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E*TRADE Financial Corp. (ETFC)

Q2 2018 Earnings Call

CORPORATE PARTICIPANTS

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

Michael A. Pizzi
*Chief Financial Officer, E*TRADE Financial Corp.*

OTHER PARTICIPANTS

Christian Bolu
Analyst, Sanford C. Bernstein & Co. LLC

Christopher Harris
Analyst, Wells Fargo Securities LLC

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Devin P. Ryan
Analyst, JMP Securities LLC

Michael Carrier
Analyst, Bank of America Merrill Lynch

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC

Daniel Thomas Fannon
Analyst, Jefferies LLC

Jeremy Campbell
Analyst, Barclays Capital, Inc.

Kyle Voigt
Analyst, Keefe, Bruyette & Woods, Inc.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Brennan Hawken
Analyst, UBS Securities LLC

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good evening and thank you for joining E*TRADE's Second Quarter 2018 Earnings Conference Call. Joining the call today are Chief Executive Officer, Karl Roessner; Chief Financial Officer, Michael Pizzi. Today's call may include forward-looking statements including statements about E*TRADE's future operational and financial performance which reflect management's current estimates or beliefs and are subject to risks and uncertainties that may cause actual results to differ materially.

During the call, the company will also discuss non-GAAP financial measures. For a reconciliation of such non-GAAP measures to the comparable GAAP figures and for a discussion of additional risks and uncertainties that may affect the future results of E*TRADE Financial, please refer to the company's earnings release furnished on Form 8-K, along with Form 10-Ks, Form 10-Qs and other documents the company has filed with the SEC. All of these documents are also available at about.etrade.com.

Note that the company has not reconciled its forward-looking, non-GAAP measures, including non-GAAP adjusted operating margin to the most directly comparable GAAP measures because material items that impact that measure are out of the company's control and cannot be reasonably predicted.

This call will present information as of July 19, 2018. The company disclaims any duty to update forward-looking statements made during the call. This call is being recorded and a replay will be available via phone and webcast later this evening at about.etrade.com. No other recordings or copies of this call are authorized or maybe relied upon.

With that, I would now turn the call over to Mr. Roessner.

Karl A. Roessner

*Chief Executive Officer & Director, E*TRADE Financial Corp.*

Thanks, Melody. Good evening and thank you for joining us on our Q2 earnings call. After a resounding start to the year, in Q2, we delivered solid operating metrics, great financial performance and steady progress across our core initiatives. Even with reduced volatility, customers remained remarkably active in Q2, trading remained robust, margin balances hit another all-time record and our customers remain engaged with the markets as net buying reached $9.8 billion year-to-date.

Meanwhile, the team has been tirelessly executing on our core initiatives. We boosted customer engagement particularly in derivatives which hit a new high as a percentage of total DARTs at 34% as the recent rollout of new tools and capabilities took root. We enhanced our investing offering with substantial additions to our commission-free ETF program, significant enhancements to the digital experience and a marketing campaign squarely focused on promoting our advice offering for the everyday investor.

We implemented $11 billion in corporate service plan assets bringing implementations for the year to $14.5 billion, while refilling the pipeline to a robust $9 billion, further solidifying our place as the category leader.

And lastly, we completed the acquisition of TCA, onboarding the associated cash balances and transitioning the team in early April. There is much in flight and much to be excited about surrounding this new channel which I'll cover in a bit.

Financially speaking, it was another quarter of blockbuster results. We delivered strong revenue and we expanded our adjusted operating margin for the seventh consecutive quarter to 46%. We repurchased 3 million shares completing $690 million of our current $1 billion program leaving us on track to finish by year-end. And, we opportunistically tapped the capital markets to issue new senior notes to redeem our legacy trust preferred securities at a lower all-in cost.

Turning back to our core initiatives, we're delivering on our promise to active traders. Our Power E*TRADE program coupled with the onslaught of new tools and capabilities has struck the right chord. We see it in a greater number of customers entering our active trading tier, an increase in new customers' trading options and ultimately in our strong growth in DARTs and our outsized improvement in derivatives trades.

We have increased our level of service for active traders and rolled out significant product enhancements including some very recent ones such as a Risk Slide tool to help customers quantify and visualize the impact of market events. Income tools to seamlessly add options to stock positions in one click. Custom Options Grouping, to deliver greater control and visibility to complex strategies; and last but not least a live action scanning tool on mobile, so traders can identify unusual options activity and volatility while on the go. This was also an important quarter in terms of enhancements to our investing in managed product offering defined by a singular vision to deliver the products our customers want in a way that is extraordinarily easy to use.

As noted earlier, we further expanded our commission-free ETF lineup to more than 250 funds including 32 Vanguard ETFs, which are some of the most popular in the market. E*TRADE is now the only major online broker to offer these ETFs commission-free underscoring our commitment to put our customers first and impartially deliver the products and services they want.

We launched a new ETF research page with one of the most intuitive screeners around. We significantly enhanced our robo-advisor core portfolios, making onboarding far easier and jargon free while adding tax-sensitive smart beta and socially responsible investments.

Lastly and most recently, we introduced our simplest managed product offering yet, the E*TRADE prebuilt portfolios. For investors in search of diversification with a low account minimum and no management fee, we offered three ETF portfolios based on risk tolerance: conservative, moderate or aggressive. The power of this offering lies in its simplicity. Investors can select and execute their trades in only two clicks. Truly it has never been easier to start investing.

Building on recent enhancements to our industry-leading mobile platform, the team is hard at work improving the customer experience to drive even deeper engagement. We want our customers to feel like they can do just about anything, whether it's opening an account, uploading documents using the device's camera, or evaluating option strategies using our technical analysis tools, all from the palm of their hand.

And over the coming months, our marketing team will bolster our renewed investing vigor. This summer, which started with World Cup Soccer and extends through US Open Tennis, we will run a campaign that reinforces the message that E*TRADE is the home for the digitally inclined retail investor who seeks a broker that is exceptionally easy to use.

And as I've noted before, marketing is far more than advertising, and our brand must be infused with all that we say and do. And so, on parallel tracks, we have also continued to enhance our prospects site, coupled with further refining how we speak to and connect with our audience through all channels to communicate in a more human and refreshing way.

