

Plus500 – High Corporate Profits – at your expense?

13th July 2022

If you are trading with Plus500, then this article should be mandatory reading. I have reviewed the CFD broker known as Plus500. My conclusion is that the company is significantly overcharging its customers compared to other brokers.

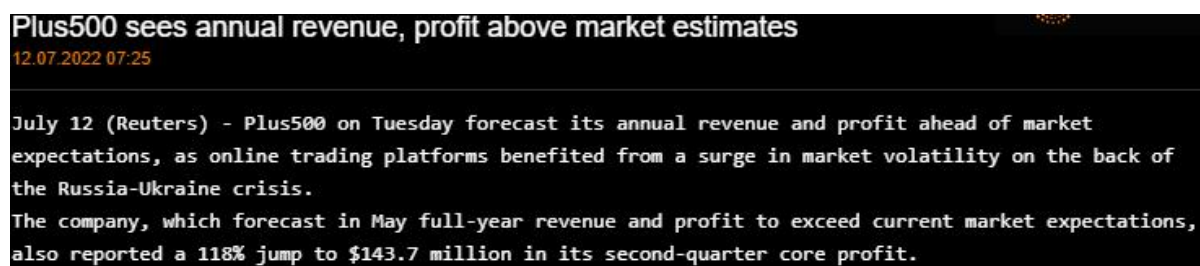
Judge for yourself – but please know that I am only stating facts – rather than opinions – unless otherwise stated.

Who is Plus 500?

Plus500 is a global fintech firm providing online trading services in contracts for difference, share dealing, futures trading and options on futures. It is a publicly traded company, and a member of the FTSE 250 index on the London Stock Exchange.

Earnings Numbers

Plus500 announced their earnings yesterday, the 12th of July 2022. The company boarded more than 57,000 new costumers over the last 6 months. Their revenues were \$511m, an increase of 48% from last year.



Plus500 is a full clearing firm member of CME, but this article relates to their Contract for Difference part of the business.

Extortionate Pricing Model

The heart of this article is to highlight the extortionate Bid Ask pricing of core trading products such as FX currency pairs and stock indices, when compared to other CFD brokers.

The only true factual measure of a trading platform is the pricing of products. Either a broker is cheaper or more expensive or the same as its peers. Price comparison is an objective measure. Taste and preference of platform is of course in the eye of the beholder. This article is not attempting to act as a judge in a beauty contest. I am solely focused on the hidden Bid Ask cost.

Given the significant prominence that Plus500 has in the CFD trading landscape and considering the client volume growth the company is experiencing, I am concerned that new traders are unaware how expensive it is to trade commonly traded products with Plus500.



Bid-Ask Spread

Plus500 does not charge their clients commission when they execute a trade in stock indices and currency pairs. Instead, they charge a Bid Ask spread, as do all CFD brokers. This is perfectly normal, and this is a common practise amongst practically all CFD brokers.

However, the size of the Bid-Ask spread determines the “hidden cost” of executing the trade. The higher the Bid Ask spread, the more disadvantaged the customer is.

Example

Say you want to trade the Dow Jones Industrial Average stock index with Plus500, called USA30 - Wall Street on their platform, you will see two prices, a BUY price and a SELL price. This makes up the Bid Ask spread. The narrower the Bid-Ask spread is, the better it is for the trader.

Right now, Plus500 is offering the instrument at 31,002 (to sell) – 31,006 (to buy). The instrument is traded on a 4-point spread. In other words, if you buy at 31,006, the market must move 4 points in your favour before you are at breakeven.

Instrument	Sell	Buy
USA 30 - Wall Street	31,002	31,006

Devastating Effect Over Time

Say you buy at 31,006 and you risk \$10 per point movement, you have essentially paid \$40 in hidden commission. It means that the lower the Bid-Ask spread, the less you pay in hidden commission.

Let me give you an example. Say an active client of Plus500 is trading the Wall Street Index 5 times a day, on a 4-point Bid-Ask spread, and each time risks \$10 per point movement in the index, then he or she will pay $5 \text{ (trades)} * 4 \text{ (Bid Ask spread)} * \$10 = \text{\$200 in commission}$.

Compare that to a trader who trades with a more competitive broker, where the Bid Ask spread in the Wall Street index is say 1 point, then this trader, also executing 5 trades at \$10 per point risk, will only have paid $5 * 1 * \$10 = \text{\$50 in commission}$.

I want to remind you that it is the same product. They might be traded with two different brokers, but they are 100% identical. The only difference is that Plus500 charges 300% more in Bid Ask than other brokers do.

Over a year (about 250 trading days), a Plus500 client will have paid **\\$50,000 in Bid Ask commission**, whilst another trader with a more fairly priced broker will have paid **\\$12,500 Bid Ask commission**, using this example as a guide.

\\$50,000 vs \\$12,500 – an Isolated Case?

I went through the most commonly traded products amongst CFD traders, and I logged the Bid Ask spread on the following products and compared it to a “reference” broker.

