GAIN Capital

First Quarter 2019 Earnings Conference Call

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CORPORATE PARTICIPANTS

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Nigel Rose - *Chief Financial Officer*

Lauren Scott - *Investor Relations*

PRESENTATION

Operator
Good afternoon, everyone, and welcome to the GAIN Capital First Quarter 2019 Earnings Conference Call. Today's conference is being recorded. And at this time, I'd like to turn the conference call over to the GAIN investor relations representative, Lauren Scott. Please go ahead.

Lauren Scott
Thank you, Operator. Good afternoon and thank you to everyone for joining us for our first quarter 2019 earnings call. Speaking today will be GAIN Capital CEO, Glenn Stevens and CFO, Nigel Rose. Today's commentary will be accompanied by our earnings slide deck, which can be accessed via website on our IR website. Following their remarks, we will open the call to questions.

During this call, we may make forward-looking statements to assist you in your understanding our expectations for future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially. I refer you to the company's Investor Relations website to access the press release and the filings of the SEC for discussions of those risks.

In addition, statements during this call, including statements related to market conditions, changes in regulation, operating performance and financial performance are based on management's views as of today, and is anticipated that future developments may cause these views to change. Please consider the information presented in this slide. The company may at some point elect to update the forward-looking statements made today, but specifically disclaims any obligation to do so.

I'd now like to turn the call over to Glenn.

Glenn Stevens
Thanks Lauren, and thanks to all of you for joining us today. First, I’d like to discuss the exceptionally challenging market conditions we saw during the first quarter.

This negatively impacted our results as we observed a lack of any major catalysts that normally create volatility and trading opportunities for our customers. Many of the events that were previously drivers of volatility remained sidelined, including no movement related to Brexit, all major interest-rate staying in a neutral stance and stable equity markets.

As you can see in the chart in our earnings deck, this quarter was marked by unusually tight range-bound markets, with the CVIX down at five year low, well below the 18 year average and even the lower average over the past few years.

Also, our most frequently traded product, the Eurodollar traded in the narrowest quarterly range on record, leading to lower client volumes and revenue capture for the quarter. While, short-term market events may impact our quarterly results, we remain focused on the long term, and we are working every day to optimize our business through our growth initiatives.

Looking at a snapshot of the quarter, these challenging conditions led to soft results with net revenue down 61% year-over-year to $38.4 million. This revenue shortfall translated into a net loss of $28.4 million in the first quarter.

However, one of the key highlights during the quarter, which show us that our underlying fundamentals remain strong, was direct new account growth of 38% year-over-year and 27% quarter-over-quarter. In addition, trailing three month direct active accounts and client equity increased.

Now, while RPM was down for the quarter, when you look at a longer trailing 12 month time frame, as we always prefer to do, RPM was in line with historical averages at a $104. Our operating metrics continue to show positive signs for future organic growth. Despite a difficult macro environment, we delivered direct new account growth as a result of our increased marketing investment.

We are pleased with the trajectory over the last few quarters and feel we will grow even further as market conditions improve. We continue to feel well-positioned to maximize the value of our new customers when market conditions return to more normal levels.

Key metrics that we use to evaluate marketing performance include, one, our cost per new account. After three quarters of increased spending levels we have remained efficient with our costs, tracking below our target cost per new account.

Number two, breakeven points. The timeline to convert each cohort into a profitable client remains on track with Q1 results, in line with expectations despite market conditions. And three, our internal rate of return. We track our expected return based on our customer acquisition costs against our expected three year lifetime value of a customer. And based on the most recent IRRs, we believe this continues to be the best use of our capital.

There is also the benefit of the long tail of revenue that comes from our customers. As we shared in the past, a healthy percentage of our revenue comes from the long tenured clients. In Q1, 56% of revenues came from clients with tenure of more than three years. As such, we expect the newly acquired customers will deliver revenue well beyond our ROI benchmark, which, as I mentioned, is based on a three year lifetime value.

All that said, there continues to be a level of flexibility within our total marketing spend. Q2 marketing spend is currently expected to return to levels seen in Q4. However, we can adjust up or down as warranted by marketing opportunities.

Over the past year, we spoke about the AI driven hedging model we developed and deployed. Given the challenging market conditions this quarter, I want to emphasize that despite our low RPM results, our improved AI-driven model helped modulate the revenue capture decline. Consequently, despite the CVIX at its lowest levels since 2014 and close to its 2007 low, coupled with the Eurodollar in record narrow quarterly ranges, our AI-driven hedging model continued to outperform our old model.

