

Interactive Brokers Group's (IBKR)

Q1 2021 Results - Earnings Call Transcript

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Executives

Thomas Peterffy - Chairman

Paul Brody - CFO

Nancy Stuebe - Director, IR

Analysts

Will Nance, *Goldman Sachs*

Kyle Voigt, *KBW*

Rich Repetto, *Piper Sandler*

Chris Allen, *Compass Point Research*

Craig Siegenthaler, *Credit Suisse*

Daniel Fannon, *Jefferies*

Chris Harris, *Wells Fargo*

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Interactive Brokers Group First Quarter Financial Results Conference Call. At this time, all participant lines are in a listen-only mode. After the speakers' presentation, there will be a Q&A session. To ask a question during the session, you will need to press "star one" on your telephone. Please be advised that today's conference may be recorded. If you require any further assistance, please press "star zero." And now I would like to hand the conference over to your speaker for today, Nancy Stuebe, Director of Investor Relations, you may begin.

Nancy Stuebe

Thank you, operator, and thank you, everyone, for joining us for our first quarter 2021 earnings conference call. Once again, Thomas is on the call but asked 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.

Q1 was an absolutely spectacular quarter. I have never seen anything like this in over 50 years on Wall Street. And those are Thomas' years, not my years. While we have had some other very active quarters in the past, there were 2 unique features about this one. First, that it seemingly happened in parallel and in tandem across all geographies around the globe; and second, that the feverish activity appeared to be led much more by individual investors than by institutions.

You can explain all this by the combination of both the slowly spreading electronic connectedness of individuals to each other and to institutions and businesses, including the financial markets as well as by the sudden worldwide spread of the virus.

The activity started to rise slowly, along with the advancement of the virus in March 2020, picking up speed towards the end of the year. It reached its crescendo towards the end of February and has been subsiding since. Where will we end up? I think the impact of the virus will disappear, but the resulting increasing reliance by the public on electronic communications, on working and meeting from a distance and on gathering in larger asynchronous groups, including groups of investors, will remain.

As for Interactive Brokers, I would expect that the sudden growth spurt will soon be over, and we'll return to our historic account growth rate in the high 20s percent but now from a

substantially higher base. And that is only if, of our many new tools, products, or ideas that we continuously develop and add to the platform, none really hit the jackpot. If they do, we'll grow faster.

Just kidding. We do not really expect that any one particular feature or aspect of our platform will hit the jackpot.

But what we do expect is that as we become better at enabling our customers to navigate through our numerous high-quality features at ever greater efficiency and as we establish individualized work environments and tools for them, the superior customer experience will become ever better known and spread by word of mouth. And now to go over these outsized numbers. We ended the quarter with a record 1,325,000 accounts, a net increase of over 565,000 from March 2020 or 74%.

We saw account growth in all client segments and all geographic regions. In fact, accounts grew nearly equally in the 3 geographic regions we serve, the Americas, Europe and Asia. Client equity more than doubled to a quarter end record of \$330 billion. As our customer base grew, DARTs and DARTs per account rose as well. Total DARTs for the first quarter were \$3.3 million, up 128% over last year and 57% over the fourth quarter. While DARTs per account rose to 622, the highest in nearly 10 years. While our business is strong even with moderate volatility, the highly automated nature of our platform and our low-cost structure mean that higher trading activity sends a greater proportion of revenues to our bottom line.

This quarter, our pre-tax margins were strong at 72%. Adjusted for noncore items, our pre-tax margin reached 68%, up from 61% a year ago. In addition, our capital base has grown even stronger our capital base has grown even stronger during this period, with total equity reaching \$9.4 billion this quarter. This base has helped us to attract larger customers as well as reassure the increasing number of clients looking to participate in the markets.

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

Individual customers who made up 62% of our accounts, 36% of our client equity and 54% of our commissions continued their run of record growth this quarter, with 12-month account growth more than doubling to 107% and even higher client equity growth of 109% while commissions grew 66%. This includes the roughly 57,000 less active accounts we took over from Goldman's Folio purchase. In addition to the aforementioned factors, continued active interest in the markets by investors worldwide, increases in market indices, and investor desire to improve on the zero interest rate environment alternatives, are some of the reasons behind the strength.

All geographic areas we serve saw triple-digit growth in individuals with close to uniform growth rates across the Americas, Europe and Asia. This proves the importance of providing a reliable platform to a global audience, offering wide product choices and worldwide access and demonstrates that clients want the maximum opportunities to invest in a variety of ways they prefer. We continue to see growth in the hedge fund customer segment.

