

Interactive Brokers Group's (IBKR)

Q1 2019 Results - Earnings Call Transcript

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Executives

Thomas Peterffy - Chairman and CEO

Paul Brody - CFO

Nancy Stuebe - Director, IR

Analysts

Will Nance *Goldman Sachs*

Mac Sykes, *G. Research*

Kyle Voigt *Keefe, Bruyette, & Woods*

Rich Repetto, *Sandler O'Neill*

Chris Allen, *Compass Point Research*

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Interactive Brokers Group First Quarter Financial Results. (Operator Instructions) As a reminder, this conference is being recorded.

Now it's my pleasure to turn the call to Nancy Stuebe, Director of Investor Relations.

Nancy Stuebe

Thank you, Operator. Good afternoon, and thank you for joining us for our first quarter 2019 earnings conference call. Once again, Thomas is on the call, but asked to me to present his comments on the business. He will handle the Q&A.

As a reminder, today's call may include forward-looking statements, which represent the company's belief regarding future events, which by their nature are not certain and are outside of

the company's control. Our actual results and financial condition may differ, possibly materially, from what is indicated in these forward-looking statements. We ask that you refer to the disclaimers in our press release. You should also review a description of risk factors contained in our financial reports filed with the SEC.

Interactive Brokers achieved more new records in the first quarter. With accounts rising 21% from the year ago quarter, and passing 600,000 for the first time. Client equity reached an all-time high of \$147.6 billion. This quarter, we had the third highest quarterly DARTs ever in our company's history. This occurred even though volume returned to more traditional levels, after a period of very high volatility in the first quarter of last year.

As our customer base has grown, our DARTs have shown a secular trend upward, punctuated by spikes in volume during turbulent markets. Over the past 2-year period, our DARTs rose from 657,000 in the first quarter of 2017 to 848,000 in the first quarter of 2019. The year-on-year decline this quarter is a reflection of just such a spike in last year's first quarter conditions, which pushed our DARTs for that quarter to 939,000. That volume increased last year, coincided with the spike in volatility, when the VIX more than tripled over the course of the first quarter from under 10 to over 30.

We continue to focus on our strategy of growing our customer base in all segments, so we can take advantage of volatility in any scenario, and more so when it is higher. Our business is strong even with moderate volatility but because of the highly automated nature of our platform and our low-cost structure, more trading activities sends a higher proportion of revenues to our bottom line.

Another factor in comparing our volumes versus last year was our decision to limit the riskiest microcap stock business, which occurred shortly after the first quarter of 2018. Supporting these stocks had presented us with increased time and legal burdens in trying to ensure that the trading of certain of these securities would not be questioned by the regulators. Unfortunately, we have been unable to obtain clear regulatory guidance that would allow us to automate the compliance process, rather than reviewing each security and each trade manually. Until that time, we have chosen to limit our support for microcap securities on our platform.

Growth in DARTs generally goes hand-in-hand with account growth and, as you know, our account growth had been impacted by the difficulty our mainland Chinese customers are experiencing when trying to fund their accounts. Nevertheless, our account growth over the past year remained above 20%.

Outside of this factor, I must tell you that any way we slice it, new account growth at Interactive Brokers over any 12-month period, peaked in April 2018 at 27.8%, and has been declining since, reaching 20.3% in March of 2019. 20.3% would still be very good, but annualizing our sequential quarter account growth from the end of December to the end of March shows it leveled off at 16.2%, which is not so good. We would like to see this rate go back to over 20%, but for that, we will have to pull a rabbit out of a hat.

For the last 9 months, we've been working on just such a rabbit, that we plan to introduce at a test location near the beginning of the third quarter and in other locations, gradually, over time. For several good reasons, we are not prepared to say much about the rabbit at this time. We can say it will be a new product development, in an area only tangentially related to our traditional business but, if successful, would expand the opportunity to grow our customer base.