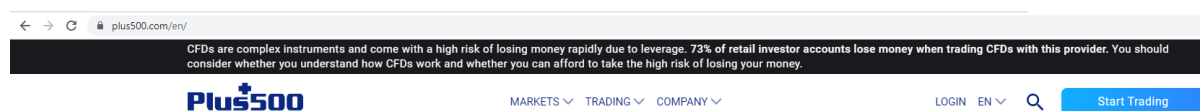
PRODUCT	PLUS 500	“REFERENCE”	DIFFERENCE
Wall Street Index	4 point spread	1 point spread	300% more expensive
German Index	1.98 point spread	0.9 point spread	100% + more expensive
UK 100 Index	2 point spread	0.4 point spread	400% more expensive
US TECH Index	1.90 point spread	0.7 point spread	180% more expensive
USA 500 Index	0.70 point spread	0.14 point spread	400% more expensive
EUR USD	0.80 point spread	0.60 point spread	33% more expensive
GBP USD	1.3 point spread	0.80 point spread	60% more expensive
GBP JPY	3.0 point spread	1.80 point spread	60% more expensive
USD JPY	1.0 point spread	0.70 point spread	40% more expensive

My “reference” Bid Ask spreads is found at a broker I trade with, but in the interest of objectivity I have merely used their Bid Ask spreads as a reference, but I have decided not to name the broker. It is up to the individual trader to do their own due diligence. I have taken the spreads from the time of the day where the markets are at their most active. I have video recorded both for evidence.

PLUS500 Business Model

I am unable to establish if Plus500's stellar financial performance in its latest filing is a direct result of the trading volumes or if indeed it is because they are not hedging their clients' trades. I notice that 73% of their clients are losing money, so it might not be a stretch of the imagination to speculate that a statistician within the company has concluded that they should not hedge their exposure. That is of course pure speculation on my part, and in reality that has little to do with the argument of the article.

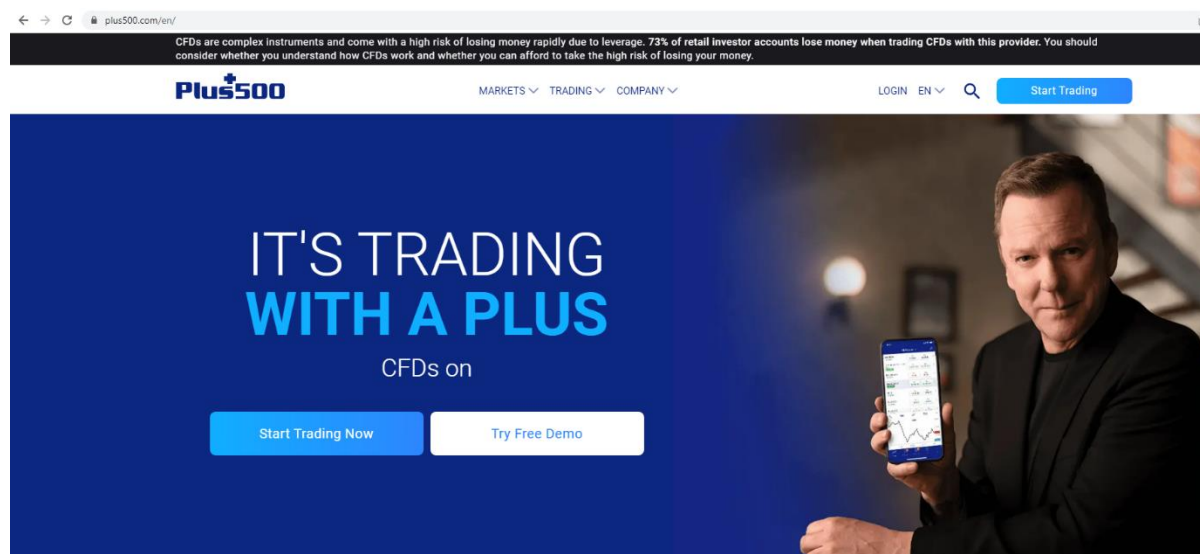
The main premise of the article is that if you as a trade execute your deals with a broker such as Plus500, you are at a disadvantage compared to trading with other brokers that have lower Bid Ask spreads, of which there are many, I assure you.



As a trader myself I am actually indifferent to what my brokers do with my trades. I do not care if they hedge my trades in the open market or if they keep it on their own books, the latter meaning that if I win, they lose, and vice versa.

What I do care about is that I am treated fairly at all times and that I am able to execute my trades in a timely manner. None of the above is the reason for writing this article. I have deliberately not written about the Plus500 platform, or the fact they are using a Hollywood actor to promote their services. That seems to be a common theme amongst brokers these days, to get irrelevant actors or football coaches to promote their products.

Personally, I find it hilarious that Plus500 is using an American actor to promote their CFDs when in fact CFD trading in America is illegal, but then I am told that actually Kiefer is Canadian with a British passport. Forgive me, I am straying from the central message of the article.



My argument for writing this article is to highlight that Plus500 is feasting on their client's expense through the use of outrageously expensive Bid Ask spreads on the majority of the most commonly traded stock indices and currencies.

My words and my language aside, the numbers speak for themselves. There are plenty of price comparison sites for CFD brokers that one can turn to, if one happens to be a client of Plus500 and perhaps feels my message hits a raw nerve.

So, to answer my first question, does Plus500's stellar corporate earnings come at the expense of their prices on the platform? I don't know, but what I do know is that there are many other brokers that offer the identical product at a fraction of the Bid Ask price you pay at Plus500.

Buyer beware

Tom Hougaard

TraderTom.com