For the 12 months ended March 31, we saw 3% hedge fund account growth, 69% customer equity growth and 12% commission growth. Strong customer equity growth well outpaced industry asset growth of under 10%. We continue to benefit from our reputation for best price execution, low and transparent margin and securities financing rates, the quality of our platform, and the strength of our balance sheet, and we keep inching up in Preqin's ranking of prime broker custodians. Hedge funds represent 1% of our accounts, 7% of our client equity and 6% of our commissions.

Proprietary trading firms are 2% of our accounts, 9% of client equity and 13% of commissions. For the quarter, this group grew by 35% in accounts for the 12-month period, 57% in client equity and 31% in commissions. Prop trading firms are sensitive to the direction of volatility and trade more as volatility increases. Continuing strong volatility led to more active trading strategies, while accounts and client equity grew due to more traders wanting to be on our platform to capitalize on its reputation for seamlessness and efficient trade executions.

Financial advisers are 10% of our accounts, 16% of our customer equity and 11% of our commissions. This group grew accounts by 21% for the 12-month period, customer equity by 66% and commissions by 11%. Account and client equity growth show our increasing

penetration of the segment. Commissions were up by less than account and equity growth as advisers typically tend to trade more conservatively. Our independent adviser business is small relative to Fidelity or Schwab. But while these firms emphasize the adviser and individual segments only, we also cater to hedge funds and prop traders who are a more demanding group as far as certain functionality is concerned. We build infrastructure for each client segment and make it available to all. As a result, our platform has the richest set of tools and capabilities. And with this strategy, we get better and grow faster in each of our customer segments than our peers.

As published reports indicate, when RIAs are asked to rank 9 brokers, Schwab, Fidelity, Morgan Stanley, Bank of America, LPL, Edward Jones, Stifel, Raymond James and Interactive Brokers, our RIA offering ranks third of the 9 among most liked and seventh of the 9, among most disliked. Even more promising, we were also the most improved from year-to-year among all. Large advisers would work best by using 3 custodians and giving us the most active and most leveraged accounts due to our superior execution and margin rates.

Our final segment is introducing brokers. These represent 26% of our accounts, 32% of our client equity and 16% of our commissions. I-Broker segment account growth was 48% for the latest 12 months, while client equity more than doubled, growing 169% and commissions by 165%.

Interactive Brokers platform provides the global trading and seamless back office functionality critical for brokers who want to provide a global offering so they can capture clients worldwide who seek to invest and want to be able to access many markets in order to do so. We are excited about the opportunities for 2021. We have placed enhanced focus on our marketing efforts, and we have continued to increase spending in this area over the past year and expect to continue to do so this year.

We are coming out in the current quarter with several new exciting tools and products. It is this endless procession of new Interactive Brokers products and services that is the foundation of our rapid growth. In this regard, quality truly outshines quantity. More and more online brokers pop up every day all over the world. They all offer trading tools, trade executions and custody and each has some angle that is their specialty. But how are they going to compete with the established brokers platforms that have been evolving for many years, they will not be able to.

It is the platforms with the best all-in prices and highest-quality of tools and services that will ultimately attract those users who seriously search for what suits them the best. This is our moat, and we will continue to widen it this year and onwards.

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, everybody, for joining the call. As usual, I'll start by reviewing our first quarter operating results and the non-core items. The main factors that drove those numbers, and then we'll open it up for questions.

Beginning with the operating data, record levels of account openings and trading drove strong operating metrics, aided by continuing high global market participation in the face of zero to negative interest rates. While market volatility came down a bit, industry volumes, especially in stocks and options, continued their upward march and trading by our active trader customer base surpassed even the industry's brisk increases.

Volatility, as measured by the average VIX fell from the unusually high levels it reached last year at the outset of the coronavirus pandemic, a time of great uncertainty. The average VIX fell from 31 in the first quarter last year to 23 this quarter, consistent with the mid-20's levels seen in the second half of 2020. Continued global interest in financial markets, amid the search for higher yields led to higher industry trading volumes in most products.