Net interest income rose on increased cash and higher average benchmark rates. Customer credit balances moved higher this quarter, though our customers' margin loans were down 5% from the fourth quarter, as some investors decided to take some risk off. On January 1, we started paying interest on customer cash in securities accounts under \$100,000 in equity. For qualified accounts, Interactive Brokers pays 1.91% on customer cash in U.S. dollars. By paying the highest rates we know of on immediately-available customer cash and charging the lowest rates we know of for margin loans, we are attracting more takers on both sides.

There were a couple of onetime items this quarter. The first was the gain in our strategic investment in Tiger Brokers from its initial public offering. We had recognized Tiger's potential, and their technological excellence, early on when we started working with them. They are a good customer and we enjoy an excellent, long-term leadership with them. We look at this as a long-term investment, but even if our assessment of Tiger's prospects were to change, we would not be

able to liquidate for 6 months. So as we are required to mark this investment to market, you may have to accept some additional volatility in future quarters.

It came to our attention that, in advance of the IPO, there was some indication that Tiger may choose to self-clear, in their words, “soon”. Our thoughts, based on our many decades of experience building systems, is that it is not as easy to self-clear as you might think. It is our opinion that any move towards this would happen over years, not weeks. In any case, we also believe that regardless of what choices a customer makes, this would not have a great impact on us. Even if it happens, we doubt that the cost of operating and maintaining an independent back-office system pays for itself, given the very low rate we charge for doing that. At least, not until they have several hundred thousand active accounts and tens of billions of customer assets, at which time we would also be happy to provide them a more favorable deal. Given their huge potential, we are sure that time will come.

Second, we disclosed in early March, what was then a \$47 million margin loan loss, which is now \$42 million and on which we still are likely to collect more. This occurred in the U.S. listed stock in which several customers invested by borrowing on margin. The stock's price fell rapidly over a very brief period of time, while simultaneously the trading volume suddenly dried up. Due to the very low trading volume, we were unable to liquidate as much of the stock as we wanted. We have made and expect to make further recoveries here. We are continually looking to make our systems and algorithms better. As a result, we have tightened margin borrowing in very low trading volume stocks, and we'll be using average daily volume as a greater weight when we assess margin loan risk in future.

Finally, our total equity reached \$7.4 billion in the first quarter, our highest to date. As we continue to grow larger, our equity capital helps us attract larger customers.

We saw growth in all 5 of the client types that we service. I will now go over our 5 client segments.

Introducing brokers continued to be our fastest growing segment, despite diminished growth from mainland China accounts. 12-month growth for this segment was 34% for accounts, 21% for client equity and 15% for commissions. As a reminder, the introducing broker handles the

customer service for and manages the relationship with its clients. Interactive Brokers provides the execution and back-office, the trading, reporting, clearing, custody and regulatory tasks.

We continue to see good growth in the hedge fund customer segment. For the first quarter, we saw 8% hedge fund account growth for the 12 months, 4% customer equity growth and 6% commission growth. We continue to benefit from growing word-of-mouth, our reputation for best price execution, and from the quality of our platform and the strength of our balance sheet.

Individual customers, which made up 49% of our accounts, 35% of our client equity and 51% of our commissions, had 12-month account growth of 16% for the quarter, while client equity grew 14% and commissions were up 6%. The fact that commissions grew at a slower pace than accounts, reflects the dampening effect of lower volatility in the current quarter.

Proprietary trading firms are 2% of our accounts, 10% of client equity and 14% of commission. For the quarter, this group grew by 11% in accounts for the 12-month period, 12% in client equity and had a 14% decline in commissions, driven by volume declines in nearly all product categories versus the previous 12-month period, as a result of lower volatility and the limiting of micro-cap trading. Top trading firms are sensitive to the direction of volatility and trade less as volatility falls.

Our final category is financial advisers. They are 16% of our accounts, 23% of our customer equity and 17% of our commissions. This group grew accounts for the 12-month period by 12%, customer equity by 14% and commissions by 1%. As was the case with individual customers, more moderate trading environment versus 2018 meant commissions did not keep pace with our account growth.

