

CONSULTING INSIGHTS

Welcome to the Spring edition of Corporate Insight's *Consulting Insights* newsletter, a quarterly publication that analyzes the competitive landscape of the retail financial services industry. Our cover story focuses on the emergence of online communities and social media in the financial services space. This issue also features a profile of thinkorswim, an active trader-focused brokerage firm, and an article looking at ways different firms position and use live chat tools on their sites.

Please feel free to circulate this newsletter to your colleagues, who can register at www.corporateinsight.com/insights for future quarterly editions. We hope you find this newsletter useful and encourage you to contact us to discuss how we can help you improve your business performance through competitor insights.

SOCIAL MEDIA AND THE FINANCIAL SERVICES INDUSTRY

The influence of online communities and "virtual" social networks seems to affect everything these days, from the way we look for jobs (www.linkedin.com) to the coffee we drink (www.mystarbucksidea.com). While some industries, like news and entertainment, have been turned on their heads by the social Web, the potential of social networks is only now beginning to be tapped by financial services companies.

With no immediate threat to their business models or bottom line, firms have been able to take their time exploring strategies for leveraging social networking elements. "The challenge," as Sean Spaulding, Director of International Marketing at MFS Investments recently told us, "is finding a model that adds value for all parties involved."

Active trader brokerage firms were the first financial services companies to offer their own communities. Because active traders tend to work in isolation with sophisticated software, these online communities provided a place where they could discuss strategies and exchange tips on how to profit from their platform's tools. Online forums also offered a source of education for "newbies" looking to better understand the software's more complex functions.

To promote participation in these forums, relative newcomer TradeKing created a system where fellow users can vote for the best blog posts, community members and trade notes. Winners are rewarded with zero commission trading for one month.

INSIDE THIS ISSUE:

Social Media and the Financial Services Industry 1

Profile: thinkorswim 2

Live Chat: Pushing and Pulling New Customers 3

Understanding Corporate Insight's Website Audit 6

Financial Forums: A Brief History

Online bulletin boards and forums have served as virtual communities since long before Tim O'Reilly coined the phrase "Web 2.0." But the landscape has changed in the years since the heyday of Usenet in the 80's. Faster connection speeds, widespread consumer penetration and better publishing tools have created an environment where online communities have been able to flourish in the mainstream.

Like other subject-specific online forums, investing-focused Internet communities emerged in the 1990's as the Web became an increasingly important source of information and communication. In Yahoo! Finance's case, the site's stock message boards became a popular venue for users to express their opinions about individual companies. Though still widely used, the site's boards have long been prone to abuse by penny stock pushers and discussions sometimes degenerate into flame wars – clear drawbacks for any investing community.

Newer financial services firms are making social networks a core aspect of their business models.

Finance & Social Networking: The Dawn of Social Investing

In general, the broader financial services industry has been slow to react to the emergence of mainstream online communities. After all, the business case for online communities isn't exactly self-evident. That hasn't stopped newer companies from making social networks a core aspect of their business models.

Take Zecco.com. Launched in the fall of 2006, the online discount brokerage has used free trades to promote its community-based website, which allows members to "trade ideas and network with experts and like-minded individuals."

While the site's Trading, Quotes & Research, and Education tabs could appear on any online brokerage website, the Community area has the look and feel of a Facebook page. Zecco members can "friend" one another, join investment groups and discuss issues through online forums or personal message boards.

More recently, the firm launched a tool that tracks user positions and portfolio gain/loss information. This data gives community members a metric for determining the value of the user's remarks and advice. At present, the feature only tracks positions held through Zecco, but the firm has announced plans to incorporate

(Continued on page 5)

PROFILE: THINKORSWIM

If the unusual name hasn't caught your attention, perhaps the numbers will...

thinkorswim first came onto the online brokerage scene in 1999, just before the Internet bubble burst and the public began to lose interest in day trading. Despite the challenging market conditions that would follow, the firm steadily attracted a small but loyal customer base of sophisticated options traders drawn to the firm's desktop trading software.

In 2005, Barron's rated thinkorswim one of the top four online brokers in its annual industry review and gave it first place for execution. This was one of the firm's first major industry awards but it wouldn't be the last. In 2006, options education specialists Investools purchased the company, ushering in a period of unprecedented growth.