Compared to the first quarter of 2020, our quarterly total DARTs more than doubled, rising 128% to a record \$3.3 million. Our customer trade volumes rose dramatically in several product classes, led by increases of 72% and 411% in options and stock volumes, respectively. Stock volume was inflated by trading in low-priced stocks, though even after removing that effect, the share volume still rose 134%. Futures volumes declined 17% due to this quarter's comparison to the extremely active futures volume of March 2020, but this quarter still ranked as our fifth highest.

FX dollar volumes this quarter were lower as investors turned their focus to equity markets. Total accounts reached a record of 1.325 million, up 74% over the prior year, contributing to customer equity more than doubling from the first quarter of 2020 to \$330.6 billion. Our overall average cleared commission per commissionable order fell 30% versus last year to \$2.31, on a product mix that featured smaller average trade sizes and options, futures and forex.

Another factor contributing to this decline was our continued success in capturing liquidity rebates, some or all of which are passed through to our clients. These rebates reduce the overall commission our clients pay, which decreases the average commission per DART, but they also reduce the exchange fees we pay on the expense side, making their overall impact neutral to our bottom line. Moving to our net interest margin table. Our net interest margin narrowed from 1.45% to 1.26% year-over-year, partially but not fully impacted by the drop in average U.S. benchmark Fed funds rate from 125 basis points to 8 basis points and as most rates worldwide remained at or below zero

In light of the flat yield curve, we kept the duration of our portfolio relatively short and recorded an immaterial mark-to-market loss on our holdings of U.S. treasuries. Outside the U.S., benchmark interest rates remain zero or negative, nearly all currencies as central banks continue trying to soften the impact from the pandemic. This has led, over the past few quarters, to interest earned on credit balances where we pass-through negative rate costs on these currencies.

As a reminder, about 1/4 of our customer credit balances are not in U.S. dollars, and so changes in rates that occur in the U.S. do not apply to all of our balances. Securities lending and margin loans were the largest contributors to our net interest income. Securities lending was particularly strong this quarter, utilizing our in-house developed system, our team executed on opportunities to lend hard-to-borrow names and investors were looking to short.

Net interest income from securities lending reached a record \$175 million this quarter, up 182% year-over-year. Average margin loan balances rose 47% versus last year as investors grew more comfortable taking on risk and leverage. Even with the decline in the Fed funds effective rate to

near zero, higher year-over-year balances led to only a 16% decline in margin loan interest income from \$139 million to \$117 million.

Lower rates also reduced our earnings on segregated cash, where, despite a 38% increase in segregated cash balances, interest income fell along with benchmark rates. Drop in yield from 6 basis points in the fourth quarter to 2 basis points this quarter was also affected by inflows in currencies with negative interest rates. Note that for accounting purposes, our FDIC Sweep program, which expanded by 11% over the prior year, removes funds that would otherwise be included in segregated cash balances on our balance sheet.

Now for our estimate of the impact of the next 25 basis point increase in rates and calculating the impact of rate changes, we understand that as the possibility of a future rate increase becomes more certain, this expectation is typically already reflected in the yields of the instruments in which we invest.

Therefore, we attempt 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 \$105 million in net interest income over the next 4 quarters and \$110 million as the yearly run rate based on our current balance sheet.

Our net interest income is highly sensitive to small rate increases due to the impact of low benchmark rates on the spread between what we earn on our segregated cash and what we pay to our customers. As U.S. rates fell below 50 basis points, our spread compressed as we earn less on our segregated cash. However, the converse is also true that as rates move back up towards 50 basis points, the spread rises. The \$110 million run rate includes the reinvestment of all of our present holdings at the new assumed rate but does not take into account any change in how we may manage our segregated cash.

A 25 basis point unanticipated fall in rates would produce a decline in net interest income of \$37 million over the next 4 quarters and \$38 million as the yearly run rate.

Turning to the income statement. We define non-core items as those not part of our fundamental operating results, non-core adjusting items versus the year ago quarter. Our currency diversification strategy lost \$49 million a year ago versus a loss of \$2 million this quarter, so a comparative increase in income of \$47 million. Investment gains and losses rose from a loss of \$11 million to a gain of \$99 million this quarter for a \$110 million swing. And mark-to-market on U.S. government securities, went from an \$11 million gain to zero this quarter, a comparative decrease of \$11 million.

The net effect of these adjustments increased pre-tax income by \$97 million this quarter, a positive shift of \$146 million over last year's quarter. Net revenues were a reported \$893 million for the quarter, up 68% versus last year's first quarter.