In addition to the constant improvement of our trading platform, you will see us continue to introduce new initiatives, like the Portfolio Checkup on our PortfolioAnalyst, that provides performance measurement, exposures, and risk metrics at the click of a button - and it's free. For any client, assets held anywhere, including at banks and managers, can be uploaded and the entire portfolio analyzed. We can also estimate savings for the customer, if they were fully on our platform.

The Portfolio Checkup includes our ETF/Mutual Fund Parser tool, which can categorize the individual component stocks within ETFs to help measure risk and ratings, as the market continues to move towards ETFs, and away from individual stocks.

These features are designed to give our clients even more flexibility in their Interactive Brokers account and, not coincidentally, to give them little reason to leave our platform.

With that, I will turn the call over to our CFO, Paul Brody, who will go through the numbers for the quarter.

Paul Brody

Thank you, Nancy. Thanks everyone for joining the call. As usual, I'll first review our operating results, and also I'll touch on the non-core items. My comments will follow the format of the earnings release, after which we'll open up the call for Q&A.

Starting with the operating data. The first quarter results included the 2 noteworthy non-core items. We recognized a \$103 million gain or \$0.19 per share from our strategic investment in Tiger Brokers, and a \$42 million loss that Nancy referred to, or \$0.08 per share, from our previously disclosed margin lending loss.

Operating metrics reflected fairly active trading in a declining volatility environment. Volatility, as measured by the average VIX, fell modestly to 16.7 this quarter from 17.2 in the year ago quarter. However, a closer inspection reveals a different story. The index declined over the course of this quarter from an average of 20 in the month of January to under 15 for March. In contrast, during last year's first quarter, the VIX fluctuated aggressively between about 9 and 37. And that kind of volatility sparked higher volumes, especially in options and futures, and our year-over-year volume comparisons should be viewed in this context.

Customer trade volumes fell in stocks, options and futures, although the impact on commissions was lower from stocks, given the cutback in microcap stocks. Foreign-exchange dollar volume was down as well.

Total accounts reached 623,000, up 21%, which contributed to customer equity growth of 14% to \$147.6 billion at quarter end. Accounts grew in all customer segments, led by introducing brokers but was also robust in individuals and financial advisers.

In comparison to the high volatility period in the first quarter of 2018, our quarterly total DARTs were down 10% versus last year.

Our overall average cleared commission per DART fell 9% versus last year to \$3.68 on a product mix that featured smaller average trade sizes in stock's, options and ForEx and slightly higher in futures.

Moving to our net interest margin table. Our net interest margin widened to 1.67% from 1.55% in the first quarter of last year.

The Federal Reserve did not change rates this quarter nor indicate that it had intentions to do so. In light of the flattening yield curve, we continued to shorten the duration of our portfolio and recorded a modest mark-to-market gain of \$5 million on our holdings of U.S. Treasuries. As always, we plan to hold these securities to maturity, but as brokers unlike banks, GAAP rules require us to mark them to market in our financial reporting.

Outside the U.S., interest rates in most currencies were relatively unchanged. This moderates our expectations on rising net interest income, as about 27% of customer credit balances are not in U.S. dollars.

Increased customer balances and higher rates in this quarter versus last year generated more net interest income on cash balances. And we believe our continued success in asset gathering should lead to larger contributions from interest-sensitive assets going forward.

Our FDIC Insured Bank Deposit Sweep Program has grown steadily to \$1.9 billion.

Margin lending and segregated cash management continued to be the most significant contributors to our net interest margin. Average margin loan balances fell 13% versus last year. However, higher interest rates versus last year led to margin interest growth of 25%. Our segregated cash interest income rose 92%, primarily on 4 Fed hikes to U.S. interest rates over 2018. 2 factors caused the yields on our segregated cash to lag the increases in the Fed funds rate.