In the year and a half since the merger, thinkorswim's opened and funded accounts increased from approximately 15,000 to nearly 67,000. Invested client assets increased threefold, from \$850 million to \$2.69 billion. Daily Average Retail Trades (DARTS) increased from 7,700 in September 2006 to 46,300 in March 2008. In the process, thinkorswim's accolades have continued to pile up. In 2007, Barron's named thinkorswim "Best software-based online broker" and "Best for options traders" for the second consecutive year. This year, the firm came in second place for "Best Online Broker", trailing TradeStation Securities by only a fraction of a point.

Clearly, thinkorswim is doing something right. In our view, the firm's three critical differentiators – ranked from first to last in terms of importance – are technology, support and education.

Innovative Desktop Software

thinkorswim takes its software development very seriously. In an interview we conducted in April 2008, CEO Tom Sosnoff said he believed that the firm has built "the best financial technology in the world."

Each year, the company releases 12 new builds of its desktop software, making steady enhancements to the platform throughout the year. In our experience as customers, new releases have been smooth and easy to digest – we've experienced little-to-no instability with new platform builds and, best of all, the system automatically scans for updates each time we log in.

thinkorswim's most recent build was released on March 29, 2008. One significant new feature is quotes for options on futures. On April 19, 2008, clients were able to start trading these securities. In the release just prior to that, the firm added a tool – thinkBack – that lets users back-test options against historical data, a powerful tool for serious options traders.

Some other strengths of the thinkDesktop platform include the Analyze tool, which allows clients to simulate hypothetical trades as well as test existing positions for risk, volatility and the probability of reaching a certain price. The SpreadBook, SpreadHacker and Stock-Hacker tools also stand out. SpreadBook lets users view spread orders that other thinkorswim clients are currently working on, allowing them to place a similar or opposite order. SpreadHacker and Stock-Hacker let users scan for option and stock trades, respectively, across all exchanges based on criteria they select.

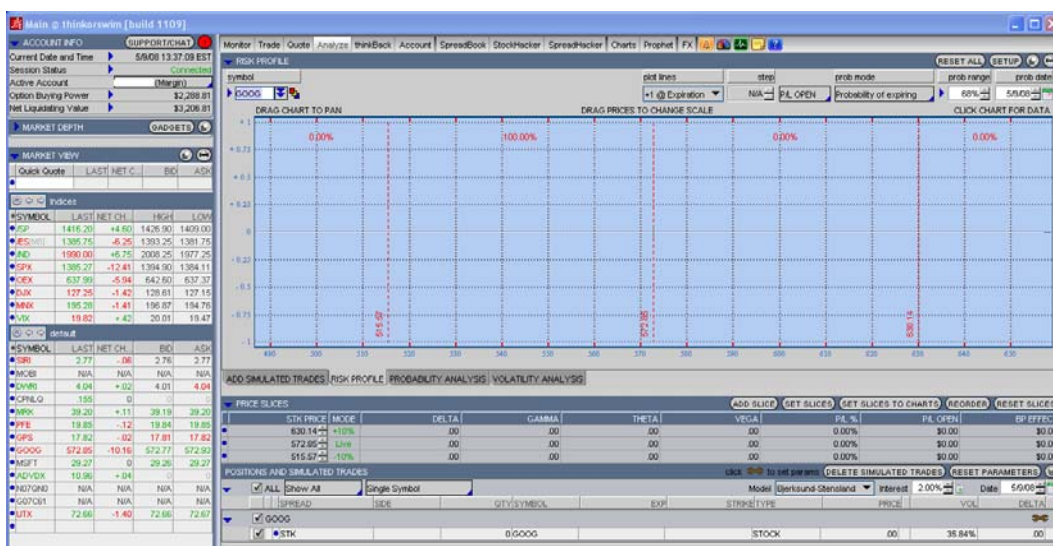
While thinkorswim is best known for its desktop software, the firm also allows retail clients to trade via other venues, including a website (webBased Trading) and via mobile device (Mobile Trading, with specific apps designed for different devices).

Customer Service from Real Traders

Our experience with customer service representatives at thinkorswim has been very positive. Wait time is almost non-existent and reps are very knowledgeable about platform and trading strategy issues. Responses are thoughtful and never seem to be pulled from a generic client service manual.

If any criticism could be levied against these reps, it's that they tend to be a little rough around the edges, dispensing with the usual pleasantries and getting right down to business when they take your call. On the positive side, they're more efficient and knowledgeable than any other reps we've encountered, which seems like a fair trade-off.

