

Interactive Brokers Stock Analysis - NASDAQ: IBKR

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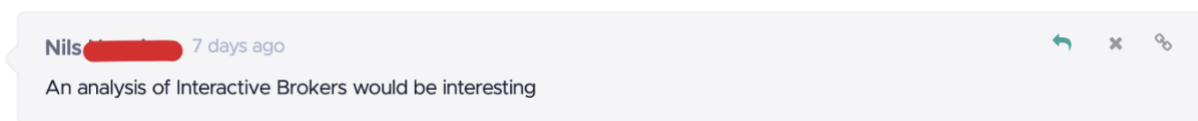
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VALUE INVESTMENT SUMMARY:

- Great business, great margins, leading global position and NO DEBT.
- Currently enjoying great profits due to high interest rates and interest rates are the key here. If those go lower and back to 1.5% from the current 5.5%, net income might half. If those go higher or stay stable, business will keep booming.
- Management is against buybacks due to low float and prefers and acquisition for growth. Smart management, it is about owning a great business and not financial engineering.

INVESTING CONCLUSION:

If interest rates stay high, this is relatively cheap, but if interest rates drop, the stock could follow. Thus, the stock is a relative buy at the moment but not an absolute margin of safety value investment buy.

I am waiting for temporary negative influence on positive long-term underlying fundamentals.

Interactive Brokers Stock Overview- IBRK

Over the last decade the stock and the broker did well as internet investing became mainstream. The business survived the 2010s with zero interest rates and boomed on a higher number of internet customers and recent higher interest rates.

Market Summary > Interactive Brokers Group, Inc.

95,06 USD

+ Follow

+63.76 (203.71%) ↑ all time

Closed: 5 Feb, 18:31 GMT-5 • Disclaimer
Pre-market 95,10 +0,040 (0,042%)

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Open	96,00	Mkt cap	40,58B	52-wk high	97,12
High	96,78	P/E ratio	16,77	52-wk low	70,83
Low	95,06	Div yield	0,42%		

Of course, everything related to financial businesses had the zero-interest rate tailwind and all was emphasized by the pandemic money printing boom. However, that was in the past, and the company managed to build a leading global broker position, looks still a step ahead over the competition and isn't expensively priced with a PE ratio of 17.

For those who want an international broker that covers all markets, please check it by using the following link as I get a small fee for every unique click (thanks for your support).

[INTERACTIVE BROKERS LINK](#)

Let's check the business, financials and then conclude with a risk and reward analysis for current investing alongside a watch list perspective for future, possibly better opportunities.

Interactive Brokers- The Business- Leading Global Online Brokerage

I think their advantage is that they can offer global trading (all assets, even crypto) on more than 150 markets, low fees and you can use them from whatever country you are from, which is something very few brokers can offer.

Company Overview

We Are a Highly Automated Electronic Broker

We use our proprietary technology and international market-maker experience to offer the **lowest cost**,¹ **seamless global access** to multiple types of securities for both institutional and individual investors.

2.4mil
Client Accounts²

+21%
YoY² Account Growth

\$370B
Client Equity²

1.9mil
DARTs^{3,4}

\$13.3B
Total Equity²

Stocks | Bonds | ETFs | Mutual Funds | Futures
Options | Currencies | Commodities | Crypto

150+ **34** **27**
Market Centers Countries Currencies

1. For more information see ibkr.com/info. Lower investment costs will increase your overall return on investment, but lower costs do not guarantee that your investment will be profitable.
2. 09/30/23
3. DARTs are based on client orders
4. YTD through 09/30/23



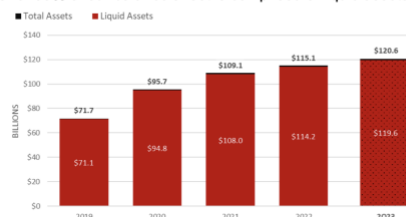
Source: [Investor Relations](#)

When it comes to online brokers where the assets are held in the street's name, not yours, you also want that your assets are safe. The company has no long-term debt, the equity of the business is \$14 billion, and they are working on having more equity to increase safety.