First, a portion is held in other currencies. And second, given an average duration of investment in Treasuries of about 60 days, reinvestments take place over time. So these amounts would not be expected to follow Fed hikes immediately. The increase in segregated cash balances is also a function of customers' smaller appetite for risk, that is, less investments in stocks, particularly in purchases financed by margin loans leads to more segregated cash on the sideline to be invested. Note too that the FDIC Sweep Program removes funds that would otherwise be included in our segregated cash balances from our balance sheet for accounting purposes.

Securities lending interest income was 12% lower this quarter versus a year ago, as there were fewer hard-to-borrow names that investors were looking to short. Note also that as benchmark rates rise, as they did over 2018, a greater portion of the interest income on securities lending is classified as interest income earned on segregated funds, because the collateral received in securities lending is cash. Sequentially, securities lending income was up 4% as we continue to optimize lending on market opportunities.

Now for our estimate of the impact of the next 25 basis point increase or decrease in rates. Given the growth in our customer assets, the investment opportunities available to us, and new product introductions, we're well positioned to maximize our net interest income.

Expectations of further rate increases are typically already reflected in the yields of the instruments in which we invest. Therefore, in our calculation, we intend to isolate the impact of an unexpected rise or fall in rates, separate from the impact of rate hikes or cuts that have already been baked into the prices of these instruments.

With that assumption, we would expect the next 25 basis point unanticipated rise in rates to produce an additional \$13 million in net interest income over the next 4 quarters, and \$20 million as the yearly run rate. The run rate includes the reinvestment of all of our present holdings at the assumed rate, but it does not take into account any change in how we manage our segregated cash.

Our estimate for the next 25 basis points unanticipated decline in interest rate is symmetrical, producing \$13 million less in net interest income over the next 4 quarters, and \$20 million less as the yearly run rate.

Turning to our segment results. Electronic Brokerage turned in a solid performance on core operating metrics, with lower commissions largely offset by a healthy increase in net interest income. Net revenues were \$456 million for the quarter, down 2% from the year-ago quarter. Reported pretax income was \$250 million for a 55% margin. However, excluding Treasury marks and the unusual margin loss, pretax income was \$287 million for a 64% pretax margin.

Fixed expenses in brokerage were \$105 million, up 2%, driven by higher compensation and benefits, in line with our hiring to support the growing brokerage business.

Customer bad debt expense was \$43 million, including \$42 million related to the previously disclosed margin loss - a lower figure than we had initially estimated as we have been able to liquidate a portion of the position.

Market Making today consists of the customer facilitation business that we plan to retain as well as a few profitable markets outside the U.S. Net revenues were \$15 million, of which \$7 million were trading gains and the bulk of their remainder was net interest income. Market Making pretax income for the quarter was \$6 million.

The Corporate segment reflects the gain from our strategic investment and the effects of our currency diversification strategy. For the first quarter, we recorded a gain from our investment in Tiger Brokers of \$103 million, following Tiger's IPO in March. As mentioned earlier, we will mark this investment to market every quarter, which may lead to some variability in our Corporate segment earnings for as long as we hold this position.

As to currency diversification effects, we carry our equity in proportion to a basket of 14 currencies we call the GLOBAL, to best reflect the international scope of our business. As the U.S. dollar strengthened somewhat against most other major currencies this quarter, we incurred an overall loss from our strategy of about \$21 million, of which \$2 million is reported as Other Comprehensive Income and \$19 million is included in earnings. We estimate the total decrease in comprehensive earnings per share from currency effect to be \$0.04 with all of that reported in other income and effectively none reported as OCI.

Turning to the overall income statement. Net revenues were \$558 million, up 6% over the year-ago quarter.

Adjusted for nonoperating items, net revenues were \$468 million for the quarter, down 5% from last year's \$492 million. Nonoperating items include the \$19 million loss on our currency strategy and the \$42 million margin loss, offset by a \$104 million gain from our investments and \$5 million gain from marking our treasury portfolio to market.

Commission revenue fell 21% on lower volume and lower average trade sizes in most product categories. As we noted earlier, the decline of our overall average cleared commission per DART to \$3.68 reflected this mix.