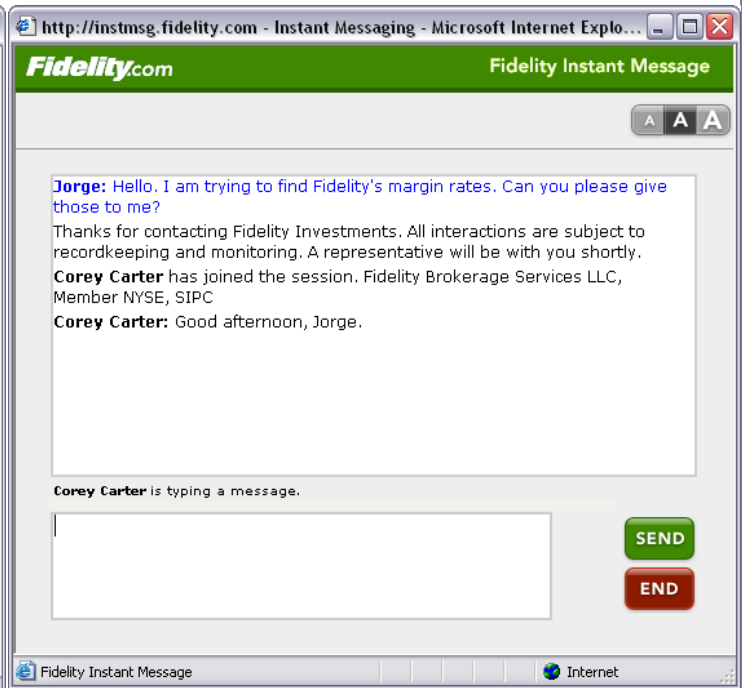
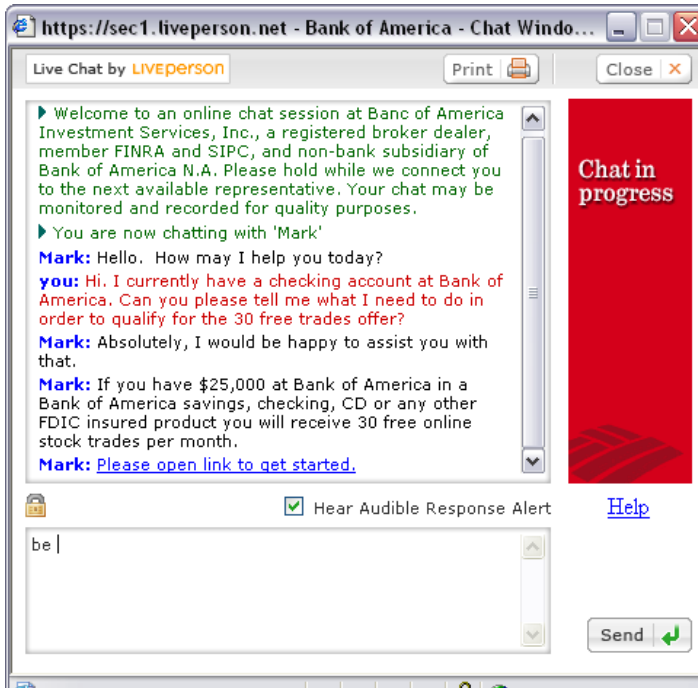
According to Sosnoff, thinkorswim pays its representatives "almost three times the industry average" and "hires expert traders with over ten years of experience." This helps explain the firm's very strong service, which – to date – seems unaffected by recent growth.



thinkorswim's thinkDesktop Software

(Continued on page 4)

LIVE CHAT: PUSHING AND PULLING NEW CUSTOMERS



In August 2006, Corporate Insight's *e-Monitor Report* analyzed the retail brokerage industry's live chat tools. The report described how financial institutions had been slow to incorporate this capability into their websites, this despite the fact that roughly half of the American population uses chat tools daily.

The April 2008 *e-Monitor Report* revisited the topic and found that chat has gained some traction in the brokerage industry. Today, 33% of the brokerage sites we track in *e-Monitor* offer live chat, up from 17% back in 2006. Charles Schwab and Vanguard added chat to their sites since the August 2006 report, while Bank of America improved their tool's visibility and Fidelity enhanced its instant message capabilities.

The proliferation of live chat tools hasn't been limited to the brokerage industry, however. JPMorgan Chase and Discover Financial also added chat to their websites in the past 12 months, joining several other bank and card companies that already offer the service.