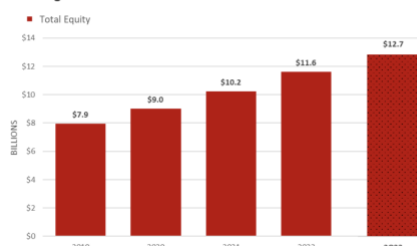
Financial Strength – Liquid and Growing¹

	June 2023	
Total Membership Interests	421.0 million	
Held by management & their affiliates	316.6	75.2%
Publicly held	104.4	24.8%
Total Market Capitalization	\$35.0 billion	
Public float	\$8.7	
Cash and Equivalents	\$3.7	
Total Debt	\$0.02	
Total Equity	\$12.7	
Total Assets	\$120.6 billion	

• Over 99% of our balance sheet is comprised of liquid assets.



• No long-term debt.

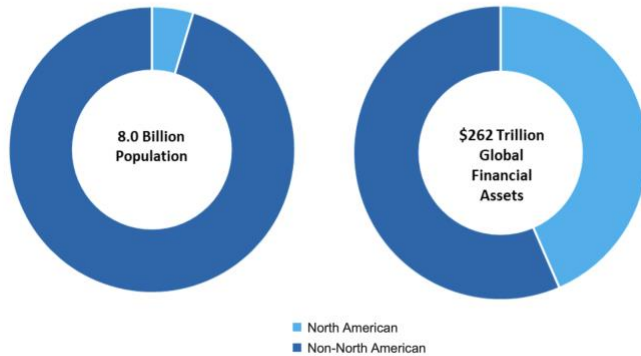


1. "Interactive Brokers Group" and "IBKR" include the Group's operating subsidiaries.

The total assets owned by the customers push the asset side of the balance sheet to \$128 billion. Given the \$140 trillion bond market and \$60 trillion global stock market, plus other, there is plenty of room to grow there.

Broad, Global Addressable Market

- Interactive Brokers operates globally, in multiple currencies across multiple client segments, which significantly enhances our addressable market size
- IBKR currently has customers in over 200 countries and territories, with over three-quarters located internationally¹
- Non-North American markets have the majority of global population, with many regions showing accelerating financial asset growth²



1. Information as of 09/30/2023. "Interactive Brokers Group" and "IBKR" include the Group's operating subsidiaries.
 2. Source: UBS/Credit Suisse Global Wealth Report 2023



The advantages are the following:

Cost Comparison

IBKR Continues to be the "Lowest Cost Broker"¹

- IBKR clients recognize that they can **maximize returns by minimizing their costs**
- Barron's has recognized Interactive Brokers as the low-cost broker 2002 through 2023¹

US Margin Loan Rates Comparison²

	\$ 25K	\$ 300K	\$ 1.5M	\$ 3.5M
Interactive Brokers	6.83%	6.50%	6.28%	6.17%
E-Trade	13.70%	12.20%	N/A	N/A
Fidelity	13.08%	11.83%	9.25%	9.25%
Schwab	13.08%	11.83%	N/A	N/A
Vanguard	13.25%	11.75%	N/A	N/A

Margin borrowing is **only for experienced investors** with high risk tolerance. You may lose more than your initial investment.

For additional information about margin trading including risks please see the Margin Risk Disclosure at ibkr.com/info

1. For additional information, see ibkr.com/awards
 2. Annual Percentage Rate (APR) on USD margin loan balances for IBKR Pro as of 10/02/2023. Interactive Brokers calculates the interest charged on margin loans using the applicable rates for each interest rate tier listed on its website. For additional information on margin loan rates, see ibkr.com/marginrates




Earn Interest on Instantly Available Cash Balances

- The U.S. credit interest rate is up to **4.83%** for **IBKR Pro** and **3.83%** for **IBKR Lite** ¹
- Clients can earn market rate interest on their **instantly available cash balances** ^{2,3}

USD Interest Rate Comparison⁴

Interactive Brokers	4.83% ⁵
Bank of America	0.04%
Citi	0.12%
E-Trade	0.01%
JP Morgan	0.02%
Schwab	0.45%
TD Ameritrade	0.35%
Wells Fargo	1.00%



1. Credit Interest rate as of 08/01/2023
 2. Accounts with a Net Asset Value (NAV) of \$100,000 (or equivalent) or greater are paid interest at the full rate. Accounts with a NAV lower than \$100,000 (or equivalent) receive interest payments at rates proportional to the account size, and no interest is paid on the first \$10,000 of cash in the account. Please note that interest is earned on positive settled cash balances held in the securities segment of an account but not on cash held in the commodities segment of the account.
 3. Restrictions apply. For additional information, see ibkr.com/interestrates
 4. Interactive Brokers LLC is a U.S. Broker/Dealer and not a Bank, as such Interactive Brokers' accounts are not eligible for FDIC coverage, but are insured through SIPC. For additional information about SIPC coverage please visit www.sipc.org.
 5. Rate shown applies to IBKR Pro clients only.