Excluding non-core items, net revenue was up 37% to \$796 million. Commission revenue rose 53% on significantly higher volumes, particularly in stock and options. Our average cleared commission per commissionable order was \$2.31. As noted earlier, smaller average trade sizes in options, futures and forex as well as our continued successful capturing of execution rebates, which largely are passed back to clients, contributed to this number.

Net interest income rose 19% to \$305 million despite a 118-basis point decline in the average effective Fed funds rate versus the year ago quarter, thanks to growth in our balance sheet, higher-margin loan balances and our successful securities lending effort. Other fees and services revenues, which include market data, exposure, account activity, FDIC Bank Sweep program and IPO facilitation fees, as well as order flow income from options exchange mandated program, rose 47% to \$56 million.

The top 3 contributors were market data fees, which were up \$6 million; options order flow income, which was up \$3 million; and IPO facilitation fees, which were up \$7 million.

Other income, which includes the gains and losses on our investments and currency diversification strategy, as well as principal transactions, swung to a gain of \$120 million from a loss of \$31 million in last year's quarter. Ex-non-core items, other income increased 25% to \$23

million. Non-interest expenses were \$254 million for the quarter, up 13% from last year. Larger exchange liquidity rebates drove a 12% reduction in execution, clearing and distribution fees to \$68 million despite the higher volume.

As mentioned, a portion of these rebates are passed through to our clients and are reflected in reduced commission. Fixed expenses were \$184 million, up 31%, driven by a 21% increase in compensation and benefits, in line with the hiring that supports our growing brokerage business and by G&A expense. At quarter end, our total headcount stood at 2,187, a 28% increase over last year. We have been hiring aggressively in client services to support the influx of new accounts, as well as in compliance and software development.

This quarter, G&A included \$19 million related to licenses and fees required to set up operations in Europe due to Brexit. Going forward, we will have some annual regulatory fees as we do in all countries in which we are registered, but this \$19 million will not be recurring. Customer bad debt expense was \$2 million, well contained for a highly active trading period. Reported pre-tax income more than doubled from last year's quarter to \$639 million for a 72% pre-tax margin. And excluding non-core items, pre-tax income rose 52% to \$542 million or a 68% pre-tax margin.

Diluted earnings per share were \$1.16 for the quarter versus \$0.60 in the same period in 2020. And ex-noncore items, diluted earnings per share were \$0.98 versus \$0.69 as adjusted last year. To help investors better understand our earnings, taxes, and the split between public shareholders and the non-controlling interests, the first quarter numbers are as follows. Starting with our pre-tax income of \$639 million, we deduct \$26 million for income taxes paid by our operating company, which are mostly foreign taxes.

Note that we had a \$6 million addition to what we normally would have expensed related in part to consolidating our European operations in the aftermath of Brexit. This leaves \$613 million, of which 78.2% or that \$479 million reported on our income statement is attributable to non-controlling interests. The remaining 21.8% or \$134 million is available to the public company shareholders. As this is a non-GAAP measure, it is not reported on our income statement.

After we expense remaining taxes owed by the public company of \$27 million on that \$134 million, the net income available for common stockholders is the \$107 million you see reported on our income statement. Note that the public company's tax is proportionately higher, primarily because IBG Inc.'s ownership rose from 18.5% to 21.8%. Our income tax expense of \$53 million consists of this \$27 million, plus the \$26 million of taxes paid by the operating company.

Turning to the balance sheet with \$9.4 billion in consolidated equity at March 31, 2021. We're well capitalized from a regulatory standpoint.

We deploy our strong capital base toward opportunities to grow our business and investing opportunities worldwide as well as to emphasize the strength and depth of our balance sheet to current and prospective clients and partners. Our capital is deployed across 14 registered broker-dealer type entities around the world, supporting regulatory capital requirements, liquidity needs, margin lending and other financing opportunities in our growing brokerage business. And we continue to carry no long-term debt.

With that, I'll turn it over to the moderator, and we will take questions.

Question and Answer Session

Operator

(Operator Instructions)

Our first question comes from the line of Craig Siegenthaler with Credit Suisse

Craig Siegenthaler

Good evening everyone, hope you are all doing well. So, Thomas, starting on capital management, where is the point where you think you have enough capital? And I'm especially thinking about your hedge fund prime business, where you could start raising the dividend to a more comparable level to some of your peers?