Within Corporate Services, the momentum of new business wins shows no signs of slowing. As I mentioned, we implemented nearly $11 billion in planned assets covering 111,000 participants during the quarter, of which the majority were related to a single client win. This brings our year-to-date implementations to $14.5 billion, already more than doubling the total implementations for all of 2017. Despite this impressive pace of onboarding, we substantially replenished the pipeline leaving it at $9 billion to start the third quarter.

In May, I had an opportunity to connect with many of our clients at our Directions Conference, the premier and longest running stock plan administration conference in our industry. The conference was attended by existing clients as well as prospects, and on all fronts the feedback on our offering was clear. No one is better in the space when it comes to technology and service quality. The team is relentlessly driven to innovate and acutely focused on meeting the ever evolving needs of our clients.

Turning now to acquisitions, I am extremely excited by both the opportunities in front of us and the results we've obtained. With the Capital One accounts, the team is hard at work mapping out the post conversion strategy to showcase the full breadth of our offerings and drive greater engagement with our new customers. We've recently moved the closing date to Q4 to ensure a great first experience with E*TRADE for the roughly 1 million relationships coming onboard.

TCA has been part of the family for about three months now and the transition has been exceptionally smooth. Our new business momentum continues just as we put the strength of our brand behind it. Meanwhile, we are working diligently to put in place a referral program, which will truly round out our offering, extending our capabilities to the high net-worth customers who typically have more complex financial needs. And very importantly, we continue to reap the benefits of our OptionsHouse acquisition, now nearly two years post-deal close driving improved metrics and expanding the platform and offerings to our most active trading client base.

Taken together, these efforts demonstrate the team's proven ability to identify compelling opportunities, seamlessly integrate selective acquisitions into our ecosystem and create significant shareholder value in the process.

As for our operating metrics, DARTs for the quarter came in at 259,000, up 24% from the year-ago quarter and marked the second best quarter in our history. While activity moderated from Q1's chart-topping levels, retail activity remained resilient with monthly DARTs progressing higher each month of the quarter to June's level of 273,000. Our derivative DARTs of 87,000 were up over 30% from the year-ago quarter and reflected a 34% share of total DARTs, representing our strongest mix ever. The continued progress on this front illustrates the significant opportunity embedded within our brokerage business.

Further evidence of the remarkable customer engagement is the $9.8 billion in net buying through the first half of 2018, which has already exceeded 2017's full-year record of $9.2 billion of net buying. While this degree of activity undoubtedly puts pressure on brokerage cash which dropped below 14% of brokerage assets during the quarter, the robust trading activity and record customer margin balance of $11 billion counterbalances some of the industry-wide pressure on deposit levels. Activity has come in a bit from what we reported in the quarter, with July-to-date DARTs tracking down around 12% from June and margin balances declining slightly.

Net new brokerage accounts adjusted for the acquisition of TCA were 40,000 in the quarter which puts us at a solid trailing 12-month growth rate of 4.8%. Net new brokerage assets of $2.5 billion included an unusually high level of tax payments by our customers in April offset by healthy inflows from new customers. While seasonality certainly played a role, our flows were in-line with the year-ago quarter and well above the historical trend for the second quarter.

Over the last 12 months, we have generated over $13 billion of net new asset flows. And on assets, I'd like to highlight one significant inflow this quarter that is not captured in our net new asset line. Approximately $4.5 billion invested equity securities brought in through Corporate Services.

Along with the superior growth of our new client pipeline, we have been challenging historical conventions around the onboarding process to eliminate roadblocks. One key area of our focus has been the transfer of vested shares attached to existing equity plans, like employee stock purchase plans and restricted stock grants where incumbent stock plan providers historically drew a hard line to retain those assets. We have worked diligently with our new clients to help them cut those ties ensuring E*TRADE can service the entire relationship and realize material benefits from these efforts in the quarter.

As you may know, we do not register an inflow until there is activity in the account, an admittedly conservative approach, but similar to all inflows, these added assets and relationships have a positive impact on our franchise and our earnings power.

Finally, with respect to managed assets, we grew balances by $230 million during the quarter to $5.8 billion, driven almost entirely by net inflows providing additional evidence of our ability to succeed in the investor segment just as we begin the full court press of our brand and marketing efforts.

In closing, it was another solid quarter in which we made significant progress in enhancing our customer offering, collected a few more records to display in our trophy case and set our sights squarely on the remaining work we must do to continue to drive growth and superior returns for our shareholders.

I look forward to our third quarter call this fall when we will share the board's assessment of our progress and discuss our go-forward objectives.

With that, I will turn it over to our CFO, Mike Pizzi.

Michael A. Pizzi
*Chief Financial Officer, E*TRADE Financial Corp.*

Thanks, Karl. For the quarter, we reported net income of $250 million or $0.95 per share on record net revenues of $710 million, up $133 million from the year ago quarter. During the quarter, we had a couple of unique items which benefited pre-tax earnings by $23 million, including a $19 million benefit to provision for loan losses and $4 million in gains related to CRA equity investments.

As for our core results, net interest income increased by $8 million as our net interest margin expanded by 5 basis points on relatively flat asset balances. The key drivers of the improvement were higher interest rates, a higher average margin balance and better investment yields. Partially offsetting the improvement was higher deposit costs and an $8 million sequential decline were a 5 basis point drag in securities lending revenue which trended closer to historic levels. Average interest earning assets remained flat despite the onboarding of TCA in April, driven by exceptionally strong customer buying resulting in lower deposit balances.

The changes we made to our deposit rates late in the quarter were geared at bringing our prices closer to the competitive set and included an element of catch up. Going forward, we expect to move rates closer to our model betas.

For Q3, we expect the blended deposit rate including customer payables to approach 20 basis points, up from the 9 basis points paid in Q2. The improvement in interest rates should continue to drive positive momentum in NII. Based on the recent upward movement in the belly of the curve, our average reinvestment rate in the securities portfolio is now in the 300 to 320 basis point range, up 20 basis points from the prior quarter.