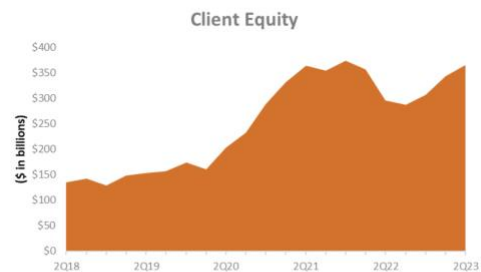
and I think the key is that the above is offered globally and that has allowed for strong growth in clients and investments:

IBKR Growth Continues¹

Multiple factors, including increased interest in the financial markets and the growing interconnectedness of investors worldwide, have propelled account growth.



More accounts on our platform have led to more client assets held at IBKR.



1. "Interactive Brokers Group" and "IBKR" include the Group's operating subsidiaries.



It is clear the company has a great onboarding strategy during the pandemic when people were getting money while sitting on the couch and there was a stock market bonanza. They actually quadrupled the number of accounts since 2020. Of course, we can't expect similar growth going forward, but the base is pretty large there for good profitability. Plus, the broker is voted as best on many investment platforms:

Recognized Industry Leader

IBKR's Multiple Trading Platforms, Extensive Suite of Advanced Trading Tools, Algos and Order Types Continue to Earn Awards, Year After Year.²

BARRON'S
2023 Barron's Award¹:
 Rated #1 - Best Online Broker (5 out of 5 stars)

BENZINGA
2023 Benzinga Awards:
 Best Online Brokers for Bonds
 Best Overall Broker for Mutual Funds

Investopedia
2022 Investopedia Awards:
 4.6 out of 5 stars Overall
 Best Broker for International Trading
 Best Online Broker for Advanced Traders

PREQIN
2022 Preqin Awards:
 Top Prime Broker
 Top Hedge Fund Custodian



2023 ForexBrokers.com Awards:
 #1 Offering of Investments
 #1 Professional Trading
 #1 Institutional Clients
 #1 ESG Offerings
 5 out of 5 stars Overall
 5 out of 5 stars Commissions & Fees
 5 out of 5 stars Offering of Investments
 5 out of 5 stars Platforms and Tools
 5 out of 5 stars Research



2023 BrokerChooser Best Online Brokers:
 Best Online Broker
 Best Stock Broker
 Best Broker for Day Trading
 Best Broker for Investing
 #1 for Best Online Broker in Singapore
 #1 for Online Brokers & Trading Platforms in the UK
 #1 for Best Online Brokers in India
 #1 for Best Brokers for ESG Investing



Ganadores de los Premios Rankia 2023 para Mejores Brokers:
 Best Multiproduct Broker



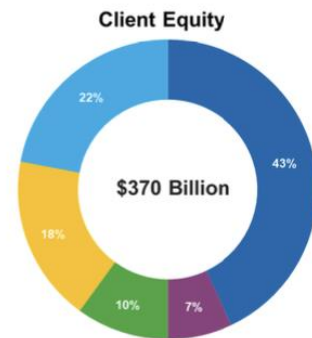
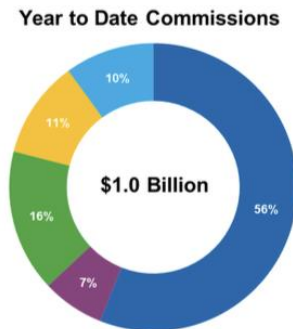
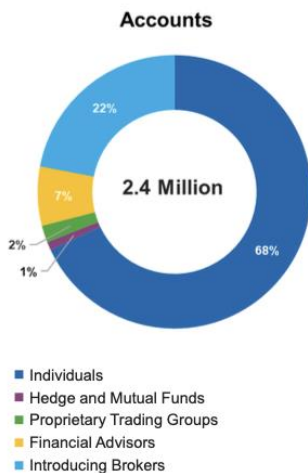
2022 StockBrokers.com Awards:
 #1 for Professional Tools
 #1 for Futures Trading
 #1 for Offering of Investments
 #1 International Trading
 5 out of 5 stars Offering of Investments
 5 out of 5 stars Research

1. Barron's is a registered trademark of Dow Jones & Co. Inc.
 2. See ibkr.com/awards

The company is working on diversifying the client base, going from the current focus on individual investors to others like hedge funds.