We recently took a look at all of the chat tools offered by the websites that Corporate Insight covers to see whether, and how, they differ from each other. Overall, we found there's not much to talk about when it comes to the aesthetic or usability aspects of these tools. Of the 13 sites that offer live chat, eight of them use the same provider, LivePerson, and the tools generally function in the same way. We did see some interesting differences, though, in the way firms position chat tools on their sites and the constituencies they target with these tools.

Positioning is Key

Some websites take a low-key approach to broadcasting the availability of their chat tools. Vanguard offers a link to theirs on only one

page of the website – the Help Center overview page – and reps will only discuss basic security, technical and login questions. HSBC confines its chat tool to the lending portion of its site, while Discover restricts chat to the online application. While these firms selectively advertise their live chat, others make it readily available, expressing their desire to serve customers through this medium.

Bank of America offers links to live chat in several key areas of the retail public site, including product pages for Checking, Savings, Home Equity and Mortgage. Clearly, the firm views chat as a new client acquisition tool.

Fidelity takes a similar approach. Links to "Instant Message a Representative" are located in the right margin of several product pages, as well as on the Contact Us page. JPMorgan Chase also employs chat on a number of pages throughout its retail banking public site.

optionsXpress offers live chat as a primary communication channel for both prospective and existing customers. The firm features a prominent link to the tool in the upper right-hand corner of each site page, but buries its telephone number and customer service email form in the site's Help tab.

Defining the Audience

Firms also differ in terms of the audience they intend to serve via live chat. Some see it mainly as a marketing tool to deliver product information to consumers and offer account recommendations. Need help applying for a loan? Online specialists are more than happy to guide you through the process. In fact, reps are often eager to convert the inquiring consumer into a customer. Phrases like

(Continued on page 4)

(Live Chat, continued from page 3)

“let’s get you started” were repeated often during our chat sessions and reps weren’t shy about sending page links, images and other information to expedite the account opening process.

Along similar lines, live chat is fast becoming part of many firms’ online account application. It makes sense to position this resource here, as it can reduce the attrition rate of the application process. Ten of the 13 firms that offer chat include it in their applications. While useful for new client acquisition, chat can also be a powerful client service tool. Fidelity and optionsXpress both allow clients to chat about their accounts with a rep provided that they are logged into the website. After clearing a few security hurdles, optionsXpress clients can even submit trade re-requests via chat – an interesting finding from the April 2008 *e-Monitor Report*.

Push or Pull?

Several companies are taking customer service one step further by employing a concept commonly referred to as “push-chat.” By “push” we mean that reps proactively invite visitors to chat based on their online behavior. If customers idle on a page or if they visit a certain area of the site repeatedly, a rep will ask them if they need help, suspecting that they’ve hit an impasse and could use some assistance.



Firms like Bank of America and Charles Schwab use these solicitations on mortgage and home equity pages. Chase and Discover feature push-chat in account and card applications, as specialists are eager to move users through the online document.

While push chat is a great way to initiate a conversation with a prospective client, firms should be wary of relying too heavily on this technology. For example, we made several trips to the Bank of America and Schwab retail websites recently without being invited to a chat session. Since Schwab’s chat is entirely push, visitors may not even realize the capability exists. At least with Bank of America, the firm provides links to chat, allowing users to initiate the session on their own.

As consumers continue to become more comfortable communicating through live chat tools, financial services firms should seriously consider offering the service and employing it in a logical fashion. Tools should be easily accessible and positioned in areas of the website where they can complement product and service information. Firms should also consider offering a list of pre-loaded chat topics to help get conversations started and/or route consumers to the right department. Finally, if a firm wants to offer chat, they should make sure customer service centers are properly staffed with chat representatives, ensuring timely responses to user-initiated chat requests. ☒

(thinkorswim, continued from page 2)

Key competitors like Interactive Brokers and TradeStation are unable to compete with thinkorswim on support. TradeStation does not offer live chat and the wait time to reach a service rep on the phone can be very long – up to 30 minutes in our experience, this despite having a significantly smaller customer base than thinkorswim.

Interactive Brokers offers live online support but makes clients jump through hoops to access it. We’ve spent upwards of 30 minutes waiting to connect to a service rep via this channel. Our customer support experiences with other firms catering to active traders – like Charles Schwab, Scottrade and TD Ameritrade – have also been lackluster.