For the full year 2018, we are still forecasting NIM to fall within the range of 300 to 310 basis points, assuming a steady Fed funds rate and customer margin balances at current levels. If the Fed move rates in September, we anticipate we would land above the midpoint of the range, all else held equal.

Commission revenue of $121 million increased 15% year-over-year, but fell 12% sequentially, while DARTs of 259,000 were down 16%, the results still represent our second best quarter on record. Partially offsetting the decline in DARTs is a $0.04 expansion in commission per trade to $7.31, aided by a richer mix of derivatives in the period.

The continued migration of customers toward our active trading pricing tier and the increased contribution from futures trades should pressure average commission per trade for the rest of the year which we expect to land in the $7.10 to $7.20 range, acknowledging derivative mix can move us outside this range in any period.

Fees and service charges increased $5 million to $110 million in the quarter reflecting the addition of TCA partially offset by a reduction of order flow revenue on lower volume. The average yield on third party cash was up 3 basis points to 138 basis points in the quarter. We anticipate generating 141 basis points on third party cash in Q3.

Gains on loans and securities increased $5 million sequentially to $15 million, driven by the $4 million CRA-related gain. Given our larger overall portfolio size and greater weighting to securities, we now expect gains to be in the $5 million to $10 million range per quarter.

We recorded a $19 million provision benefit which included $15 million in net recoveries. Our allowance for loan losses now stands at $54 million, while the runoff portfolio continues to decline ending the quarter at $2.4 billion.

Moving to expenses, non-interest expense was $384 million down $11 million from the prior quarter. This quarter's adjusted operating margin which excludes provision benefit was 46%, an improvement of 180 basis points from the prior quarter.

Total marketing expense was $47 million, down from the Q1 spend of $60 million which included the cost of the Super Bowl ad as well as normally higher seasonal spending. We are still tracking to our initial plan of roughly $200 million in marketing spend for 2018.

Compensation expense was $160 million, up $8 million sequentially reflecting the addition of TCA and additional head count primarily in service for the integration of Capital One customers and onboarding of new corporate service accounts. We believe the second quarter reflects a fair quarterly run rate and fits within our operating margin framework. As before, several seasonal factors could cause some volatility on this line in any given quarter.

We continue to expect our full year 2018 adjusted operating margin to surpass 45%. A rate hike in September could provide an incremental boost to that margin and should add about 10 basis points for the full year.

A couple of highlights on the capital front. First, as Karl mentioned, we repurchased 3 million shares at an average price of $62.51 or $188 million during the quarter. As of the end of Q2, we have executed $690 million of our $1 billion authorization and we expect to complete the program at a relatively measured pace for the end of 2018.

Second, we are opportunistically redeeming $413 million of trust preferred securities with our June issuance of senior notes. We anticipate that we will record a $4 million charge for early extinguishment of debt in Q3 associated with the redemption of the TruPS, the vast majority of which were redeemed earlier this week. Based on current LIBOR rates, we will generate modest savings from the refinancing.

As for corporate cash, we ended the quarter at $943 million up $504 million sequentially. The increase is largely driven by a timing difference between our recent June debt issuance and the redemption of our TruP securities. Also contributing to the cash balance was a $176 million dividend payment from the bank and $100 million dividend payment from the broker dealer, offset by share repurchases.

For Q3, we anticipate $300 million in total dividends to the parent. In closing, Q3 was another great quarter and we are more than pleased with our continued momentum. With that, we will open the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] One moment please. Our first question comes from the line of Christian Bolu with Sanford C. Bernstein & Co. Your line is open; please proceed with your question.

Christian Bolu
Analyst, Sanford C. Bernstein & Co. LLC

Q

Good afternoon, Karl. Good afternoon, Mike.

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

Hey, Christian.

Christian Bolu
Analyst, Sanford C. Bernstein & Co. LLC

Q

So it sounds like the team is really executing well on Corporate Services and growth is starting to accelerate here. But just like a little bit more color on sustainability. I think you've talked about tailwinds from competitors transitioning to new systems. I guess when that's over, can you sustain growth? And then now that you have TCA fully into the family at E*TRADE, is there any more details in terms of how you plan to integrate that with the Corporate Services business?

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

Sure Christian, and thank you for the question. It's a good one. And I think everyone knows that I do like to speak about this business, so starting off with this one is a pleasure for me. Putting together the Corporate Services offering that we have and getting the team of people who drive the way they do for the request for proposal and the opportunities to bid for new business has been a pretty dedicated effort from the management team, putting the right people in place, getting the right sales folks out there to go talk to the larger corporate clients coming into play.

There is a one-time window, call it over the next one to three years – I believe we're – one to three years, call it, we're about at the middle of that period, so next 18 to 24 months – where there are still many corporates who are served by companies or stock plan providers who are changing to that more technology-forward model. They're outsourcing the provision to a technology provider. So there's still opportunity there for us.

So I think continued growth, sustained growth, that we'll see. We will absolutely win our fair share. We're doing quite well in that space. I think we're probably looking at another 18 to 24 months of a good opportunity set for us.

Longer term as they've built this pipeline, obviously that pipeline of corporate clients that we have, they continue to issue equity whether that be in options or restricted stock. And those stock plan participants become E*TRADE customers. It's being able to use our retail brokerage to really go out and get into that market space, get in front of these stock plan participants early and often.

So starting with an education offering, making sure that we're on the campuses of the corporates, introducing them to E*TRADE, using our new investing advice continuum, everything from our robo, at our core portfolios, up to the ETF portfolios that I mentioned, the three that we've just launched, [ph] acquaint to (00:23:37) some of our managed products.

And then you talk about what we've done with TCA, right? What was that about? We have a number of RIAs on that platform now who we would be very comfortable, we've been doing a lot of work in the background putting into a referral program so that those stock plan participants looking for additional investing advice, looking for an RIA, we can introduce them to those RIAs on our custody platform and keep that relationship with E*TRADE, right? A broader relationship with E*TRADE is everything that we're after.