Diversified Client Base – by Client Type¹

As of September 30, 2023



1. "Interactive Brokers Group" and "IBKR" include the Group's operating subsidiaries.

They do have an interesting ownership structure with membership interests but only the public float is accounted into earnings per share:

September 2023	
Total Membership Interests	421.0 million
Held by management & their affiliates	314.0 74.6%
Publicly held	107.0 25.4%
Total Market Capitalization	
Public float	\$9.3
Cash and Equivalents	\$3.8
Total Debt	\$0.01
Total Equity	\$13.3
Total Assets	\$120.6 billion

They could use the equity to push the stock price 5x easily but there is no point in doing that as it is pure financial engineering, as the CEO says.

To conclude on the business: Leading market position, global scale advantage and with the global community growing, the runway could be a longer one.

Last Results Q4 2023

2023 was a good year for the business as the markets were up and interest rates remained high which led to record numbers for the broker.

**GAAP DILUTED EPS OF \$1.48, ADJUSTED¹ EPS OF \$1.52
GAAP NET REVENUES OF \$1,139 MILLION, ADJUSTED NET REVENUES OF \$1,149 MILLION**

GREENWICH, CONN, January 16, 2024 — Interactive Brokers Group, Inc. (Nasdaq: IBKR), an automated global electronic broker, announced results for the quarter ended December 31, 2023.

Reported diluted earnings per share were \$1.48 for the current quarter and \$1.52 as adjusted. For the year-ago quarter, reported diluted earnings per share were \$1.31 and \$1.30 as adjusted.

Reported net revenues were \$1,139 million for the current quarter and \$1,149 million as adjusted. For the year-ago quarter, reported net revenues were \$976 million and \$958 million as adjusted.

Reported income before income taxes was \$816 million for the current quarter and \$831 million as adjusted. For the year-ago quarter, reported income before income taxes was \$689 million and \$671 million as adjusted.

Financial Highlights

(All comparisons are to the year-ago quarter.)

- Commission revenue increased 5% to \$348 million. Customer trading volume was mixed across product types with options and futures contract volumes up 21% and 4%, respectively, while stock share volume was down 22%.
- Net interest income increased 29% to \$730 million on higher benchmark interest rates, customer margin loans and customer credit balances.
- Other income decreased \$31 million to \$6 million. This decrease was mainly comprised of \$20 million related to our currency diversification strategy and \$8 million related to our investment in Tiger Brokers.
- Execution, clearing and distribution fees expenses increased 11% to \$100 million, driven by higher customer trading volume in options and futures.
- Pretax profit margin for the current quarter was 72% both as reported and as adjusted. For the year-ago quarter, reported pretax margin was 71% and 70% as adjusted.
- Total equity of \$14.1 billion.

The Interactive Brokers Group, Inc. Board of Directors declared a quarterly cash dividend of \$0.10 per share. This dividend is payable on March 14, 2024, to shareholders of record as of March 1, 2024.

Earnings were up and practically all metrics and what might be key is the pretax profit margin of 71%. High profit margins usually describe good businesses. Also, such a high profit margin means that even if things change dramatically the company should still be profitable and survive.

Business Highlights

(All comparisons are to the year-ago quarter.)

- Customer accounts increased 23% to 2.56 million.
- Customer equity increased 39% to \$426.0 billion.
- Total DARTs² increased 2% to 1.93 million.
- Cleared DARTs increased 2% to 1.73 million.
- Customer credits increased 10% to \$104.5 billion.
- Customer margin loans increased 14% to \$44.4 billion.

In the conference call, the CEO mentioned how he thinks interest rates could remain higher than expected which would bode well for the company but also that he thinks they can maintain a 70% margin even with 3 rate cuts.