Investools Merger Reinforces Educational Edge

Thanks to its merger with Investools, thinkorswim, says Sosnoff, now “offers the largest free and paid-for education facility in the world.” Users have access to OptionsPlanet options education classes and seminars as well, many of which are free to TOS clients.

Every Wednesday at 3:15 pm CST, Sosnoff and TOS co-founder Scott Sheridan join other industry experts in discussions that usually focus on the firm’s software or on trading strategies. These informative exchanges take place in the Trader’s Lounge chat room and are open to all users.

The company also offers prospects and clients alike two paper trading accounts funded with \$100,000 each – one margin and the other retirement – to test out platform applications and trading strategies before investing real money.

Can Service Survive Growth?

While thinkorswim has grown rapidly in the past few years, the company hasn’t shown any growing pains. Client satisfaction remains high and the Investools relationship has clearly provided the firm with a steady source of new accounts.

It remains to be seen if thinkorswim can continue this growth while preserving its superior service. After all, the firm’s current retail client base is less than 1% of Charles Schwab’s, which recently reported over 7 million active client accounts. To continually double or triple its customer base each year without experiencing any loss in service would be an impressive achievement. We look forward to seeing whether thinkorswim can pull it off. ☒

(Social Media and Financial Services, continued from page 1)

data from other online brokerages in the upcoming months, giving users a more complete perspective of community members' portfolios.

Corporate Insight will launch coverage of Zecco, as well as TradeKing and thinkorswim, early this summer in both our *e-Monitor* and *Broker Monitor* publications. Look for an initial review of all three firms' websites in an upcoming *e-Monitor* monthly report.

While Zecco brings an element of egalitarianism to online investing, newcomer Covestor has established a community of investment leaders and followers. As Perry Blacher, Co-Founder and Company Director, puts it, "[Covestor] is not about the wisdom of crowds. That's the market. We focus on great individuals."

Rather than integrate community elements into the framework of an online brokerage, Covestor concentrates on providing a service akin to Zecco's member tracking tool. At Covestor, a user's performance is associated with his or her Covestor profile and can be exported to blogs hosted on other sites.

The result is an environment where novice investors can track established investors with a publicly proven track record. Members' portfolio positions are featured alongside their commentary so fellow users can view the reasoning and results of their decisions. Investment leaders can earn a fee based on the number of individuals tracking their profile.

Community Forums Begin to Emerge

Unlike these start-ups, which are free to build their own business model around social networks, established financial services companies must often look for ways to leverage community elements within their existing business model. To date, the most common reaction has been to launch community forums where clients can discuss common investing issues.

Although slow to start, forums are beginning to appear in parts of the industry beyond the active trader space. Bank of America and T. Rowe Price have created platforms to serve niche audiences – small business owners and plan sponsors, respectively.

Schwab's recently-launched Money and More Community, on the other hand, is designed for a more general audience, albeit younger investors aged 25-40. First reviewed in the April 21st edition of our *e-Monitor Update*, the Money and More Community forum provides financial information and community resources focusing on issues that affect young investors, including college education costs and first home purchases. In addition to the community section where users can participate in financial discussion forums and create blogs,

The screenshot shows the Zecco website interface. At the top, there's a navigation bar with 'HOME', 'TRADING', 'COMMUNITY', 'QUOTES & RESEARCH', and 'EDUCATION'. The user is signed in as 'Simagma' and has options for 'SIGN OUT' and 'TRADING'. The main content area is divided into several sections:

- PERSONAL PROFILE:** Gender: Male, Country: United States, State: California, City: Sunnyvale, Member since: December 04, 2007, Last seen at Zecco: May 15, 2008.
- INVESTOR PROFILE:** Investment Discipline: Growth, Trading Style: Short-term, Trend Trading, Research Style: Fundamental, Investment Experience: < 1 Year.
- ACTIVITY FEED:** Shows recent forum posts, such as 'Simagma replied to the Penny Stock Trading discussion: GCOG.OB'.
- EQUITY POSITIONS TABLE:**

SYMBOL	PORTFOLIO WEIGHT	PERFORMANCE	NUM HOLDERS	CAPS RATING
MER	60.2%	S -7.5%	17	★★★★★
MELI	39.8%	L 7.1%	13	★★★★★
		Overall 10.5%		Powered by GainsKeeper®
- COMMUNITY:** Includes sections for 'Let's Talk', 'FRIENDS', and 'FAVORITES'.

Zecco User Profile

Money and More also features articles, calculators, charts and glossaries.