So, TCA, first and foremost, is really about growing the assets that come on to E*TRADEs, so continuing to grow our asset base but also looking at additional ways to serve both our Corporate Services clients, their stock client participants and our retail brokerage base when those customers either get into a tier where they're looking for an investment adviser, looking for additional help with their finances. That's the time when we lose some of those assets to the RIA channels. We now have the ability to maintain that customer relationship through the RIAs on TCA's platform. So a lot of work going on in the referral program in the background. I believe by late fall we'll have it up and running and I look forward to talking to you more about it.

Christian Bolu
Analyst, Sanford C. Bernstein & Co. LLC

Q

Great. And maybe just one for Mike. Just can you give us a bit more update on how you're thinking about I guess the yield sensitivity of client cash? Balances haven't moved here or haven't grown for over a year. You had to move up rates to catch up to peers. I do appreciate there's a lot of net buying, but also curious if there is more yield seeking behavior and ultimately how does that inform you about long-term trajectory for balance sheet growth?

Michael A. Pizzi
*Chief Financial Officer, E*TRADE Financial Corp.*

A

Yeah. Looking at kind of where we are year-to-date net buying, we had a strong year last year in terms of net buying and we're outpacing it this year. So it is really the net buying activity that is putting pressure on the overall cash balances. We're at a lower percentage of the average cash per account that we've been at in quite some time.

Looking at it, we've spent some time really parsing up the data and looking at, sort of, what customers are doing to see if there's yield-seeking behavior in that net buyer. Are they buying money funds, are they buying other products that are, sort of, cash-like? And then that's not the case. While we see a little bit of a pickup in that, it's a relatively small amount relative to the net-buy flow, versus the extremely – well more than the majority, 90% range is really just buying what you would think.

It's that large-cap, mega-cap, U.S. tech stocks, those bank stocks, that is where we see the net buying, that's where we see the money flow going. So it's really engaged within the market. And you can see that's backed up at a couple other areas too with the growth in the margin book. It correlates very well to that, sort of, risk appetite. So, it's really not any major increase in yield-seeking behavior, although we do see a little bit of that. It is really just net buying of U.S. equities.

Christian Bolu
Analyst, Sanford C. Bernstein & Co. LLC

Q

Thank you.

Operator: Our next question comes from the line of Chris Harris with Wells Fargo. Your line is open. Please proceed with your question.

Christopher Harris
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks. Can you guys talk a little bit about the changes you've made with the deposit rates? And I guess what I'm wondering is, did you increase them across the board or were they a little bit more targeted than that? We noticed that you did launch a high yield savings account I think during the quarter, and is that driving a lot of the increase?

Michael A. Pizzi
*Chief Financial Officer, E*TRADE Financial Corp.*

A

Yeah. We raised rates a little bit to catch up in terms of market position across balance peers. Now obviously the higher balance cash is where we see more of the sensitivity. So, we increased rates the most on the higher balance tiers versus the lower balanced tiers. So, the lower balanced tiers really being, kind of, money in motion we really didn't affect those rates very much versus the upper balance.

We did increase – we did offer a couple of higher rate balance tiers as well to customers that want to – on a negotiated basis were looking for more rate and were seeing some of that flow into money funds. It's economic for us to keep some of that money on balance sheet and we open those tiers up in customer payables overall.

The high-rate savings product is a product that we introduced a little while ago. It is – simply we see customers moving some money, it's not a lot, but moving some money to higher rate banks. Us being a bank we have the ability to offer that product. We have the ability to keep that money in-house. We did a pretty thorough analysis of the economics of offering that product and it's pretty reasonable to capture that share and keep it in-house.

Christopher Harris
Analyst, Wells Fargo Securities LLC

Q

Okay that's helpful. And the strategy from here now that you guys are a little bit more close or in line with the peers, will you be moving rates, kind of, following peers going forward or is that going to be a case by case evaluation you'll do as rates continue to go up, if they go up?

Michael A. Pizzi
*Chief Financial Officer, E*TRADE Financial Corp.*

A

Yeah. Look I think we'll always be mindful of what our competition is doing in the competitive set, but we would expect the products to be in line really with the historic or model betas. That's going to get you something approximately in the 20% sort of range. That's kind of what we would expect over the next near-term of several Fed fund types.

Christopher Harris
Analyst, Wells Fargo Securities LLC

Q

Got it. Thank you.

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

Thanks, Chris.

Operator: Our next question comes from the line of Rich Repetto with Sandler O'Neill. Your line is open Please proceed with your question.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Yeah. Good evening. I guess the first question is for Mike. I just heard you said – I think you said something about a 20% beta. We go through the numbers and you had 9 basis points of blended deposit costs this quarter going to 20, I'm getting something much – am I calculating that wrong or...?

Michael A. Pizzi
*Chief Financial Officer, E*TRADE Financial Corp.*

A

No. No. It's exactly as we said. What you saw this quarter was a bit of a catch up. There's a bit of catch up coming through from – effectively when we were operating at a near zero beta for the first few rate hikes and an alignment really within the competitive environment.

We would expect betas from this point forward really to align really what they were historically. So if you think about it, kind of, what we moved in March is kind of how we think we're going to be moving going forward, not what we did, sort of, on the June hike where we caught up a little bit in overall market position.

So, you're right. What you see is going to be a little bit higher, but I would expect it to be, kind of, around 20% with the possibility of a little bit of negotiated pressure on that, but right around that 20% level.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Okay. All right. Good because I'm calculating 45% off of this, but I get it. So, I guess the next question, the follow-up question would be for Karl. And I guess since you are – I guess could you give us some insight into the board, how the board looks at your asset gathering capability relative to the other growth goals? I know you spent a lot of time talking about Corporate Services. I didn't understand exactly the $4.5 billion how that plays in. But I guess you are running below the low end now. And are there other alternatives besides Corporate Services TCA to get this ramped up into the range?

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

Okay. So, look, Richard, it's a good question. Growth goals we've been through this. We set them up with the board and the management team really to reignite growth. At E*TRADE, I think that's exactly what we've done in terms of the value that we've created and what we've been able to bring to the table for the last nearly two years now. So seven quarters of continued improvement on op margin.

The way that I look at the model and the way that I look at our asset gathering and what we've done so far, the returns that we generate on our assets are still 2 to 3 times better than our peers. So, I think our business model continues to work and we continue to drive at that.