Of our \$246 million net interest income, Brokerage produced \$238 million, Market Making \$7 million, and Corporate the remainder.

Other income, which includes our gain on the Tiger investment, as well as our GLOBAL currency strategy, Treasury marks and other fees and income we received, was \$132 million.

Noninterest expenses were \$219 million for the quarter, up from last year due to the margin loss. Without that loss, noninterest expenses would have decreased \$10 million versus last year, primarily due to lower execution and clearing costs, in line with lower trading volumes.

At quarter end, our total headcount stood at 1,458, a 16% increase over last year. We have been hiring most aggressively in the areas of client services, software development and network engineering and, to this end, we continue to build up our operations in India.

Reported pretax income of \$339 million was about even with last year, and represented a 61% pretax margin. Adjusted for the non-core items, I mentioned previously, pretax income was \$291 million for a 62% pretax margin. Pretax income was down 5% over last year's \$305 million similarly adjusted.

Diluted earnings per share were \$0.64 for the quarter versus \$0.63 in the same period in 2018. Comprehensive diluted earnings per share, which includes all currency effects, this quarter were also \$0.64, versus \$0.65 last year. Without the impact from investment gains, margin lending losses, currencies and Treasury marks, diluted earnings per share would have been \$0.55 versus

\$0.57 as adjusted last year.

To help investors better understand our earnings, the split between public shareholders and the noncontrolling interest is as follows. Starting with income before income taxes of \$339 million, we deduct \$3 million for income taxes paid by our operating companies, which are mostly foreign taxes. This leaves \$336 million, of which 82%, or that \$275 million reported on our income statement, is attributable to noncontrolling interests. The remaining 18%, or \$61 million, is available for the public company shareholders, but as this is a non-GAAP measure, it is not reported on our income statement. After we expense remaining taxes of \$12 million, or about a 20% rate, hold on that \$61 million, the public company's net income available for common shareholders is the \$49 million you see reported on our income statement. Our income tax expenses of \$15 million consists of this \$12 million plus the \$3 million of taxes paid by the operating companies.

Turning to the balance sheet. The balance sheet consistently remains highly liquid with low leverage. We are extremely well-capitalized from a regulatory standpoint, and continue to deploy our equity capital in the growing brokerage business.

We hold excess capital in order to take advantage of opportunities, as well as to emphasize the strength and depth of our balance sheet. We continue to carry no long-term debt.

At March 31, margin debits were \$25.9 billion, decline of 12% from last year's risk on environment. Our conservative balance sheet management allows us to satisfy customers' willingness to take on leverage in a controlled manner which, along with our highly competitive margin lending rates, has continued to aid our growth. As we have stated, our margin loans may show more swings than in past years due to our success in attracting institutional hedge fund customers, who are more opportunistic in taking on leverage.

Our consolidated equity capital at March 31, 2019, was \$7.4 billion, \$6.2 billion was held in Brokerage, \$1 billion in customer facilitation activities and Market Making, and the remainder in Corporate.

And now I'll turn the call back over to the moderator, and we can begin to take questions.

Question-and-Answer Session

Operator

(Operator Instructions) And our first question is from Rich Repetto with Sandler O'Neill.

Rich Repetto

First, thank you for the disclosure on the Tiger brokerage or your comments on it. And, I guess, when we look at the stock has continued to go up, it closed at \$22. So we calculate another \$90 million mark-to-market gain as of today from quarter-end. So, I guess, given the difference in it, what appears to be what they're saying or the rhetoric they put out about them being able to self-clear versus the time that some -- that you projected actually would take. I guess the question is, have you had conversations with - a very large customer that you have the significant investment that continues to go up - about this?

Paul Brody

Thomas, are you addressing that?

Thomas Peterffy

Oh, so sorry. We continue to have conversations with Tiger Brokers. We have a very good and close relationship with them.

