Betting the Odds

Online financials could be one industry poised to grow during this recession.

Michael Markowski

The rolling recessions of the 1970s had a profound effect on several industries and sectors. One of those was the gaming sector, which included the casino gambling and slot machine industries. Before the 1970s, the gaming sector was one of the United States' smallest because it was isolated to the state of Nevada.

Thus, it was considered by investors to be a highly cyclical industry, which was dependent on vacationers. The severe budget crises for many northeastern states, including New Jersey in the 1970s, changed the dynamics of the gaming industry from cyclical to a secular growth when the state, while under much protest from its citizens, legalized casino gambling in Atlantic City in 1976.

Without the severe budget crises of the 1970s that were brought on by the deep recession, the referendum to allow casino gambling may not have passed. The decision to allow gambling in a state other than Nevada permanently changed the gaming industry. Since that decision, there has been a steady stream of states and municipalities that have followed in New Jersey's footsteps. Additionally, it also paved the way for states to use gaming as a way to generate revenue. Every U.S. state now allows its citizens to participate in lotteries.

In May 1978, when Resorts International opened the first casino outside of Nevada, all hell broke loose. I vividly remember watching the shares of the casino company go from less then $10 in the spring of that year to more than $300 per share during the summer. Resorts was not the only public company to have its shares multiply in value during that wild summer.

In fact, every publicly traded gaming company, including those that had casinos in Nevada, had shares multiply in value. The gains were not limited to casinos, either. The shares of all those companies providing gaming equipment and services to the casino companies also multiplied. Even the shares of Allegheny Airlines—a predecessor to U.S. Air and the only air carrier providing service to Atlantic City—traded up from $2.00 to more than $10.00 in the summer of 1978. Things got so crazy that the Federal Reserve System increased the margin requirements for the publicly traded companies that were associated with the gaming industry.

The gaming industry was the darling of the 1970s. It was the one industry during the last super bear market (1966-1982) in which you could have invested in any company and made a significant return on your money. What industry is likely to reap all the winners in this current super bear market and the most significant global economic downturn since the Great Depression?

Of the 216 industries that I follow, there is one that is well-positioned. It is the industry that provides services and information to the rapidly growing "do-it-yourself" online investor community. It includes those companies that provide online brokerage, online financial education courseware, and online financial information. The online investor community is growing at the expense of the traditional financial advisers and brokers.

I believe that the investment world is in the middle of "the perfect storm." Financial institutions and the media are arguably going through the greatest transformations in history. On Oct. 3, 2008, a week before the major crash occurred, *The Wall Street Journal* ran an article citing research from a survey conducted in late September by Prince & Associates, a U.S. wealth research firm.

They found that 81% of investors with $1 million or more in investable assets planned to take money away from their adviser, while 86% said that they would tell other investors to avoid the firm of the adviser that had been advising them. Only 2% of those surveyed said that they would consider recommending their firm or their adviser to others. The dissatisfaction was higher at "brand" companies than at "non-brand," or boutique wealth advisers. Seventy percent of clients of brand firms plan to leave their adviser, compared with 29% at non-brands.

According to the metrics that I have been following, these difficult economic times have driven investors to spend more and more time on the Internet. A rapidly growing lack of trust and performance has left millions of investors more open than ever to alternatives to the name-brand banks, brokerage firms, financial planners, and wealth advisers that have historically dominated the business of giving financial or investment advice.

While older investors who are nearing retirement are shirking traditional investment advisers and brokers, the younger generation of upcoming "point and click" investors will likely find it much easier to make their own investment decisions. The biggest reason why is because the quantity and quality of online investment information have increased significantly while the cost continues to go down. Another big reason is that there is a growing number of entities that provide investor education courseware. Finally, the cost of executing online trades has also consistently declined over the last 10 years.

There are two factors that could pour the kerosene on the fire of those companies and industries participating in the online financial sector. The result could very well be a similar combustion that ignited gaming industry shares in 1978. One of them is Twitter. The online social network has been growing at a rate of more than 1300%. Its number of users multiplied eightfold from November 2008 through May 2009, from 4 million to 32 million, respectively.

Twitter is expected to grow to 100 million users over the next six to 12 months. The number of Twitter members using it to disseminate media is astounding. It recently generated more than 1 billion tweets on the subject of the Iranian election over a recent two-day period. The only reason why Twitter is even being mentioned in this article is because my sources who are privy to Twitter tell me that the fourth most discussed subject among Twitter users is financial information and education. Even the fallout from Twitter alone could generate exponential growth for the online financial sector for years to come.

The second factor, which could exponentially increase the potential of the online financial sector, is News Corp.'s recent announcement that it is going to implement a micro-pricing strategy for The Wall Street Journal in fall 2009.

Under the strategy, News Corp. intends on selling access to stories that are published by The Wall Street Journal on a small fee-per-story basis. I believe that News Corp.'s strategy is more than a significant development for the online financial information industry. It will likely create millions of users who will be receptive to paying for financial information that has heretofore been freely available. The bottom line is that I expect that the big newspaper publishers, such as Gannet and others who want to compete with News Corp., will have big appetites to acquire proprietary online financial information publishers.

Over the last 10 years, the online financial sector and the publicly traded industries in it have significantly outperformed the S&P 500 Index. From Dec. 31, 1998 through June 30, 2009, the S&P 500 declined by 12%, while the online financial sector index multiplied by more than fivefold.

There are 12 companies that I am recommending in the online financial sector. E

Current Online Financial Sector Recommendations

Symbol	Online Financial Sector Companies	Price	Online Business
RATE	BANKRATE INC.*	$25.09	Interest rate info
IDC	INTERACTIVE DATA CORP.*	$22.46	Web quote provider
TSCM	THESTREET.COM INC.*	$2.07	Financial information
GISV	GLOBAL INVESTOR SVC. INC.*	$0.04	Financial education
ETFC	E*TRADE FINANCIAL CORP.	$1.19	Online broker
OXPS	OPTIONSXPRESS HLDGS. INC.*	$18.02	Online broker
MORN	MORNINGSTAR INC.*	$38.54	Fianancial information
AMTD	TD AMERITRADE HLDG. CORP.	$16.63	Online broker
TRAD	TRADESTATION GROUP INC.	$7.68	Online broker
JRJC	CHINA FINANCE ONLINE CO.	$9.63	Financial information
IBKR	INTERACTIVE BRKRS. GRP. INC.	$14.38	Online broker
EDGR	EDGAR ONLINE INC.	$1.33	Fiancial information

*Markowski currently holds shares