



J.D. Power and Associates
2009 Canadian Discount Brokerage Investor Satisfaction StudySM

Understanding Discount Brokerage Investors

The Canadian discount brokerage industry has experienced rapid growth, riding a perfect storm created by the forces of a market in turmoil, new investment product introductions (ETF and TFSA among others), ubiquitous online access and renewed enthusiasm in do-it-yourself investing.

So who are this new breed of market players? What products or channels do they invest or trade in? What motivates their choice of a primary firm, and how satisfied or committed are they? These are some of the questions addressed in the inaugural *Canadian Discount Brokerage Investor Satisfaction Study*, which will be released on Wednesday, July 15th.

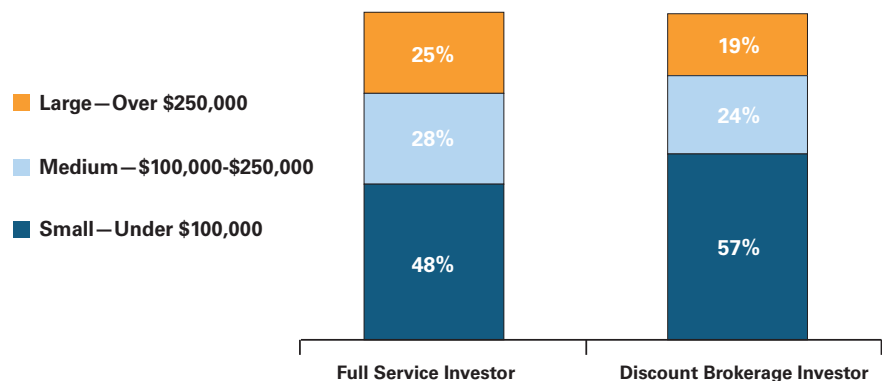
*“Risk comes from not knowing what you’re doing.”
— Warren Buffet*

Who Are the Discount Brokerage Investors?

To characterize discount brokerage investors, they are compared in this white paper to investors who utilize full service investment firms. Contrary to the supposition that investors holding online brokerage accounts are either serious day-traders or young online enthusiasts, the study finds that they reflect a mainstream profile, one not that different than full service investors. The average age of a discount brokerage investor is 50, compared with 53 for the average full service investor. In both segments, slightly more than one-third (35%) of investors report before-tax household income of \$100,000 or more.

However, in terms of investable assets, discount brokerage investors have less money to invest due to the slightly younger age profile, with 57% having a portfolio under \$100,000, compared with 48% among full service investors.

Investable Assets by Investor Segment



Source: J.D. Power and Associates 2009 Canadian Discount Brokerage Investor Satisfaction StudySM

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In addition to demographics and investment holdings, the investment style of discount brokerage investors is also similar to that of full service investors. Overall, 45% of discount brokerage investors consider themselves aggressive or moderately aggressive investors, compared with 42% among full service investors.

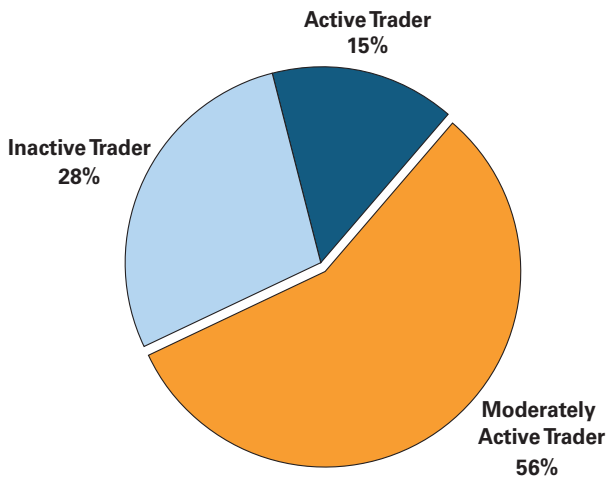
This increasingly mainstream profile of discount brokerage investors is not unexpected, given that 84% of these investors also concurrently use either a full service advisor or private banking, financial planning or other bank-based wealth management services.

Are They All the Same?

Not all discount brokerage investors are created equal. This paper identifies three types of investors, based on their trading frequency: **Active Traders** (15%)—those who executed 13 or more trades during the past 12 months; **Moderately Active Traders** (56%)—1-12 trades in past 12 months; and **Inactive Traders** (28%)—those who did not execute any trades in past 12 months. Each type of discount brokerage investor exhibits distinct and unique investment behaviours, expectations, and satisfaction levels.