In 2023, we added over 470,000 net new accounts. Our client equity at year-end was up 39% to \$426 billion, an increase of over \$100 billion from last year. We earned over \$4 billion in net revenues and over \$3 billion in pretax income, both for the first time. Our pretax margin was 71% for the full year - by far, the highest in the industry: in fact, very few public companies in any industry have that kind of profit margin. **If market conditions continue as they are, even with the three interest rate cuts predicted, I see no reason why we wouldn't be able to maintain pretax margin at the 70% level.**

We saw stronger markets in 2023, with the same focus on options and on the Magnificent Seven stock names that we have seen for a year now. We see options being actively traded both traditionally as a means to offset risk, and as standalone zero day to expiry.

Regarding interest rates, we are not willing to argue with the market. If the market believes that long-term rates will be under 4%, we don't think it's our business to dispute it. However, there are several long-term trends that, in my opinion, call for higher inflation and higher rates in the long run.

His thesis on higher for longer inflation and interest rates is based on increased shipping costs and geopolitical issues, bad demographics leading to increased cost of skilled labor in developed countries and deficits where large deficits lead to spending and higher interest rates lead to even larger deficits and the high costs of environmental spending. He sees the potential for rates to go as high as 7%: (time will tell)

Combining these factors, it is hard to see how inflation will subside over the long term, even if in the next several months it may ameliorate somewhat. These trends are inescapable, and while you may see long term rates at 4% for now, they could go back to 5%, 6%, 7% or more as costs, deficit spending and the national debt keep increasing.

Turning to our business, our client accounts and client equity grew fastest in Europe and Asia as more and more people worldwide want to access international markets, invest in securities they feel offer the most upside regardless of what type of security it is or where it is traded, and hold what they perceive as “safer” currencies.

A look at the numbers. This business as it is now can be explained as an interest rates game. Net interest income below was \$2.8 billion while non-interest net income for 2023 was \$1.5 billion. For me, this is also the key risk. If interest rates stay high or go higher, great, but if interest rates go lower or the spread narrows, it could give a significant blow to revenues and net income. Total non-interest income was up from \$1.4 billion to \$1.55 billion and that is how I look at the business with interest income a more random variable.

INTERACTIVE BROKERS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2023	2022	2023	2022
(in millions, except share and per share data)				
Revenues:				
Commissions	\$ 348	\$ 331	\$ 1,360	\$ 1,322
Other fees and services	55	43	197	184
Other income (loss)	6	37	(11)	(107)
Total non-interest income	409	411	1,546	1,399
Interest income	1,695	1,111	6,230	2,686
Interest expense	(965)	(546)	(3,436)	(1,018)
Total net interest income	730	565	2,794	1,668
Total net revenues	1,139	976	4,340	3,067
Non-interest expenses:				
Execution, clearing and distribution fees	100	90	386	324
Employee compensation and benefits	136	119	527	454
Occupancy, depreciation and amortization	25	22	99	90
Communications	12	8	41	33
General and administrative	45	48	211	165
Customer bad debt	5	-	7	3
Total non-interest expenses	323	287	1,271	1,069
Income before income taxes	816	689	3,069	1,998
Income tax expense	77	56	257	156
Net income	739	633	2,812	1,842
Net income attributable to noncontrolling interests	579	497	2,212	1,462
Net income available for common stockholders	\$ 160	\$ 136	\$ 600	\$ 380
Earnings per share:				
Basic	\$ 1.49	\$ 1.32	\$ 5.72	\$ 3.78
Diluted	\$ 1.48	\$ 1.31	\$ 5.67	\$ 3.75
Weighted average common shares outstanding:				
Basic	107,021,836	102,875,250	104,965,050	100,460,016
Diluted	107,811,190	103,656,668	105,846,877	101,299,609

In 2020 and 2021 net interest income was \$0.8 and \$1.1 billion or just around a third of the current but still, the company was profitable. However, from a financial perspective, there is a big difference between earnings per share of \$2.5 and \$5.

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2021	2020	2021	2020
(in millions, except share and per share data)				
Revenues:				
Commissions	\$ 320	\$ 288	\$ 1,350	\$ 1,112
Other fees and services	58	52	218	175
Other income (loss)	(70)	34	(2)	59
Total non-interest income	308	374	1,566	1,346
Interest income	350	280	1,372	1,133
Interest expense	(55)	(55)	(224)	(261)
Total net interest income	295	225	1,148	872
Total net revenues	603	599	2,714	2,218
Earnings per share:				
Basic	\$ 0.68	\$ 0.82	\$ 3.27	\$ 2.44
Diluted	\$ 0.67	\$ 0.81	\$ 3.24	\$ 2.42

Just to note the increase in shares outstanding going from 100 million to 108 million, which is significant for dilution and takes away from the real earnings.