In Q1, we saw a reduction in this standard deviation of daily P&L by 28% and we more than doubled our Sharpe ratio compared to that old model. RPM for the trailing 12 months ended this quarter was $104, exactly in line with the trailing 12 month RPM in the prior year period. And we have no reason to believe that this quarter's performance will materially impact our long-term forecast.

We are pleased with our progress to-date and will continue to apply this model to a broader range of our products in our portfolio. As we discussed in our year-end call, the key to unlocking further value for our shareholders over the long-term is through accelerated organic growth.

Our commitment to our three year strategic plan remains intact, focusing on the following key areas –

First, leveraging our powerful brand assets in FOREX.com and GAIN Capital along with increased marketing investment to compete on a global scale and grow market share by targeting two distinct customer segments, experienced active traders and retail traders.

Second, innovating the trading experience for our customers – delivering best-in-class trading platforms, decision support tools and delivering new ways and products for our customers to trade.

And lastly, our strong focus on premium clients. This will be achieved through our brand strategy and the development of product and services tailored for experienced traders and enhanced relationship management.

These growth pillars will help us grow topline revenue and when paired with a prudent cost structure and investments will enable us to drive long-term earnings accretion. Our 2021 operating and financial targets remain intact as we continue to execute against our strategic initiatives to get us there.

With that, I will turn it over to Nigel for a deeper review of our first quarter results. Nigel…

Nigel Rose
Thanks, Glenn. The following figures reflect results from our continuing operations.

In the first quarter of 2019, net revenue decreased 61% year-over-year to $38.4 million as compared to $98.4 million in Q1 of 2018.

GAAP net loss was $28.4 million resulting in GAAP loss per share of $0.76 as compared to a Q1 2018 net income of $11.9 million and GAAP earnings per share of $0.25. Adjusted net loss was also $28.4 million and adjusted EPS, a loss of $0.76 as compared to adjusted net income of $11.6 million and an adjusted EPS profit of $0.26 in Q1 of last year. Adjusted EBITDA was negative $23.5 million compared to positive adjusted EBITDA of $31.8 million last year.

Turning to our retail segment, the first quarter experienced extremely low volatility which coupled with the strong comparative period left average daily volume down 38% to $7.7 billion as compared to $12.4 billion the prior year.

As Glenn mentioned earlier, not only did we see new record lows in volatility, but also the tightest trading range on record for our most frequently traded product, Eurodollar.

In addition, historically when we have seen one asset class underperform, we have benefited from the portfolio effect of our diverse product offering. However, this quarter our indices and commodities products were also below the trailing 12-month performance levels. The collective effects resulted in revenue capture of $50 per million, although our trailing 12 month RPM remains in line with historic levels of $104, exactly the same as the 12 months to March 2018.

The combined impact of low-volume, poor revenue capture and the strong comparative period resulted in a 67% year-over-year decrease in retail revenue to $28.2 million. In terms of operating costs, staff costs reduced by 16% year-over-year to $13 million whilst referral fees also decreased both on an absolute and per volume basis.

Taking a look now at our futures business, average daily contracts decreased 19% to $28,795 as compared to the prior year period, due to the combinations of low volatility this quarter and the strong comparative period.

As a result, revenues were $9.4 million for the quarter, down from $11.5 million in Q1 2018. Despite the decline of revenue, profit held up with margins improving slightly to 11%, and we continue to see potential for further margin improvement for the second should interest rates increased any further.

Before turning to look at liquidity, I wanted to provide some updates to our previous guidance on overheads and tax. Last quarter, we mentioned that overheads were likely to range between and $190 to $200 million over the next three years. Whilst that remains our expectation, for 2019, we now expect overheads will be at the lower end of that range.

Similarly, whilst we expect our longer term tax rates to remain between 27% to 28%., as a result of the first quarter's results, we believe the rate for 2019 will be between 17% to 19%, for the first quarter having been 17.6%.

With the start of our new financial year, we've decided to amend the presentation of our liquidity to directly align with the cash and cash equivalents figures shown on the balance sheet. We've done this for several reasons, including feedback received leading to concerns of a potential confusion regarding available cash from our previous measure of total liquidity which included items such as undrawn revolver facilities and cash with brokers.