Ripple Effects

Going forward, we expect more firms to leverage elements of social networking and online forums as the medium continues to shape the future of marketing and the exchange of information. The way firms implement these features will depend on their specific strategic goals and the willingness of their compliance departments to allow for innovative community features. While some will follow the example set by Zecco, Charles Schwab or companies outside the industry, others may find a publicly accessible forum has little strategic value.

At least initially, the mutual fund industry is likely to find itself in the latter group. As an alternative, Mr. Spaulding from MFS Investments thinks fund firms may launch internal communities targeting wholesalers. "We have a field force that knows [MFS's] stories and products very well, but with the breadth of our product lines, keeping [wholesalers] informed of the latest product positioning can be a challenge." An online forum could open a new channel of communication where fund companies and wholesalers can introduce, develop and exchange sales strategies.

Further down the road, it's likely that progressive firms will use online forums as a source of user feedback. While self-produced communities will obviously be a large source of information, we also expect firms to use 3rd-party services like Twitter, the popular micro-blogging site. Michael Dell has championed this strategy to help Dell Inc. enter into direct conversations with customers and critics. By tapping a resource that is not directly associated with their brand, financial services firms can engage in a true dialogue with consumers to better understand their needs. ☞

Corporate Insight, Inc.

675 Third Ave.
27th Floor
New York, NY 10017

Phone: (212) 832-2002
Fax: (212) 832-3327
E-mail: ellisonm@corporateinsight.com

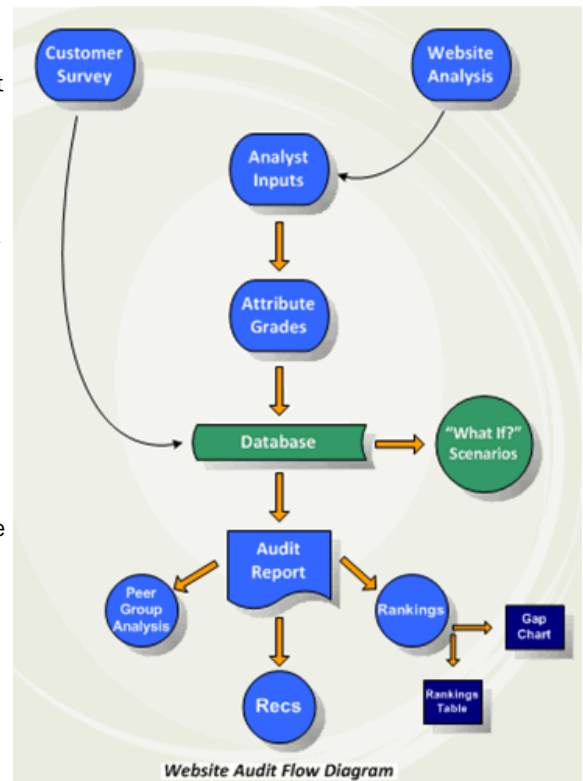


A new look at market intelligence.

UNDERSTANDING CORPORATE INSIGHT'S WEBSITE AUDIT

By leveraging our research and our deep knowledge of online best practices, Corporate Insight has developed the Website Audit to help financial services firms improve their websites. Launched in 2004, the Audit combines a robust software reporting tool and an exhaustive report to help our clients understand exactly how to improve their websites. Some of its unique features include:

- A **large-scale survey** gathers consumer input to help establish importance weightings, which are applied to site scoring models to reflect different investor profiles/segments.
- The **Audit framework** is organized into categories, sub-categories and individual attributes. Each attribute is graded based on pre-established criteria that are objective and transparent, allowing us to evaluate all sites on a consistent and fair basis. This framework lets clients take a broad - or deep - view of their site's competitive position.
- Our **proprietary software** reveals the biggest strengths and weaknesses of the client's site relative to competitors and assesses the effectiveness of the site in serving various demographic groups, such as the Mass Affluent (liquid household assets over \$500k) or investors aged 40 and under. It also allows users to run **"what if?" scenarios** to understand what would happen to the overall appeal of their site if they were to enhance or add a feature.
- The two key deliverables of the Audit service are the **Audit report**, offering hundreds of detailed recommendations to improve the client's site, and the **Audit software** described above.



The end result of the Audit process is that clients understand where their website's strengths and weaknesses are and what they need to do to become "best of breed." For more information about how the Audit can help your firm, contact Bob Burlin at 212-832-2002 x.115 or rburlin@corporateinsight.com.