Weighted average common shares outstanding:				
Basic	107,021,836	102,875,250	104,965,050	100,460,016
Diluted	107,811,190	103,656,668	105,846,877	101,299,609

The 10-Q is not out yet but I have checked last years and the compensation to employees is significant at almost half a billion. But the business is growing, EPS is growing, and they can pay that, thus it is what it is.

2022 10-Q report:

Results of Operations

The table below presents our consolidated results of operations for the periods indicated. The period-to-period comparisons below of financial results are not necessarily indicative of future results.

	Year-Ended December 31,		
	2022	2021	2020
(in millions, except share and per share amounts)			
Revenues			
Commissions	\$ 1,322	\$ 1,350	\$ 1,112
Other fees and services	184	218	175
Other income (loss)	(107)	(2)	59
Total non-interest income	1,399	1,566	1,346
Interest income	2,686	1,372	1,133
Interest expense	(1,018)	(224)	(261)
Total net interest income	1,668	1,148	872
Total net revenues	3,067	2,714	2,218
Non-interest expenses			
Execution, clearing and distribution fees	324	236	293
Employee compensation and benefits	454	399	325

The management is constantly working on new things and creating a larger and larger offering platform in order to scale over time.

On the hedge fund side, the most recent Preqin statistics show us moving into the number 5 position in terms of number of hedge funds for which we serve as prime broker. We were once again the fastest-growing of the top prime brokers this year. We plan to be #4 next year, behind only Goldman Sachs, Morgan Stanley, and JP Morgan. Our developers have been extremely busy with new products and tools, and have a full plate for the remainder of the year.

This quarter, we: Introduced fractional shares trading for Canadian stocks and ETFs; Launched a Securities Lending dashboard for our more sophisticated clients to be able to assess short selling activity for specific securities and inform their decision-making; Introduced the next-generation IBKR Desktop trading platform; Launched the "Discover" tool, to help clients find opportunities based on their own customized settings and trading preferences; Started our "Cents of Security" podcast, designed to help improve financial literacy for newer investors; and Introduced long-term investment accounts in Hungary.

We remain very optimistic about what our business model – international market access, a strong and secure balance sheet, and multiple features and tools, all at low prices with high interest paid on cash balances – offers to clients and potential clients around the world. In an increasingly uncertain world, the greater degrees of freedom our clients have to manage their portfolios as they wish, the better their ability to educate themselves as events change and economies increasingly fluctuate and diverge, the better off they will be. With that, I will turn the call over to our CFO, Paul Brody, who will go through the numbers for the quarter. Paul?

Source: [SA - transcript from conference call](#)

The focus is on growth and here is something very peculiar about buybacks said by the manager:

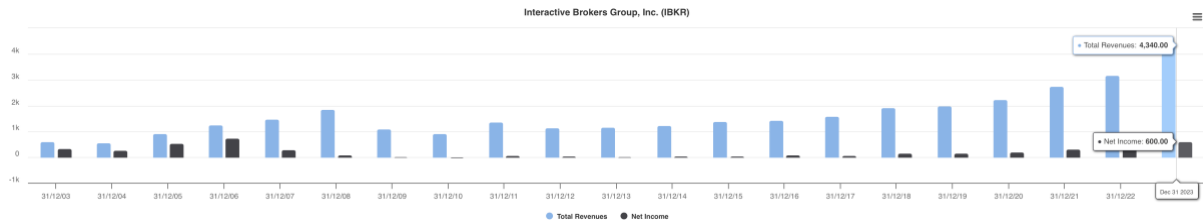
Finally, we are well aware that we have now reached \$14 billion in equity on our balance sheet. We are considering possible opportunities in the space that would help us grow the business. Our public float is small, so we are unlikely to buy back shares, and personally speaking I would hope that an opportunity presents itself, as raising the dividend is not something I think helps a company grow in the long run.

He is not going to do buybacks because that would push the stock higher and higher because of the low float. He hopes there will be a takeover opportunity.

To conclude on earnings, all seems to be great now, which is usually not the best time to invest into a business. On the other hand, if things continue to go well, this will go higher, but there isn't a big margin of safety at the moment for value investors.