On the asset gathering side, ramping up in terms of where we are with TCA, putting our brand behind TCA. We've already seen some new players, some new entrants coming in at levels that TCA historically wouldn't participate.

So, call it in the hundreds of millions of dollars rather than the tens to a hundred million in terms of players. A lot of that has to do with the ability to participate on referral networks, right? And actually help us work with our clients better and maintain those relationships and bringing custody of some of the RAA platforms on to the TCA platform, so that they can participate in the referral networks that we're driving. So, we do anticipate to see additional asset growth and additional assets coming on board through the TCA channel.

On the Corporate Services side, the real differentiator this quarter, and it's different for every company. This quarter we were actually with a customer who we on-boarded, one of the big corporates. We're able to break down the walls that used to be there around vested equity. And so a lot of times when stock plan participants had vested equity at the old stock plan provider, that's in their brokerage account at that stock plan provider. And those were held on to by that broker.

With this turn, we were able to unleash those 4.5 billion long vested equity shares and bring them on board at E*TRADE. So they do sit in a broker account, they are new assets, we just don't count them in our net new because we're extremely conservative on that. We always have been and we're now trying to add those on top for our growth goals for the asset side. Just merely pointing out that that's yet another channel that we're using to drive asset growth here at E*TRADE.

So all-in-all, I couldn't be more pleased with the progress we've made. I think the growth goals did exactly what they were supposed to do for this franchise. And we'll continue to drive at it with our investing advice continuum which we'll roll out, big time marketing during the summer and then into the fall. And we have had some early success in that place and we'll continue to do so. So, lots of growth yet to be driven, Rich.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Okay. All right. Thank you very much.

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

I appreciate it.

Operator: Our next question comes from the line of Devin Ryan with JMP Securities. Your line is open. Please proceed with your question.

Devin P. Ryan
Analyst, JMP Securities LLC

Q

Hey. Great. Thanks. Good evening, guys.

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

Hey Devin.

Devin P. Ryan
Analyst, JMP Securities LLC

Q

I guess first question here. Derivatives DARTs, they're not bumping into that 35% target. And I know it can move around from month-to-month. But should we read that metric as, the penetration and maybe the synergy from OptionsHouse has now been achieved. And so the opportunity is more mature or could we actually think about that target moving higher at some point here or just there's more work to do?

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

So I hope that you're getting to, sort of, get a feel for the management team that's in place here. We're not a team that gets satisfied very easily. So that 34% calling it bumping up against 35%, when you, sort of, discount back to just the massive equity volumes that we've experienced as we've tried to hit this goal, there's a lot more to deliver from the OptionsHouse platform. We've been rolling out new tools and new services for that customer base. We're very pleased with the number of new entrants to E*TRADE trading options and other derivatives on our platform.

The Power E*TRADE offering has been quite a success. You actually see some of that in the pull down on the CPT that we have, because there's just more adopters and more folks trading more with us. So, a lot more to come from the OptionsHouse side from E*TRADE as a whole in the derivative space, it's an area that we intend to own, Devin.

Devin P. Ryan
Analyst, JMP Securities LLC

Q

Okay. Thanks, Karl.

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

Yeah.

Devin P. Ryan
Analyst, JMP Securities LLC

Q

And then just to follow-up here. So, on the commission rate; appreciate the color for the balance of the year. And also, do appreciate all the detail you guys gave on some of the differentiated tools that you've been rolling out.

And so I'm just trying to think about, looking beyond this year, there haven't been any advertised price cuts for well over a year, but industry profitability is at high levels. There's obviously some aggressive promotions out there. You have your Robinhood moving into, kind of, arguably some more active trading products [ph] since your commission (00:36:55).

So, I know it's difficult to predict what competitor behavior may be, but what are you planning for as you look out beyond, call it this year on pricing and on, I guess, kind of the trajectory of commissions? And how does that factor into the conversations just heading into October?

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*
A

Look for us Devin, it's more about value, right? What's the value proposition that E*TRADE is driving? It's why we've been so powerfully behind the Power E*TRADE program and what we can deliver for traders who come to us at $4.95, if they trade 30 times a quarter and $0.50 on the options contract.

So, we've looked at our business model. We think the value that we bring to the table for the individuals who use our services is extreme. We think we're at the high end in terms of what we provide in return for what they pay to us.

Zero-commission, zero-trading, zero-everything has been out there for quite some time. We don't see those destinations as [indiscernible] (00:38:02) away from us. We know that, there is a market for a new entrant who wants to come in and try it out and see what it's all about, but when you pick up the phone and you don't get to talk to a human being on the other side that's a pretty powerful telltale sign of things just aren't working right.

So, we think the value we deliver it where we are. So, I don't intend to be and we don't intend to be a first-mover in the commission space. And quite honestly we think the value being provided for our customers at this point in time is right on the money.

Devin P. Ryan
Analyst, JMP Securities LLC
Q

Thanks, Karl.

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*
A

Yeah.

Operator: Our next question comes from the line of Michael Carrier, Bank of America Merrill Lynch. Your line is open. Please proceed with your question.

Michael Carrier
Analyst, Bank of America Merrill Lynch
Q

Thanks, guys. Karl, maybe one more on the Corporate Services business. You talk about it a lot, you guys have some good momentum there. Just trying to understand like when you look at the business today, like, how much maybe contribution is there to the earnings, the profitability and then if it's successful over time in terms of, kind of, converting these customers and doing more with them, what is the upside potential over multiple years?

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

Yeah. The upside potential, Corporate Services is an interesting business and it's a fantastic differentiator for us. It drives assets and accounts. I don't look at the Corporate Services business as something that in and of itself in the contracting stage, licensing stage, sort of, the early corporate relationship. That's not something that we ever intend to use as a profit leader for us or trying to drive additional value.

What we like there the most is the relationship that we form with a large corporate and the opportunity to get on to the campus and speak to employees about how we can help them with their financial needs, right? That's something that is very powerful.

If you can be a first mover into the campus and let them know that E*TRADE is here for them and if they're looking for an investment adviser or they want to move out away from that and talk to somebody who can actually manage their newfound shares or new wealth tier, we'll have an RAA who sits on the TCA custody platform. If you want a simple robo, if you want a simple part of ETFs that you can put your money into, we have those as well.

