

THE RATINGS GAME: Bank Of America Raises Estimates For Online Brokers

by dow-jones

SAN FRANCISCO (Dow Jones) - Stronger-than-expected options and stock trading at major online brokerages in August caused Bank of America to raise its estimates by 4% for the group's quarterly earnings. While retail stock trades were down an average of 3% last month for online brokers, that was actually quite robust in a typically weak end-of-summer period, wrote analyst Michael Hecht.

At the same time, options trading was up 2.9%. That was also taken as a strong indication of underlying activity levels for online brokers, he said in research published on Tuesday.

Tradestation Group Inc. (TRAD) reported in August that daily average revenue trades, or DARTs, were up more than 25% from July and 82.5% from a year earlier.

"We note September generally represents the end of the seasonal summer slowdown with trading volumes up 13-15% from August," said Hecht. "However, we would expect September DARTs to be a bit more muted, as heavy retail activity persisted throughout July and August."

In raising its earnings forecast for online brokers' September-ending quarter, Bank of America pointed out that some came in below the group's 4% average increase.

Hecht upped his estimate for T.D. Ameritrade Holding Corp. (AMTD) by 8% to 31 cents per share. That would be more than the Street's expectation of 29 cents per share.

The next biggest jump came with OptionsXpress Holdings Inc. (OXPS) Hecht raised his earnings forecast for the company by 6.5% to 37 cents a share.

E-Trade Financial Corp.'s (ETFC) earnings estimates were increased by 1.3% to nearly 41 cents per share. That was less than analysts' consensus of 42 cents per share, according to the report.

Bank of America similarly raised estimates for Charles Schwab & Co. Inc. (SCHW) by 0.8% to 24 cents per share.

"Despite near-term seasonal challenges, brokers' and asset managers' outlook (is) favorable based on our strategists' views of above-average economic growth and upward-trending equity markets, particularly as the Fed's tightening cycle may be nearing an end," Hecht said.

His team of analysts is suggesting that investors should "stick with organic growth stories like Schwab and OptionsXpress" and face less pricing and profit margin pressures.

"We therefore remain on the sidelines on E-Trade and T.D. Ameritrade, which have high sensitivity to transactional revenues and net interest profits," the analysts said.

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