.S. listed equity options to point customers to spreads with high theoretical returns relative to their cost. A similar capability for covered calls finds those with high theoretical returns, or calculates the potential returns for covered-call strategies on stocks you like.

The order-entry screens are nicely laid out, displaying the real-time quote for every leg of an order, plus an estimated cost of the entire transaction before you hit the Trade button. Many brokers put you through two or three screens to get this information.

At Options House, a trade of up to four legs can be entered from a single screen. If you have a very large block to trade (more than 50 options contracts), you can request a quote directly from parent PEAK6 to ask for liquidity or price improvement.

Another cool tool shows how the value of your holdings would change if the market moved up or down. This page groups your stocks and options by ticker symbol—for instance, all of your Intel positions are subtotaled in one area of the screen—which is handy for those who trade a variety of strike prices and expiration dates for a single stock. This page shows what happens to your profit or loss, based on overall market moves, and helps you manage your portfolio risk.

Also of note is OptionsHouse's commission structure. It levies a flat \$9.95 per transaction fee, regardless of the number of contracts being traded. Most online brokers charge a base rate, plus an additional fee per contract. For example, TD Ameritrade's options commissions are \$9.99, plus 75 cents per contract, so trading 10 contracts costs \$17.49.

Right now, you can only trade stocks and options online with OptionsHouse, but its offerings will expand over time.

Just2Trade (www.just2trade.com), which is a division of online-brokerage Success Trade (www.successtrade.com), went live on Jan. 9. It's clearly designed for the niche that BrownCo filled before it was swallowed by E*Trade last year.

The first thing you'll notice about the site is that commissions are very low—\$2.50 per stock trade of any size.

The second thing is that you can only trade stock at Just2Trade for now. CEO Fuad Ahmed says options trading will be rolled out by the end of the first quarter and mutual-fund trades will be available online later this year. For now, customers can buy and sell mutual funds through a live broker.

Client services are pretty bare-bones. For instance, there's no toll-free number to call; Just2Trade would prefer to cope with questions or problems via e-mail.

Margin rates are very low at Just2Trade, which pledges to match the pricing of any other brokerage if a customer asks.

The current margin rate schedule runs from 7.75% for up to a \$50,000 debit balance, down to 6% for a balance over \$500,000. Customers who maintain more than \$50,000 on margin qualify for \$2 commissions in the following month. To top it off, money-market rates of 4.4% are on the generous side.

The Web-based interface is a little old-fashioned. You need to hit a button to get a current real-time quote on the item you want to trade. If you enter a market order, it can be executed within a second, which you can verify by looking at the execution report.

You can also use Just2Trade's Trading Desk, which is a Java applet offering streaming real-time quotes and up to five watchlists with 15 symbols each. The last eight ticks are displayed; red for downticks and green for up. To modify an order you've entered, you have to cancel it and then re-enter.

Customers who sign on with Just2Trade must certify that they have at least two years of online trading experience. You can't yet trade international equities, but CEO Ahmed says that will come by the end of the year.

We're continuing to gather data for our 12th annual review of online brokers. What is more important to you—cheap trades or good customer service? Write us at electronicinvestor@yahoo.com. ■



"I think it's safe to look French again."