So, the more powerful side for Corporate Services for me is the asset gathering and in addition the new clients coming on to E*TRADE. Historically, there's been about a 15% keep of the assets that come through us on a year basis as they vest and flow through those accounts.

We believe that with the addition of TCA and the RAA population, with the revamp of our investing advice continuum as we've talked about quite a bit, with the way that we are now approaching that business from early on talking to people about the value that E*TRADE can drive through education, through more meaningful interaction with those stock plan participants that this will be a big value driver for us go forward.

Michael Carrier
Analyst, Bank of America Merrill Lynch

Q

Okay, thanks. And then just a quick follow-up on one of the last questions you just mentioned on asset gathering that the returns bringing in assets, I think you said are maybe two or three times that of peers. And I was just curious like what do you think or how are you driving that difference?

Michael A. Pizzi
*Chief Financial Officer, E*TRADE Financial Corp.*

A

Yeah. I mean, it's a calculation [indiscernible] (00:41:21) revenue yield on a client asset. So, take total revenue over client assets as you look through, kind of, the peer group. First, the largest players in the industry were almost 3 times versus our closer competitors in that 2 times range. And it just shows the profitability of a pure retail franchise away from the larger institutional books.

Michael Carrier
Analyst, Bank of America Merrill Lynch

Q

Got it. Thanks.

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

Thank you.

Operator: Our next question comes from the line of Craig Siegenthaler with Credit Suisse. Your line is open. Please proceed with your question.

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC

Q

Good evening, Karl, Mike.

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

Hey Craig.

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC

Q

I just wanted to start with the premium savings account launch, the 1% to 1.5% rate. Is the objective here really to expand your overall client base and increase net new asset growth or is it really a cross-sell opportunity for your existing client base? And also, how do you think about the risks that it could partly cannibalize your existing cash sweep by increasing the beta?

Michael A. Pizzi
*Chief Financial Officer, E*TRADE Financial Corp.*

A

Yeah. I mean, it is primarily, at this point, targeted to keep money that would be flowing into other banks. As customers are sitting on larger cash balances, they may not be ready to reinvest those given, kind of, where the market's at, kind of, how the market's been performing. They may be looking to put some of that cash into a savings type product. We've seen some of those flows. It is to capture that share and keep it in house and earn a pretty reasonable return on it and keep it within E*TRADE. Don't allow that customer to form a relationship with another financial services provider. Many of them could offer brokerage services.

In that sense, it's kind of hard to say, if it was money that was going to leave, and it's staying in house, it's hard to say that that's cannibalization. In terms of we're cannibalizing our – we're taking a sweep that would've stayed in sweep.

So, it's a little bit difficult to calculate, kind of, what a cannibalization estimate, what you're really causing with it, but we're really capturing money in that product. And I think that that's kind of how we want to position the product at this time. We don't really want to be a rate leader on it, but we want to pay a competitive rate for savings and use the convenience of keeping your money in one application, one provider and easily move it back to your brokerage account when you want to.

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks for that. And just a follow-up here on expenses, can you help us think about the right run rate for advertising just given seasonality and the dip this quarter?

Michael A. Pizzi
*Chief Financial Officer, E*TRADE Financial Corp.*

A

The dip is really the runoff of the higher spending in Q1, the biggest quarter will always be Q1. Obviously this year we had a Super Bowl ad. While we still have some things going on with the World Cup and US Open, it's not quite at the rate we're pacing that was in Q1. That will be extending really Q3, but I think we're in the range of what the right run rates ought to be as we move through the rest of the year, getting towards that 200 total that we talked about.

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you.

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

Thank you.

Operator: Our next question comes from the line of Dan Fannon with Jefferies. Your line is open. Please proceed with your question.

Daniel Thomas Fannon
Analyst, Jefferies LLC

Q

Thanks. I guess, as you think about the growth, Karl, that you outlined across your business and you think about your scale and the products you have. Do you think additional M&A is needed at this point or is it all more organic based and some of the things you've been investing in?

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

So, the position that we've taken on M&A remains fairly constant and we talked about this over the past couple of quarters. We're really focused on anything that could add additional value, scope or scale or product gaps to our retail customers. And then could we add scale in our Corporate Services business? Is there another way to go out and acquire some additional Corporate Services clients just to grow that pie of possible value for us?

So, the M&A activity remains at the same level. We'll always use the same capital lens to look at anything we're going to acquire. There's nothing out there that's a pressing need for us at the moment, so, most of the growth that I talk about, in fact all the growth I talk about right now on this call is organic. But if something were to come along that was a product extension or was something that the sales reps or the service reps in the field tell us we're missing, that if we can buy it quicker and cheaper then we can build it, we'll definitely run that through the capital lens and determine whether or not we should go after it.

Daniel Thomas Fannon
Analyst, Jefferies LLC

Q

Got it. And then just in terms of the TCA business and the outlook, can you talk about the organic growth there a little bit more? Do you have like a backlog of RAAs that you're looking to attract to the platform? It does seem, obviously you talked about the Corporate Services and some of the cross-selling and integration but just in terms of the growth of that business as a standalone platform can you talk about the initiatives there?

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

Yeah. So, on the TCA side we've just started to put our brand behind it and I can tell you that within a couple of weeks after we closed the transaction, there was an uptick of a couple of hundred million of RAAs – sorry, RAA assets that were committed to come on to the platform. So we've seen some early success. We do have a number of RIAs who are very interested in working with us as we put together the referral program because obviously that's a new source of business for them.

In order to do that, they need to be [ph] custodied (00:47:11) on TCA's platform. So there are lots of conversations going on right now. I am extremely pleased with sort of the early days' results and the backlog that I see just in terms of some of the names of the RIAs who are interested. And looking at E*TRADE as a new opportunity for them. And the way to us is through TCA.

So I think it's a very nice story in terms of putting our brand behind TCA on the first instance, because their platform is just, I think is a phenomenal platform, very easy to use, easy to rebalance for the advisors, and all the advisors that I've talked to like it quite a bit. So putting the brand and helping them grow organically and then also being able to introduce them to a number of RIAs who are very interested in working with E*TRADE's client base.

