Will Fintech Zero-Fee Trades Boost TMX Group (TSX:X) Profit?

Description

The movement toward zero commission trading may boost revenue on global exchanges. Zero commissions are bound to increase trading volume, especially among young investors who are more risk-loving than their baby boomer parents.

The cost of trading is lower for individuals, but brokerage firms, which act as an intermediary between individuals and the exchange, must still pay the **TMX Group** (TSX:X) and the NYSE to process trades. Thus, the zero commission policy transfers costs from the individual to the broker.

All else constant, the revenue for the exchange would remain the same, but the shift in cost also changes supply and demand incentives. Investor demand to process trades should rise now that the price to trade equities has dropped to zero. This means that the broker will need to process even more trades and pay more in fees to the applicable exchange.

How did this all start?

The trend started with the popular commission-free trading application, Robinhood. **Charles Schwab** caused substantial market volatility last month when the company announced that it was removing its commissions and fees on equities trades. Competitors, including **TD Ameritrade** and **Ally Invest,** quickly followed Charles Schwab to cut trading fees to zero.

The accessibility of finance technology has led to greater competition among brokers to attract savers. Fintech innovations like Robinhood have expanded access to financial markets, not only through traditional savings accounts, but also in the stock market.

Millennials, especially, are bold and educated enough to attempt self-managed retirement portfolios. They benefit from strong tech and research skills, which allow them to learn anything by browsing the internet for information. The greater availability of data has increased financial literacy and led to a greater willingness to invest in riskier assets like stocks.

TMX Group revenue hits record on higher trading volume

TMX Group announced record revenue for the third quarter of 2019 on Friday. Higher derivatives trading and clearing contributed the most to the rise in revenue. Higher trading volume in energy, more specifically, led to the increased trading activity.

If greater derivatives trading led to higher revenue and earnings-per-share for the TMX Group, the increased volume on equities trades should boost revenue on the affected exchanges. This means that the NYSE and NASDAQ may gain the most initially from the fee decline on equities trading.

The TMX Group should also track the success of these exchanges, as is often the case. Regardless, the stock is undoubtedly a buy. Monopoly institutions like TMX Group are great stocks to buy as they offer higher profit margins than more competitive industries.

TMX Group stock now trading at a discount

TMX Group investors reacted bearishly to the earnings announcement; this morning, the stock price fell by 5.39% from yesterday’s close of $113.66 to $107.53. Aspiring Canadian retirees should purchase shares of the stock while it is down on earnings volatility.

TMX Group has averaged over 50% annual capital gains over the past 18 years. Moreover, the stock reliably gives shareholders strong and growing dividend returns, which the company just increased to $0.66 per share as of November 7. At the current market price, TMX Group yields 2.31% annually on dividends alone.

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