Interactive Brokers financials

The financials look great but we are in the growing 'everything bubble' at the moment:



There had been a significant dip after the 2008/2009 GFC when interest rates went to zero but the company was mostly profitable. Now there is more scale, more customers so it should all look great, but a crisis would slow down things for sure.

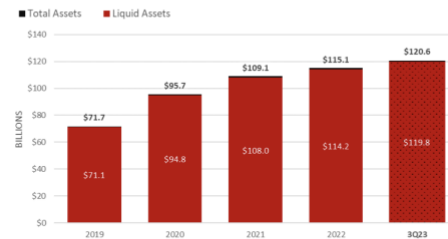
Part of their client's assets are on the balance sheet so don't get confused by the liabilities, the key is that there is no long-term debt and they have \$14 billion in equity. In the conference call an analyst asked whether they can use \$10 billion of that for acquisitions and the answer was that \$10 billion was a bit high, but we can estimate that \$7 billion could be excessive capital to deploy. Not bad on a \$40 billion market cap.

Financial Strength – Liquid and Growing¹

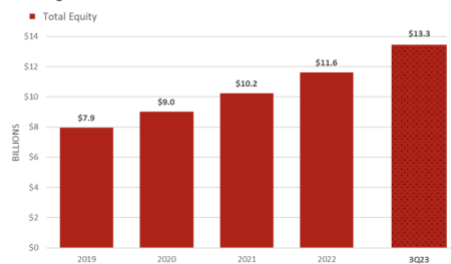
September 2023	
Total Membership Interests	421.0 million
Held by management & their affiliates	314.0 74.6%
Publicly held	107.0 25.4%
Total Market Capitalization	\$36.4 billion
Public float	\$9.3
Cash and Equivalents	\$3.8
Total Debt	\$0.01
Total Equity	\$13.3
Total Assets	\$120.6 billion

1. ¹ "Interactive Brokers Group" and "IBKR" include the Group's operating subsidiaries.

• Over 99% of our balance sheet is comprised of liquid assets.



• No long-term debt.



INTERACTIVE BROKERS GROUP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
 (UNAUDITED)

	December 31, 2023	December 31, 2022
	(in millions)	
Assets		
Cash and cash equivalents	\$ 3,753	\$ 3,436
Cash - segregated for regulatory purposes	28,840	25,167
Securities - segregated for regulatory purposes	35,386	31,781
Securities borrowed	5,835	4,749
Securities purchased under agreements to resell	5,504	6,029
Financial instruments owned, at fair value	1,488	485
Receivables from customers, net of allowance for credit losses	44,472	38,760
Receivables from brokers, dealers and clearing organizations	1,643	3,469
Other assets	1,502	1,267
Total assets	<u>\$ 128,423</u>	<u>\$ 115,143</u>
Liabilities and equity		
Liabilities		
Short-term borrowings	\$ 17	\$ 18
Securities loaned	11,347	8,940
Financial instruments sold but not yet purchased, at fair value	193	146
Other payables:		
Customers	101,012	93,195
Brokers, dealers and clearing organizations	590	291
Other payables	1,197	938
	<u>102,799</u>	<u>94,424</u>
Total liabilities	<u>114,356</u>	<u>103,528</u>
Equity		
Stockholders' equity	3,584	2,848
Noncontrolling interests	10,483	8,767
Total equity	<u>14,067</u>	<u>11,615</u>
Total liabilities and equity	<u>\$ 128,423</u>	<u>\$ 115,143</u>

Ownership of IBG LLC Membership Interests	December 31, 2023		December 31, 2022	
	Interests	%	Interests	%
IBG, Inc.	107,049,483	25.4%	102,927,703	24.5%
Noncontrolling interests (IBG Holdings LLC)	<u>313,976,354</u>	<u>74.6%</u>	<u>316,609,102</u>	<u>75.5%</u>
Total IBG LLC membership interests	<u>421,025,837</u>	<u>100.0%</u>	<u>419,536,805</u>	<u>100.0%</u>

High margins and no debt mean it is very unlikely the business will go bust, which gives it a margin of safety from that perspective.

Investing in Interactive Brokers Now and Tomorrow

Now, it looks good, but if customers get scared and lower their margin accounts, where I think the lower margin rates compared to the competition is also what attracts customers, as most people want to get rich fast, there is also a risk there. Plus, the risk of lower interest rates.