Daniel Thomas Fannon
Analyst, Jefferies LLC

Q

Thanks.

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

Yeah.

Operator: Our next question comes from the line of Jeremy Campbell with Barclays. Your line is open. Please proceed with your question.

Jeremy Campbell
Analyst, Barclays Capital, Inc.

Q

Hey. Thank you. So while the dollar value has been pretty flat this year, client cash balances obviously keep driving down and they've, kind of, come down every single month since February despite the choppy markets.

I guess when you think about net new assets here, how much of that is coming from clients new to E*TRADE? And what do those client cash allocations look like? Are they lower in yielding some blended, kind of, remixing for the overall book? Or is the decrease really in client cash, more from existing clients continue to take down allocations and then invest in areas like FANG like you mentioned earlier?

Michael A. Pizzi
*Chief Financial Officer, E*TRADE Financial Corp.*

A

Yeah. I mean, if you look at the net new asset level versus the net buy level, you can kind of see what's going on. It's not so much that the new accounts coming on have less cash or – and that's dragging down the average, it's really that existing accounts that had a higher percentage of cash are just moving in the market.

And you see that behavior kind of going right through zero, right? Because the margin book continues to grow as well, so customers even getting more comfortable borrowing, we see new entrants into the margin book, the number of users growing overall. So, we're holding flat because we're growing the number of accounts. We're getting some cash from the Corporate Services business. We added TCA. We're holding that cash balance against really record engagement and record net buying.

Jeremy Campbell
Analyst, Barclays Capital, Inc.
Q

Got it. And then just one point of clarification Mike, in your prepared remarks I think you mentioned that the blended deposit rates including customer payables are [indiscernible] (00:49:40) 20 basis points in 3Q from 9 basis points in 2Q. And then I think separately you mentioned the expectation for 20% deposit betas. I just wanted to clarify that the 20% betas are for future rate hikes off of the new base after you reset to the 20 basis point expectation, is that correct?

Michael A. Pizzi
*Chief Financial Officer, E*TRADE Financial Corp.*
A

That's correct, yeah. And the rates we're giving you is the, sort of, expense in the period. The beta obviously would occur around the time of the rate hikes, sometimes there's a little delay, depending on processing times you have put the rate change into effect. So, it would occur on, kind of, the date of the rate change or sometimes thereafter when the systems update.

Jeremy Campbell
Analyst, Barclays Capital, Inc.
Q

Perfect. Thanks, guys.

Operator: Our next question comes from the line of Kyle Voigt with KBW. Please proceed with your question, your line is open.

Kyle Voigt
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Hi. Good evening.

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*
A

Hi, Kyle.

Kyle Voigt
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Just a question – just in terms of the third quarter call, excuse me. I just wanted to see if we could get a bit more clarity as to what exactly investors should expect on that call regarding the results of the strategic review. Just wondering is it simply going to be the end decision by the board or is it fair to think that we'll get a breakdown of the board's and the third parties analysis of the company's value under these varying strategic scenarios?

And then I guess part two of that question, you've spoken in the past about quantitative and qualitative factors that are going to be considered by the board, I was wondering if you could maybe elaborate on some of those qualitative factors and the influence that those factors will have in the review process?

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*
A

Okay. So, that's a mouthful. So, let me just step back. The way that we've set up this process is not dissimilar to what we've done in years past in terms of the board being very interested in how this management team and prior management teams for that matter will continue to drive value for our shareholders, right. At the crux of all of this, the growth goals, the reports that we have, the things that we put on the wall here to make sure that our entire team from top to bottom is aligned to those growth goals. That's all of the view toward driving shareholder value.

So, the results that we will come to this group with and, sort of, talk about on the October call, I would expect that we will go through where we are on the four growth metrics that we put out there. But, remember that those growth – the growth goals we put out were really client business metrics. They didn't really get into the value drivers of the franchise or what we can continue to deliver going forward for our shareholders, right.

What are we doing from more of a business operating results perspective? We picked four very specific categories to prove to ourselves that we could reignite the growth engines at E*TRADE. I think we've done just that. So, the October call, I would expect that we will have quite a dialogue around what the board has looked at, how pleased they are with what we've done and what they expect from us on a go-forward basis.

In terms of getting into it any further, they haven't had the meeting yet. They haven't been through anything with anyone else, with the management team, we haven't presented to them yet. So, I really can't go into any other additional details. Unfortunately, we'll have to wait till October.

Kyle Voigt
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Thank you.

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

Yeah.

Operator: Our next question comes from the line of Brian Bedell with Deutsche Bank. Your line is open, please proceed with your question.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Great, thanks very much. Let me just go back to the stock plan business and the economics of that. And obviously I appreciate your comments Karl about how that gets you the relationship and you've historically kept 15%. Can you talk about what you view as sort of the breakeven retention for that business in terms of the costs that you have to put into processing that? And to what extent would you like to see that 15% move up to come anywhere close to your, say, corporate margin [indiscernible] (00:53:48)?

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

So I'm going to ask Mike Pizzi to take the first part of your question, but I will hit the second part of your question first. Driving that 15% on a, sort of, annual basis looking back as far as I can say and that spikes up and down depending on the client and depending on the type of engagement that we've had, so it is, sort of, in that ballpark, but driving that level of engagement up a few percentage points on the size of the asset pool that we now have collected from corporate clients with the new pipeline, with the implementations that we just had. That's extremely valuable to us.

So, converting those stock plan customers into E*TRADE clients or maintaining their assets on our custody platform through TCA is a big value driver for us. And I'm not going to size it or scope it for you, but I will tell you that driving that number up a few percentage points is extremely meaningful to our results.

Mike do you want to talk about the first part?

Michael A. Pizzi
*Chief Financial Officer, E*TRADE Financial Corp.*

A

Yeah, I mean on the retention side, we had excellent retention of the end corporate relationships. While we may lose one here or there, it is typically almost always the result of M&A activity where we lose the stock plan when the company was acquired and we lose it to the acquired entity stock plan.