Thomas Peterffy

We are not looking at raising the dividend. We are still, as you heard Paul say, we have 14 entities, broker-dealers around the world, and we need more capital actually than we have. So -- and we also have some opportunities as far as IPOs are concerned that need capital to be able to finance the subscriptions. So, there is not going to be a dividend increase in the near future.

Craig Siegenthaler

And I just had a modeling follow-up maybe for Paul, but execution and clearing costs were quite low again. Can you talk about what was in the 1Q run rate, what we should expect for 2Q? And if there's also any impact from exchange rebates?

Paul Brody

Well, there's definitely an impact from the exchange rebates, as I mentioned. But again, most of that is passed through to the customers in the form of reduced commissions. So, you'll see it come out of the expense line, but also the revenue line. One of the things we've been able to do over time, or certainly over the last year, is improve our routing software to optimize the routing of orders to maximize the rebates that we can then pass-through to our customers.

And we're constantly looking at improving all of those systems in that regard. So -- but to the bottom line, it might have a small impact. But because we're passing them through to our customers, the biggest impact is a better deal for the customer.

Thomas Peterffy

So another thing I need to add here is we are placing emphasis, a great deal of emphasis on trying to execute match orders in our dark pools because that is the way we can provide best execution when we -- now that we have 3.3 million trades a day. It is becoming lucrative. Our dark pool becomes a lucrative place for institutional traders to try to participate in interacting with that

order flow. So if we can get more and more institutional traders into our dark pool to indicate their non-urgent orders and that we can match them up with the retail flow as it comes in, everybody benefits, and we don't have an execution cost.

Operator

Our next question comes from the line of Chris Allen with Compass Point

Chris Allen

I just wanted to follow-up on that question, the commentary around the dark pool becoming more interesting. I can't recall you guys ever talking about your dark pool before. Maybe you can give us some metrics in terms of any -- what volume is currently executed on the dark pool, what's matched up out of your total trades right now?

Thomas Peterffy

It is approaching 30%.

Chris Allen

Got it. All right. And then switching gears a little bit. I noted you're talking about increasing your marketing efforts. Historically, word-of-mouth has been your primary catalyst to drive new account growth. Any color in terms of how you're expanding your marketing efforts? You have new hires directed in that vein? Are you looking at different channels from a marketing perspective?

Thomas Peterffy

We have new hires on the one hand. And also, yes, we are looking at more regional marketing around the world. This is a very initial phase, it is in its infancy still. But we are going to try to have a more regionalized marketing effort because we find that people are more comfortable, for example, in their native language around the world, et cetera.

Chris Allen

Got it. So it's fair to say you're starting from a fairly low base in terms of your existing marketing efforts, specifically in the regional front?

Thomas Peterffy

That's correct. I mean, our marketing expenses currently are around \$40 million to \$50 million a year

Chris Allen

Got it. And then last one for me before I jump back in the queue. Some recent articles quoted, I think, as IBKR spokesman saying you're going to be launching a cryptocurrency effort this summer. Just wondering if you have any color on that, how you approach that market from a custody storage perspective, sourcing liquidity, et cetera, any color would be great.

Thomas Peterffy

I think it was a spokeswoman. And actually, we do not disclose these things. So, as you know, whenever we come up with something, we're very likely to be followed by all of our peers. So, we like to have our cards close to our chest until we're ready to play.

Operator

Our next question comes from the line of Rich Repetto with Piper Sandler.

Rich Repetto

Good evening Thomas, good evening Paul. So, the over-the-top number that jumps out at me is the securities lending revenue, so, the \$175 million. If you look at it, it looks like double sort of the run rate of quarterly run rate of last year. So, can you give us -- I guess this is for Paul, can you give us any color like how -- what drove that? Or how you exited throughout the quarter,

January, February and March? And what -- I don't know what drove that. I mean, we didn't see it that much at peers like Schwab.

Thomas Peterffy

Well, I'm happy to answer that, if I may. You see -- this is a revenue source that is very spiky. And it has to do with whether you have a substantial quantity of any stock that is difficult to borrow and therefore, commands a higher rate. Now it just so happened that there was one and maybe a couple of other issues that had a high lending rate and we happened to have a great deal of it. So that's the reason for that.

Rich Repetto

So would you suggest, as we look forward, that we go back to more of the run rate of last year, which is about half of that? Is that probably the best?

Thomas Peterffy

That's right. Yes.