Rich Repetto

Okay. So anyway, you got the 180 day lock-up, but the investment continues to do well. The next question would be on the loss. It didn't -- it varied a little bit from what you disclosed, I guess, in the filing earlier in the quarter in March. So, is it safe to say that most of it or the vast majority is worked off now? That we wouldn't expect a lot of change from the -- if it was the \$42 million or \$43 million that you reported?

Thomas Peterffy

As you know, we have explained at the time when we disclosed this, disclosed the loss, that our problem was that the stock became extremely illiquid and we became unable to liquidate much of it. And so currently, we are in a situation where we still are holding a large amount of the stock and we are unable to liquidate that for different reasons. Our lawyers tell us that since we had taken over the stock due to the inability to pay the margin, that we cannot now liquidate it for about a 6-month period.

Rich Repetto

Got it. Okay. And then I guess the very last question will be brief as, on the expenses at the brokerage, they came down quarter-to-quarter, Paul, like -- ex the FX and nonrecurring items, we get it, coming down by about \$15 million. Certainly some of that has to do with the lower activity levels. But could you just talk more about the expense growth and why that might may have come down by that amount? And I guess the plans over the next quarter or two?

Paul Brody

Well, you're right. And it is very much driven by the direct expenses, the execution and clearing is most of that decline. So there wasn't anything particularly notable in the other categories. And we are continuing to grow the business, so we would expect some growth in certainly things like the employee compensation and benefits, and then -- and various other things as we expand this business.

Operator

And our next question comes from Will Nance with Goldman Sachs.

Will Nance

I wanted to maybe circle back to some of the questions on some of your larger introducing brokers clients. I guess this has been a big topic of discussion recently. And I guess maybe if you kind of zoom out and talk about kind of like the economics of the different client channels that you have, and I appreciate the disclosure that you give every quarter on commissions per account, by client segment. I guess can you talk maybe more holistically about the profitability of the

different client segments? And maybe talk about the overall kind of contribution to earnings of the introducing broker segment versus some of your other client segments?

Thomas Peterffy

So as we have disclosed, our commissions, 9% of our commissions came in the last 12 months from the introducing broker segment. Even though, they represent 32% of our accounts. So as you know, we have tiered commissions and an introducing brokers is treated -- all their accounts are treated as one account, and that's how they get tiered. So the commissions we make on them are relatively low, much less than they are for any other account type. That is not quite true for interest. So as far as introducing brokers are concerned, our interest income well exceeds our commission income from that group.

Will Nance

Got it. That's helpful. Okay. And then maybe just circling back to the question for Paul on the expenses. I think you've previously talked about something like 10% to 15% growth in expenses. And if I look at just total expenses ex the execution cost, I'm still seeing them being relatively flat year-over-year. So I guess could you kind of talk about expectations in the near term for the expense growth, just -- because it seems like we're not -- unless there is a big ramp in the back half of the year, it doesn't seem like we're tracking to the 10% to 15% right now.

Paul Brody

Well, what we do is grow the business opportunistically rather than set budget targets that we are bent on meeting by some target dates. We don't find that to be helpful, so what Thomas may have referred to in past calls is more of our overall strategy and -- as opposed to timing of any particular quarter. And yes, there was not much of an aggressive expansion this quarter. The other thing I should mention is that a good portion of the -- certainly, over the last year - of the expansion in our staff, taken place in India, where obviously on a per head basis, the expenses are lower.

Will Nance

Got it. That makes sense. And maybe if I could squeeze just one more in. I guess you mentioned,

making some changes to some of the margin requirements after you disclosed the loss this quarter. I guess, did that have any meaningful impact on the balances? Or was the decline in balances this quarter largely a function of just client activity in the overall environment?

Thomas Peterffy

A lot of the discussion of changes to some of the margin rules occurred very late in the quarter or maybe even after the quarter. So the answer is no, it did not impact the margin balances during the quarter.

Operator

And our next question is from Mac Sykes with Gabelli.