If Interest rates drop significantly, net income would suffer. If rates globally decline by 100 basis points, net income would drop by \$300 million. With total net income at \$2.8 billion it doesn't sound much, but it is something to consider. Of course, if interest rates drop 400 basis points to 1.55%, then net income would likely half as margin and other net income would fall too. 400 basis points decline would lead to a \$1.2 billion decline in net income, from \$2.8 to \$1.6.

Now, for our estimates of the impact of changes in rates. Given market expectations of rate cuts in 2024, we estimate the effect of such changes in the Fed Funds rate to be a \$56 million reduction in annual net interest income for each 25-basis point decrease in the benchmark.

Note that our starting point for these estimates is year-end, with the Fed Funds effective rate at 5.33%, and average balances as of December 31st. Any growth in our balance sheet and interest-earning assets would reduce this impact.

About 25% of our customer cash balances is not in US dollars, so estimates of a US rate change exclude those currencies. We estimate the effect of decreases in all the relevant non-USD benchmark rates would further reduce annual net interest income by \$18 to \$20 million for each 25-basis point decrease in those benchmarks.

The broker would definitely survive a bad year or two given the margins are staggering, but the stock might not do the same, which would create an opportunity.



I would say net income could half in a bad environment and go back to 2018/2019 levels, at around \$1 billion, which would then with a big of the market having a negative sentiment and

a PE ratio of 10, offer a very interesting buy if the underlying business is still focused on growth. Of course, that would mean a 70% stock price drop and a bad scenario, but that is what would make it a great buy (keep in mind the stock was trading there not a long time ago).

Market Summary > Interactive Brokers Group, Inc.

95,06 USD

+ Follow

+63.76 (203.71%) ↑ all time

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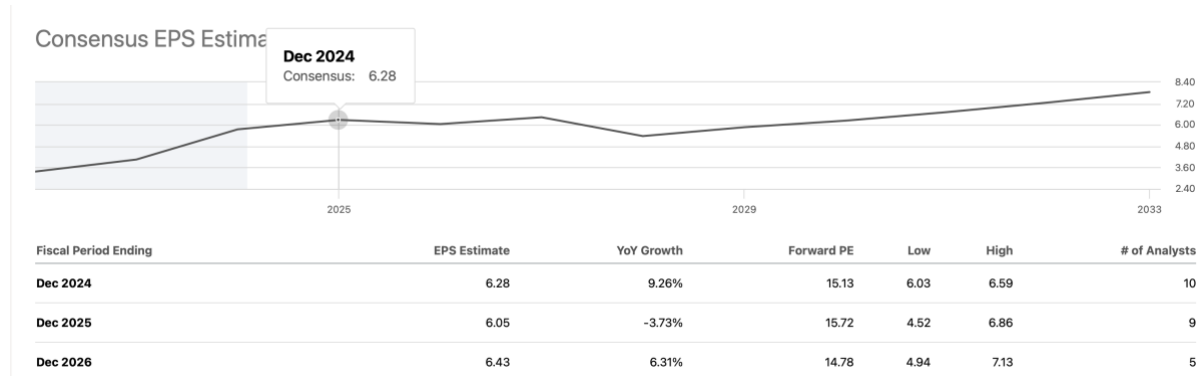
Pre-market 95,56 +0,50 (0,53%)

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Open	96,00	Mkt cap	40,58B	52-wk high	97,12
High	96,78	P/E ratio	16,77	52-wk low	70,83
Low	95,06	Div yield	0,42%		

Of course, all else equal and with no changes in the environment, the stock looks fairly priced. I am looking at estimates and analysts see a drop in the next two year as they expect lower interest rates, or better to say stability.



As said, growth ahead is hard to expect if interest rates drop, but this could be one to watch as it is a very interesting business from the business quality perspective with extreme margins and a leading global position.

My Take

I like the extremely high margin position, the correlation with assets (keep in mind inflation over time), the commission business, the global leading and growing position.

I don't like that the current earnings seem a bit inflated thanks to the environment and high risk taking from clients, if and when that reverts and the market's sentiment falls, this could be interesting due to the above positive business things I mentioned.

Goes on the covered stocks list and I am waiting for temporary negative influence on positive long-term underlying fundamentals.