Rich Repetto

So Thomas, the other thing was the 74% year-over-year account growth. And it seems like you're being reasonably very conservative in going back, suggesting that we go back to the 20% year-over-year account growth. And my questions are these accounts, the boost that we got in the first quarter, do we get -- isn't there -- will there be a seasoning impact to balances, maybe margin balances, deposit and equity balances of this -- you suggested in the past that they don't fund immediately that it takes 1 year to 1.5 years.

So could we expect an uptick in some of the balances, even though we might go to a more, what we call, normalized account growth rate?

Thomas Peterffy

Yes. That is correct. But first of all, don't forget that 57,000 of these new accounts came from the Folio acquisition from Goldman, right? And they tend to be small accounts and very inactive accounts. So as far as those accounts are concerned, we are not expecting any growth. Now it is generally true that when somebody opens an account with us initially, they put in a little bit of money and gradually over the next year or 2, it increases. And yes, that is correct. So, to the extent that we have a sharper increase in new accounts, we can expect some follow-on funding on those accounts.

Rich Repetto

Understood. But even if you subtract the 57, it was still elevated by historical standards anyway.

Thomas Peterffy

That's right.

Rich Repetto

My last question was on the need for capital that you talked about, Thomas, is there any way -- like I believe the cash, if you look at cash and what you call regulated cash, I believe that went up from \$20 billion to \$24 billion. And the capital is at \$9.4 billion so I guess my question is, how do you -- is there any way we can sort of ballpark like how you come up with a number that you need more capital?

Thomas Peterffy

I have a great idea for you, talk to our CFO.

Rich Repetto

I'd love to talk to him.

Paul Brody

So Rich, the -- yes, sure. What it boils down to is we have all these different regulatory jurisdictions, and each one has a different set of rules. So some are more flexible than others in the U.S., when you see that our customers put in more money, deposit more money with us.

Much of that money will be available to lend to other customers who are borrowing money, secured by their marginal stock.

But in other jurisdictions, that's not the case. One has to separate, put customer money in the bank and then finance the margin lending. So you can't infer from increased credit balances that they are available to fund increased financing and so that puts certain constraints on us. And as we grow greatly in our non-U.S. affiliates, we have some commensurate need, growing need, to have more of our own capital. And then -- and that's on top of having to maintain a certain amount of regulatory net capital, which we do, and we keep excess for all the right reasons. But it's fragmented, and it's devoted to these things, which are opportunities. So as Thomas says, as he said before, rather than dividend-ing it out, we're more likely to keep it and in fact, try to expand on it.

Rich Repetto

Okay. Just one little quick thing. If -- he also said that you would need more. So what's the target if you're at \$9.4 billion, what are you targeting then?

Thomas Peterffy

Well, it depends on how many more offices we're going to open up and how strongly the customer base and the margin borrowings grow in areas where we are unable to use our customers' deposits. And so it's -- I don't have a crystal ball. I think we could very easily use \$12 billion at this moment. Is that roughly right, Paul?

Paul Brody

Sure. We certainly have the capacity to utilize it. Yes.

Operator

Our next question comes from the line of William Nance with Goldman Sachs.

William Nance

Good afternoon. Thomas, maybe I can ask a follow-up question on the account growth and some of the discussion around marketing earlier. I mean if I go back kind of prior to the pandemic, you were growing accounts kind of 10,000 to 15,000 a month, something in that ballpark. Obviously, that's gone up quite a bit, and I hear you not wanting to kind of promise the kind of growth that we've seen more recently going forward. But I think if I kind of take a step back, I look at a lot of the new entrants into the broker space, even some of the large competitors in the U.S., like a Schwab, for instance, you're seeing pretty large numbers in terms of account growth, and a lot of that is just focused in the U.S.

When you kind of think about the global opportunity that you guys have and this kind of opportunity to grow accounts, I mean, what makes you think that we necessarily are going to go down back to kind of lower levels going forward? And I guess, given the kind of market we're in, why wouldn't you be kind of significantly increasing the investment in marketing in order to kind of take advantage of that opportunity?

Thomas Peterffy

We will, we will. But -- so our historical, if I look at our annual report, our 5-year account growth rate is 27%. So, I mean 30% expectation would be quite reasonable. I just think that a lot of the people who were ready to open an account, who were thinking about opening an account, all opened an account at the time when they had to stay at home and they had nothing to do. They finally got around to it. So we had a potential group of -- a large group of people who were potentially ready, and they've all done it. So I think that now there is a smaller group that we can await for them to open their account.