From a retention standpoint, we never gave the retention of those relationships within that business but we do exceptionally well at serving those clients and making sure we are providing that [indiscernible] (00:55:14) corporate customers' needs and that gives us an excellent base. Now as companies continue to push equity comp further down that drives additional growth. As the companies themselves grow in market cap and asset value that obviously drives additional growth. And then we're driving levels of growth on top of that by adding new plan assets.

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

And just to, sort of, drive it home, breaking out results or talking about sort of the Corporate Services or E*TRADE Corporate Services, as we call it, as a separate line. I don't look at it that way, right? This is a phenomenal feeder channel for us and we'll continue to invest in this business. I mean, some of the head count or expense that we had was adding the right people and making sure that we had the right individuals as we on-boarded some of the larger clients that are coming through the pipeline. And we'll continue to do that.

So it's not going to impact our operating margin, we find the monies and the expense costs from elsewhere in the organization and we'll redeploy it. So, this business as long as they continue to drive corporate relationships, we'll absolutely invest in it and then it's up to the brokerage business to take the handoff and drive additional value from that customer set.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

All right. Great. That's a helpful explanation. And then maybe just the last one, just to go back to the board's evaluation process or the third parties evaluation processes. So as they think about the value of E*TRADE as an independent company, is it your sense that the third party and the board would look at forward macro conditions in terms of normalizing those on a long-term go-forward basis like a DCF type of analysis? Or rather view the fact that we're in a late – very late stage of an economic and bull market cycle and the likelihood of competitive pressures and commission cuts over the next two, three years, would that that more likely factor in their decision?

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

So I appreciate everything that you just went through and I understand what you're trying to drive at. The only answer I have on that question is this board of which I'm a member and sort of a management member, is extremely well-informed. They take data points from everywhere, they look at what we've done, they hold management accountable in a big way. We know what we need to deliver. We know what we'll bring forward to the board. They will do their analysis and their homework. They will look to an investment bank to help them go through some of this. And in October, we'll talk to you about where we are.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Okay, great. Fair enough, thank you.

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

Yeah.

Operator: Our next question comes from the line of Brennan Hawken with UBS. Your line is open. Please proceed with your question.

Brennan Hawken
Analyst, UBS Securities LLC

Q

Hey, guys. Thanks for taking the question. Just a couple quick ones here. Aside from marketing, given the no-revenue share policy for Vanguard, what's the – is there any other benefit beyond the marketing side in offering those ETFs commission-free?

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

So look, there's a big value to our customers. We've listened, we've heard what they've said. We see a lot of activity in those funds. And if we can offer them for free and we can put that out there and satisfy a need that they may go elsewhere to satisfy, we're absolutely going to do that.

So this one is about just being unbiased, independent, and listening to what our customers want. And it's something that we pride ourselves on and we'll continue to do it. So we can call it marketing, we can call customer relationships. I look at it as a fantastic customer service move and letting them know that we actually care about what they want and we're putting it on our platform.

Brennan Hawken
Analyst, UBS Securities LLC

Q

Okay, that's fair. And then sort of a minor nitpicky one, but looking at the rhythm, the sort of cadence of the share repurchases in dollars, it looks pretty steady aside from 1Q. Is that a programmatic one that you've got in place or is that one that is subject to discretion?

Michael A. Pizzi
*Chief Financial Officer, E*TRADE Financial Corp.*

A

It's been subject to discretion. We have the ability to put a program in place, so we have used both. But just take our guidance, we said measured pace, that's kind of what we're trying to do. We're generating capital in each period. We look at, sort of, capital alternatives in terms of what we're using within the balance sheet that's really the other main use of capital. You can see this period, we had a larger dividend out of the bank, simply because the balance sheet growth did not materialize. That gives us a little bit of extra corporate cash to work with but overall, our intention is to really continue, kind of, at that measured pace.

Brennan Hawken
Analyst, UBS Securities LLC

Q

Okay. That makes sense. Thanks Mike.

Operator: Our final question comes from the line of Michael Cyprys with Morgan Stanley. Your line is open. Please proceed with your question.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good evening. Thanks for taking my question. It sounded like you offer – you mentioned that you offer a higher interest rate for the negotiated book. I'm just curious if you could talk a little bit about that? What's the range in terms of the rate that's offered and how important is that higher interest rate for that customer set? And maybe you could talk about how that's kind of evolved over time, maybe prior cycles, how important it was then?

Michael A. Pizzi
*Chief Financial Officer, E*TRADE Financial Corp.*

A

Yeah it's a really small customer set in terms of like – when you look at negotiations, the number of margin rate negotiations we see or commission rate exempts are much higher. This is still the lowest and smallest area of overall negotiations that we're doing.

In terms of products, we have a number of products, if they're just looking for a savings product because they don't want to be in the market right now, we have the premium savings account. If it's really a cash sweep option we have multiple products at multiple levels. We look at the profitability of the relationship. We look at the activity, we look at what they do with us in terms of – in determining what we're going to offer.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And just as a follow-up question, just curious how you're thinking about some of the disruptors in the industry like Robinhood and Coinbase? Those guys have captured millions and millions of customers. Just curious how you thinking about extending your brand and products to capture some of that growth and where might E*TRADE be able to act as a disruptor in the industry over the next couple of years?

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

So that's a great question. So thank you for that, Michel. The way that I look at this and the way that our overall company looks at this, we were the original, the original place to invest online. Our brand absolutely extends and is welcomed by that customer set, right. It's about looking at our digital offering and making sure that it is extremely easy to interact with, things are easy to find. You get things like our new ETF offerings where it's two clicks to invest your dollars and come to E*TRADE.

So for us it's about getting back to our roots. I do not look at them as a primary competitor or other things, they have some great technology, they've made a nice splash, they've announced some large customer levels from what I can see. We have a lot of customers too. And our customers are loyal to us. We continue to deliver quality products to them. We have a right to be in that space and you should full well and expect that in 2019 we'll absolutely be playing in that space.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

A

Yeah.

Operator: We have no further questions.

Karl A. Roessner
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

All right, great. With that, I bid you all a good night and we'll talk to you in October, I'm sure. Thank you.

Operator: Ladies and gentlemen, that does conclude today's conference call. We thank you for your participation and ask that you please disconnect your lines.