Mac Sykes

Just given the bad debt expense, it would imply a higher cost of credit for the platform. Since your financing is materially lower than competitors, have you considered revising your rate schedule at all? Or at least for those portfolios with riskier stocks?

Thomas Peterffy

We have not considered revising the rate schedule. We want to be compellingly less expensive than any of our competitors.

Mac Sykes

My follow-up, just on the rabbit, is there any way to provide a little more color, perhaps a certain -- whether it's around certain asset classes, product ranges, global versus domestic, just anything to sort of give us a...

Thomas Peterffy

I am sorry, you have to be patient. It's just -- give us another 2 or 3 months and the rabbit will be there.

Operator

And our next question is from Kyle Voigt with KBW.

Kyle Voigt

I think about a year ago, you were looking at potentially investing in some agency securities. I just wanted to follow-up on that and see where you are in that process, or if there could be any changes to the management of the securities portfolio near term in terms of what you invest or what duration you invest in as well?

Thomas Peterffy

That has not happened yet, but it is likely to happen in the future.

Kyle Voigt

Is that something we could expect this year, Thomas, or...?

Thomas Peterffy

More likely next year.

Kyle Voigt

Okay. And sort of unnecessarily just -- but just on Tiger Brokers again, if they did move to a self-clearing model, could you just help us frame how much of your total revenue is generated from that relationship?

Thomas Peterffy

I think it is about -- it's not a great deal, it's about -- sorry, I have to calculate this, I would say it's less than \$25 million per year.

Kyle Voigt

Okay, great. And then last one for me, is just a follow-up on China. I think last -- in the fourth quarter, you disclosed that your account growth from mainland China dropped by 70%. Has there been any change in your client's ability to fund those accounts from Mainland China in the first

quarter?

Thomas Peterffy

Not so far.

Operator

(Operator Instructions) And our next question is from Chris Allen with Compass Point.

Chris Allen

I wanted to revisit the margin loans, which were fairly steady over 2018 from an average perspective and dipped down this quarter. I mean is this just from your perception, just customers taking risk off the table, just trying to think about what the trajectory is moving forward? Or does your account mix factor into that as well?

Thomas Peterffy

No., it was mostly customers taking risk off as a result of the down market, and that actually came to an end at the end of last year. But customer reaction is always delayed.

Chris Allen

Got it. Okay. And then just one quick one. The stock lending, securities borrowed line, I understand why it was down year-over-year, but it's a nice pickup from the level you saw in the fourth quarter and moving in the right direction. Is -- you're seeing increased risk appetite there? Is there anything to kind of note when you think about how it compares to the prior quarter and moving forward?

Paul Brody

So a couple of factors there. One is that the aggregate amount of our shorts that we're carrying for our customers has definitely risen. On the long side, where we either lend margin securities or we have the fully paid program we call the Stock Yield Enhancement, where we split the benefits with the customer, that's very opportunity-driven, you know, when a few stocks become hard to

borrow, get hot in the market, they are simply more profitable to lend out. And so it's very much driven by those opportunities overall. The one other factor that I just touched on in my talk before is that, as you lend out securities, you take in cash collateral. And as the rates in the market rise, which they did certainly over 2018 quite a bit, percentage-wise, that more of the income from that activity ends up as interest income on segregated funds, because you're taking in cash collateral and then you're protecting it for the customer whose stock you lent out. So it ends up in the seg funds, where it produces more interest than it did before. And going forward, from this vantage point, we see a flat yield curve and no anticipated Fed hikes for maybe quite a while. So we wouldn't expect that phenomenon to continue until the rates started to change again.

Operator

And I'm not showing any further questions in the queue. I would like to turn the call back to Nancy Stuebe for her final remarks.

Nancy Stuebe

Thank you, everyone, for participating today. As a reminder, this call will be available for replay on our website. We will also be posting a clean version of our transcript on our site tomorrow. Thank you again, and we will talk to you next quarter-end.

Operator

And with that ladies and gentlemen, we thank you for participating in today's conference. This concludes the program, and you may all disconnect. Have a wonderful day.