

## The rapid rise of an indie brokerage

*Questrade's business plan is based on battling the banks on technology, service, pricing and innovation*

By Theresa Ebden

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When stock markets crashed during the 2008 credit crisis, causing panic across North America, Questrade CEO Edward Kholodenko had reason to remain calm.

Experience had taught him that an opportunity to build his business was waiting.

After all, when he began developing the Canadian online trader in 1999, the tech bubble burst a year later, followed by the terrorist attacks of Sept. 11, 2001, in the United States and ensuing market devastation.

And still Questrade grew.

In fact, each year since Questrade began operating in 2001, the customer base has doubled, and in the past year, it has tripled to become "multiple tens of thousands" of Canadian investors, Mr. Kholodenko said. Today, it is the largest independent online trading service in Canada.

The secret has been to offer something the banks can't or won't when it comes to technology, service, pricing and innovation, he said.

"We did survive those lean times, and we adapted our business mandate to online investors," he said. "We plan to stay at the forefront of innovation, and shake up the underpinning of the big banks."

Though the first trades came through in June, 2001, Mr. Kholodenko began building Questrade in 1999, after eight years of operating a textiles business in Eastern Europe. During that time, he became fascinated with the world of online trading, using direct electronic access to trading to augment his profits - all the while watching the story unfold on American television.

"I would watch CNBC quite often while I was there. The markets were going through a run that sparked an interest," said Mr. Kholodenko, who holds a bachelor's degree in geography from the University of Western Ontario.

He moved back to Canada when his wife was expecting their first child. As his family was beginning, so too was a new business plan: With his experience in business and trading, he gathered a handful of people to start up an online trading platform.

His plans worked on all counts: Today Questrade employs 200 and is by some accounts the fastest growing online brokerage in Canada; Mr. Kholodenko's wife is expecting their fifth child.

Dean Percy is now director and chief financial officer, and founding partner Gary Miskin is director of business development. One of the latest areas where the executive team has seen an opportunity to innovate is with the government's new tax-free savings account. Questrade applied its trading tools and services to allow users to trade through these accounts and make profits within it tax-free.

Opportunities have also arisen in foreign exchange. Questrade now has a patent pending for its process by which Canadian investors can move in and out of U.S. stocks without taking a currency hit each time. Traditionally, there has been a foreign exchange fee when an investor buys a U.S. stock through an online brokerage, of about 1.5 per cent each time they buy and sell.

Another idea Questrade offers investors is the ability to buy and sell physical gold from the Royal Canadian Mint in their RRSP accounts. The firm also is very active in social media, including YouTube and Twitter, as well as maintaining an extensive page on Facebook that has launched applications such as an investment quiz and a user-generated list of top buys and sells.

The innovative spirit began early on at Questrade, with an issue that all investors care about: fees. Many large bank-owned online brokers make their customers hold an account value of \$50,000 to \$100,000 to access lower trading fees of about \$10, or be an active trader. Otherwise, you're often looking at fees of about \$20 to \$30 a trade.

Questrade may not be the biggest name on the block, but it is the cheapest, with fees starting at \$4.95 plus one cent a share, to a maximum of \$9.95. A minimum account balance of \$1,000 is all that's needed.

Questrade was first to come out with a \$9.95 pricing model in 2001, Mr. Kholodenko says, and the first to bring in the \$4.95 base model two years ago.

He is able to do this because "we don't have all the overhead, the personnel that a bank has," he said. "We removed all the fingers from the pie ... all of the middlemen."

Another area where Questrade has been able to stand out and keep costs down for investors is with its Mutual Fund Maximizer program, which rebates trailer fees on most big broker-sold funds. Clients pay a monthly fee of \$29.95 and \$9.95 for each fund trade in exchange for a rebate of the trailers embedded in the fees charged by their funds. By comparison, trailer fees can be 1 per cent of what a client holds in an equity fund each year, or about 0.5 per cent for bond funds, and 0.25 per cent for money market funds.

Questrade has been open to doing this because unlike a bank, it isn't "cannibalizing" any other internal unit in doing so, Mr. Kholodenko said.

"We think most of the larger institutions have a conflict of interest - they have to make sure one channel doesn't encroach on the other," he said.

Early innovation efforts included adding multi-leg option orders and options trading to its product line in 2004, around-the-clock foreign currency trading in 2005, and in 2006, a secure online live chat feature launched for all clients and visitors to Questrade's website. In 2007, Questrade offered tuition rebates to clients who take trading education from an approved provider.

As the market continues to change and evolve, Mr. Kholodenko said he's got a few more tricks up his sleeve in terms of innovation, which he won't yet share. There are now some employees in San Francisco and Texas, and he declined to elaborate why.

As for whether or not Questrade is for sale, he demurred.

"We've had people approach from various directions," he said.

"I'm a businessman, so I never say never. But right now, we're not looking."