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Trading Frequently Discount Brokerage Investor Types



Source: J.D. Power and Associates 2009 Canadian Discount Brokerage Investor Satisfaction StudySM

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What Do They Invest In?

The most popular investment products discount brokerage investors hold with their primary discount brokerage firm are stocks (62%), RRSPs (57%) and mutual funds (45%). In contrast, the percentages of these products that full service investors hold with their primary firm are RRSPs (74%), mutual funds (65%), and stocks (42%). Thus, discount brokerages are used more often for short-term holdings (stocks) with more frequent trades, while full service brokerages are used to hold products such as RRSPs and mutual funds for a longer duration.

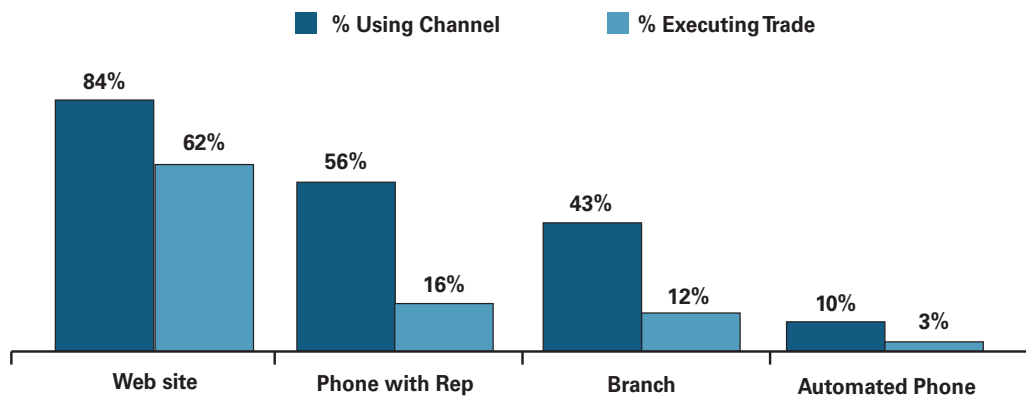
Interestingly, discount brokerage investors overall hold more TFSA (47%) and ETF (16%) with all firms, including their primary brokerage, than do full service investors (40% TFSA and 11% ETF, respectively). Moreover, new discount brokerage investors, who have been with their primary firm for a year or less, tend to have a slightly higher proportion of ETF and TFSA in their portfolio than those who have been with their primary firm for a longer period of time. This seems to support the hypothesis that part of the driving force behind the growth of the discount brokerage channel is the introduction and proliferation of ETF, TFSA, and other simplified and lower-risk products.

How Do They Trade?

The study shows that discount brokerage investors use all types of interaction channels to various degrees to conduct research, execute trades, and review account information. The majority use the primary firm's Web site to do various activities (84%), including executing trades (62%), making it the most popular channel, compared to other channel options.

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How Investors Trade



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Investors want independence, but need support when necessary, and for different purposes. They contact their firm's call centre representative most often to ask questions. They visit the branch primarily to deposit or withdraw money. The automated phone system is most often used to verify trades.

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About J.D. Power and Associates

For four decades, J.D. Power and Associates has been measuring the Voice of the Customer and providing key performance indicators for various industries in many parts of the world.

J.D. Power and Associates currently conducts seven syndicated benchmark studies that serve the Canadian financial service and insurance industries:

- *Full Service Investor Satisfaction*
- *Discount Brokerage Investor Satisfaction*
- *Retail Banking Customer Satisfaction*
- *Auto Insurance Customer Satisfaction*
- *Home Insurance Customer Satisfaction*
- *Auto Dealer Financing Satisfaction*

“For four decades, J.D. Power and Associates has been measuring the Voice of the Customer and providing key performance indicators for various industries in many parts of the world.”

For a more detailed briefing about the results of this study and how your organization can use this information to improve your performance and outperform your competitors, please contact Lubo Li, Senior Director and Financial Service Practice Leader, 416-499-3033 ext. 142 at lubo.li@jdpa.com; or Adrian Chung, Research Manager, 416-499-3033 ext. 117 at adrian.chung@jdpa.com.