Eventually that will even out, and we'll be back to the historical average. I do not see why going forward, there would be -- other than our enhanced marketing effort, which is, of course, right. But otherwise, I don't see why there would be a much larger appetite for accounts than there used to be.

William Nance

Got it. Okay. That makes sense. And then just maybe a question on margin balances. They've been obviously very strong recently, basically at all-time highs. And yet when we kind of look at it relative to client equity, they don't appear particularly elevated kind of as a percentage of client assets. So I'm just wondering if you could talk about the propensity of some of the recent client cohorts to trade on margin. And maybe if you look kind of under the hood among the various client segments, how would you -- how would you kind of characterize margin balances today kind of relative to history, kind of under the hood and kind of adjusted for mix?

Thomas Peterffy

So, the numbers I'm seeing, and of course, I look at shorter-term numbers. I see margin loans expanding at a healthy rate. So I don't see it the way you see it. You must have looked at some very long-term numbers, right?

William Nance

Yes. I mean, I think historically, you would see kind of margin balances in sort of like mid-teens as a percentage of client equity. And I think just given the significant increase in equity over the past year or so, even though the margin balances are up a lot in absolute terms, kind of on a relative basis, they've kind of kept pace and don't appear particularly elevated, I guess. So I guess my point is, when you look at it under the hood, does it actually feel somewhat elevated today? Do you think there's plenty of more room to go? Could we actually see it return to those kind of mid-teens levels that we used to see?

Thomas Peterffy

So as I often say, it's the most frustrating area for me, I do not understand why it is that we offer the lowest margin in the world, and we don't have all the margin loans. But it is what it is. So I'm somewhat stunned.

Operator

Our next question comes from the line of Daniel Fannon with Jefferies.

Daniel Fannon

I was wondering if you could talk about the account growth by region. I think you said that it was equally spread out amongst U.S., Europe and Asia and maybe go in a little bit deeper in terms of those markets. And then as you go -- as you're seeing things moderate or slow down or get back to what might be viewed as more normal levels, are there any regions that are slowing down faster in these kind of recent days and weeks of activity? Or is it more broad-based?

Thomas Peterffy

Right. So no, the slowdown is the fastest in China and Hong Kong. It must have something to do with the Chinese government cracking down on banks that send out money. So our customers find it difficult to fund accounts.

And China and Hong Kong used to be our fastest growing region. And it suddenly has become practically our slowest growing region. So yes, the answer is that's where the greatest change has occurred. Otherwise, maybe the fastest growth lately has been from the Middle East.

Daniel Fannon

Great. Okay. And then a follow-up on expenses. I understand the normalization of G&A. But maybe if there are any other kind of -- So just thinking about the remainder of this year, given what you called out in G&A, is there any kind of planned or known expenses that are outside of the normal hiring, marketing that you've already mentioned as we think about just kind of the run rate of fixed cost.

Thomas Peterffy

I don't have any thoughts on that, Paul?

Paul Brody

I have nothing specific. We always try to point out when we have unusual expenses that we don't expect to recur, like we did this time around. And G&A in general. As Thomas said, we've been expanding on advertising and marketing. Otherwise, there's -- if you take out the unusual item,

that's probably around the right run rate and the unusual item was about \$19 million.

Operator

Our next question comes from the line of Kyle Voigt with KBW.

Kyle Voigt

Hi, good evening. Just another one on new accounts opened in the quarter, even if you exclude those Folio accounts, still 200,000 accounts, I mean, big account growth. I guess I'm just curious if we can get some more color about the clients? And I'm also wondering if you think you saw benefit from some outages at your competitors. But with respect to the clients, just wondering, average age, account sizes, are they similar to your existing client base? Or do they look much different?

Thomas Peterffy

No, they are similar. So the average age of our clients is 43 years old. In the United States, it's 49 years old. So other parts of the world, it's more like 40 or 39, which then averages out to 43. And that's been fairly steady. So will our new accounts be younger? I don't think so because the 43 has been stable for a long time.

Kyle Voigt

Got it. And then there continues to be more talk of long-term capital gains rates being changed in the U.S. to ordinary income rates for certain income levels. So I'm just curious to hear if that would change your view on the dividend or changing something with capital return if that were to happen?

Thomas Peterffy

So why would that entice us to pay out more?

Kyle Voigt

I was not suggesting that. I was just curious if it would achieve your capital return policy.

