Internet-Based Share Dealing in the New Global Marketplace

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Stock brokering services are available via the Internet and investors in many countries can currently experience the benefits of Web-based share trading. Internet-based share trading is far more than completing the same transaction over the Internet. The Internet contains a wealth of information and many sites provide sophisticated facilities that allow the investor to research and monitor investments. This paper examines how Internet-based share trading differs from more traditional forms of share trading. It then explores how Internet-based share trading is changing investment practices of private individuals and then goes on to discuss how (with reference to Michael Porter’s work on competition) the global nature of the Internet based share trading will impact upon the players in the stock brokering competitive environment.

Internet-Based Share Dealing

The Internet has brought about a new opportunity for business to trade with customers electronically and fundamentally changes the way business interacts with customers (Nath et al., 1998). The stock brokering sector is particularly suited to Web based trading as physical goods do not need to delivered, thus eliminating the problems which many e-commerce retailers experience of setting up the logistic operations to deal with the delivery of goods. Internet based share-dealing services enable investors to check real time share prices and execute trades immediately (on-line). Payment for the shares is completed through direct debit transfer from an individual’s bank account or a debit is made from a holding account which has been set up with the broker.

Internet share dealing is often referred to as ‘online trading.’ However, to avoid confusion with other types of on-line share trading systems it is referred to as Internet-based shared dealing or Web-based share dealing within this paper.

Investor Benefits

Internet-based share dealing provides an improved service for investors over more traditional dealing methods. The investor is able to deal at the price viewed immediately; whereas using more traditional dealing services an investor will often have to wait in a telephone queuing system to get through to the dealing desk and when trading may have to wait for the price of a trade to be confirmed. The Internet investor also benefits from 24-hour, 7-day-a-week access to placing orders (although outside of trading hours deals will need to be placed as limit orders). Web based share dealing services are typically cheaper than other forms of execution-only dealing service; this combined with the provision of Company information services and portfolio services make Internet share dealing an attractive option for investors who wish to use an execution-only service in a information-rich environment.

Broker Benefits

From the stockbroker’s viewpoint, Internet share dealing is beneficial as it allows the broker to reach a wider customer base and potentially increase market share. Web-based share trading on the Internet may well attract people to dealing who have never dealt before, thus allowing brokers to reach new groups of customers who by virtue of using the Internet represent a higher than average income group (Ng et al., 1998). Reduced operating costs are also seen as a benefit of Web-based share trading (Carr, 1999). The level of share trading at any time is influenced by market conditions, there are days and times when trading is particularly heavy and traditional telephoned-based services have difficulties in responding to these demand peaks.
resulting in investors being unable to establish contact with their broker. Internet-based share dealing offers a cost-effective solution to the demand peak problem. Web-based trading also has the effect of increasing the number of trades completed by Internet account holders, which generates more commission for brokers. Use of the Internet allows stock brokering companies to build up a wealth of customer information, which can be used to focus marketing material on distinct customer profiles.

Internet-Based Share Brokers
The market in the United Kingdom (UK) is relatively immature; however, it is growing rapidly. (In April 1999 there were just six UK-based organisations providing Internet-based brokering services four months later in August 1999 there were 16 organisations competing in this marketplace). The United States (U.S.) market in contrast is well established and there are more than 100 Internet-based brokering operations and many of the organisations offer online share dealing. It is estimated that online trading accounts for 40% of all share trades in the U.S. (Temple, 1998). It is expected that as more people gain access to the Internet and more stockbrokers offer Internet-based share trading facilities that this style of share dealing will dramatically increase in the near future. Outside of the U.S. and UK, there are organisations operating Internet share dealing services in other countries; for example, MST Online (http://www.mst.co.za) is a South African-based stockbroker specialising in Internet share dealing.

Researching and Monitoring Investments
Financial information is ideally suited to delivery via the Internet as it can deliver rapidly changing information such as merger news and stock prices. Stockbrokers and financial institutions have traditionally had access to a wide range of information supplied through their own systems and systems that they subscribe to. In the past the small private investor has been less fortunate than the institutional investor and has needed to rely upon newspapers and investment advice from stockbrokers. The wealth of information, which is now available on the Internet, means that the private investor can access a range of up-to-date financial information which was previously only available to financial institutions. This information relating to news items, global markets and share prices and trading statistics can be used to inform the private investor’s investment decisions. Information on shares, futures, investment trusts, unit trusts, bonds and gilts is also available on the Internet.

Share Prices and News
The investor can easily obtain information on share prices and company news from a number of sites. Many financial sites operate at two levels, providing both free information and additional subscription-based information. The Market-Eye site (http://www.market-eye.co.uk) gives the investor the opportunity to view share prices for shares traded on the London stock exchange and also download data, i.e., historical share prices in a format which can be placed in a spreadsheet. The Interactive Investor site (http://www.iii.co) gives equity prices for stocks traded on a number of worldwide stock exchanges including those traded on the Johannesburg Stock Exchange. More traditional sources of information such as newspapers and business magazines are also represented on the Internet and often incorporate powerful news searching facilities. For example the UK-based, Financial Times site (http://www.ft.com) provides the investor with the facility to search current and back issues of the newspaper for articles on a specified topic or company. There are also publishing operations which exist only on the Internet, such as the South African-based Money Web site (http://www.moneyweb.co.za) which provides market and business information. A number of sites provide chat/message boards where participants can post financial queries and comments and also respond to messages.

Personalised Information
The Internet provides the facility to view personalised information. Thus an investor can visit a Web site and see stock prices and company news that relates to their investment interests. Portfolio services also exist on the Internet: an investor can set up their investment portfolio on the Web and then return to the Web site to view their portfolio valuation with current stock prices at any time. Recent developments of Web technology make it possible for information to be automatically delivered and appear on a users PC, thus if a share price falls below a specified limit or say news on a particular company is reported upon, the information will be delivered to the desktop.

Personal Finance Programs
There are a wide range of personal finance programs designed to run on users’ PCs, which can automatically, access share prices and news on the Internet. In the future it is envisaged that personal finance programs running on investors personal computers will use information fed from the Internet to continually monitor and automatically take action to maximise the return on a portfolio or maintain a balanced, diversified portfolio (Eckett, 1997). Personal data such as risk preferences, preferred investment strategy, life expectancy, income and expenditure plans might be used to personalise the program so that decisions reflect an individual’s needs. As stock markets are global in nature and respond to each other on a daily basis, with price changes in one market effecting other markets it is also likely that these future investment programs will make and carry out investment decisions based upon global market events.
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