Thomas Peterffy

If anything, we would try to return less in order to...

Kyle Voigt

Or move more to maybe a buyback, would that be something on the table or?

Thomas Peterffy

Well, we certainly cannot do that because you see we have a very small float, right? And given the tax circumstance we are in, we cannot buy back our shares. Is that right, Paul?

Paul Brody

Well, as you say, we prefer to increase the float rather than reduce it, given that it is only 21.8%

Thomas Peterffy

Right.

Kyle Voigt

Right. But a dividend, but you would consider cutting the dividend in that case? Is that what you said, sorry?

Thomas Peterffy

No, we don't really want to.

Kyle Voigt

Okay. Okay. Sorry. And then one last one for me. Thank you very much for taking my questions. The margin yield increased sequentially. Was that due to -- that was probably more for Paul, was that due to the currency mix? Or is it more of the total margin being from lower balanced tiers and therefore, its higher fee?

Paul Brody

So you're talking about the..

Kyle Voigt

The margin yield increased sequentially from 4Q to 1Q.

Paul Brody

Sequentially?

Kyle Voigt

Yes.

Paul Brody

Well, the margin loan balances were up 22% from the prior quarter.

Thomas Peterffy

Yes. And they come in smaller bites. Coming smaller so they pay a higher rate because the margin, our margin, our rates vary from 75 basis points to 1 -- what 140 something?

Paul Brody

It's about 157 now. Fed funds is around 7 basis points

Operator

Our next question comes from the line of Chris Harris with Wells Fargo

Chris Harris

Thanks. So Thomas, it's kind of a bigger picture industry question for you. This is an industry that's got a pretty long history of competing on price. And I know you guys are leaders in that

area in terms of that'll be really able to match you on price in a lot of parts of your business. But now that commissions are zero. What are your thoughts about there being more competition in other parts of the business like margin lending and pay rates on deposits, not necessarily at IB, but at some of your competitors?

Thomas Peterffy

So look, I mean, we are the lowest margin rate. We don't see them being matched even though I understand why they you see -- they are not matching them because they -- people don't -- the customers don't seem to pay any attention to the margin rates it seems. So they wouldn't want to cut the branch they are sitting on by lowering margins, right, because they are lending money at 6%, 7%, 8%. And that's incredibly lucrative.

So what they do do is they negotiate if somebody calls. If somebody calls, so we go and get customers who we say, " Look, why don't you come over? You have a huge margin balance and you are, let's say, at Ameritrade, and you're paying this crazy rate and then they say, okay, okay. We'll come over. And 2 weeks later, they tell us, you know what we call them, and we told them, and they said, okay, and they gave us a much, much lower rate almost matching yours. So we are not coming.

So that's the story. In other words, they will not cut the headline rates, but they will negotiate.

Chris Harris

All right. That makes sense. And a question about your introducing broker customer segment. Can you guys tell us like what percent, if you know, of IB's margin balances in Sec lending revenue comes from that particular customer group. Is it high or low number?

Thomas Peterffy

All right. I looked at it but I don't remember. I'm sorry

Operator

We have a follow-up question from the line of Craig Siegenthaler with Credit Suisse

Craig Siegenthaler

Thank you. So if you take a step back, what are your thoughts on a more normalized growth rate as we head into 2021 relative to the account growth numbers you're experiencing now, especially after we strip out the Folio acquisition?

Thomas Peterffy

30%.

Craig Siegenthaler

Thomas, I heard you, 30%?

Thomas Peterffy

30%. I think about this all the time. So even if I do answer quickly, it is a very well thought-through answer.

Craig Siegenthaler

And Thomas, just a follow-up on one of the other 30 percents. You said 30% of all trades, including customer, non-clear customer, principle, were getting sent to the dark pool?

Thomas Peterffy

No, I didn't say that.

Craig Siegenthaler

And where was that number a year ago?

Thomas Peterffy

Something like 28% or something. I don't know where it was a year ago. I started to pay attention to this just relatively recently. And I know that it has grown. I don't know what it was. But we are placing more and more emphasis on that. We see a big opportunity there.

Operator

I am showing no further questions in the queue. I will now turn the call back to Nancy for closing remarks.

Nancy Stuebe

Thank you, everyone, for participating today. As a reminder, this call will be available for replay on our website, and we'll be putting up a clean version of our transcript on the site tomorrow. Thank you again, and we'll talk to you next quarter end.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.