Hopefully to ensure clarity, we believe it is preferable to reference the cash reported on our balance sheet and how that has moved period over period. As at the end of the quarter, GAIN had total cash and cash equivalents of $219 million compared to $279 million at the end of last year.

There is a schedule included within the appendix which shows our liquidity under the new definition for each of the last four quarters and how it has moved during those periods.

We have ample liquidity for corporate development opportunities and have completed 11 transactions since our IPO in 2010. We continue to be well positioned to pursue selected transactions that provide geographical product expansion should they arise.

We also remain committed to actively returning capital to shareholders including for dividend payments and share buybacks. As such, our quarterly dividend of $0.06 will be paid on the 28th of June. It's worth noting that on an annual basis a dividend of $0.24 is yielding an approximate 4% return based on the company's share price to March 31, which presents a unique investment opportunity for shareholders looking for a consistent attractive distribution.

Share buybacks continue to be a strong focus particularly as we feel that our shares remain undervalued. During the first quarter, we repurchased almost 633,000 shares at an average share price of $6.62 equivalent of $4.2 million. That leaves approximately $44 million available for additional repurchases during 2019 as at quarter end.

We thank you for listening and I'm now happy to take questions. Operator…

QUESTION AND ANSWER

Operator
Ladies and gentlemen, at this time we'll begin the question and answer session. To ask a question you may press "*" and then "1" using a telephone keypad. If you are using a speakerphone, we do ask you to please pickup your handset before pressing the keys, to withdraw your questions you may press "*" and "2." Once again that is "*" and then "1" to ask a question. We'll pause momentarily to assemble the roster.

And our first question today comes from Kyle Voigt from KBW. Please go ahead with your question.

Kyle Voigt
Hi, good evening. And so, I think the stock is not trading again to book value and has traded below tangible book at points in the quarter. Is that something that you look at and consider when deciding the pace of buying back shares? And then part two of that question, you just given a loss in quarter. I know it's like $61 million in total cash outflow in 1Q. Are you thinking about the capital return and your thoughts on capital return more broadly versus maintaining a strong liquidity buffer on the balance sheet?

Glenn Stevens
Sure Kyle. So, I'll take the first piece and yes, we do pay attention to tangible book and various measures of kind of the relative pricing of the stock. And of course given some of the challenges with our relatively slow relatively small volume on daily basis, we try to take them into consideration as well. But yes, we do have some flexibility in our buybacks and we have exhibited in such in previous quarters where that…it's not a static number. First of all, we've been consistently buying and actually been consistently buying at higher levels over the last four to six quarters. And we do take all that in consideration as we're deploying capital for that purpose. So I guess the easy answer is to say, it's very much on our radar. At the end of each quarter, when we show our efforts to buyback, we do use a 10b5 plan to be able to do that, so it's not something that we change on the fly, but when we do get the opportunity to adjust that, we do so accordingly.

Nigel Rose
And Kyle on your cash question, so there's schedule within the appendix to slide 19. The $60 million, yes, it has come down by $60 million, but I think it's important to understand the moving parts and as much negative EBITDA, capital expenditure, tax and interests, dividend, the buybacks, absolutely it's cash outflow, but also within there is some moving parts to do with our receivables with some brokers. So as positions come on, we have to place more cash with brokers as part our hedging. In the quarter I think that went up by about $14 million. In the last two quarters, this has gone up near to $40 million. So still have cash probably just not in our bank account, is covering our hedge positions. But I think that's a promising sign and a good lead indicator that positions have been building. We've got more cash with brokers to reflect that and we believe that should translate to future revenues.

Kyle Voigt
Okay. And then, one more question from me, I guess just last quarter, I think you spoke about the regulatory headwinds as being relatively modest and you outlined that in slide deck last

quarter. Can you provide an update on those, some of the regulatory developments in Europe and maybe help us to segregate the weakness in the quarter that we've seen in volume standpoint between the regulatory headwinds they might be facing versus obviously the volatility of the environment?

Glenn Stevens
Yes. So for us consistent with kind of good news, bad news is that consisted with our guidance and feedback or notes from the past, the European regulatory changes, namely ESMA who came out August of last year, the impact was muted for us which is a good thing. Also a good thing is that even though it's something that's relatively permanent and that we don't expect ESMA to change again. Again, that doesn't really…it hasn't impacted into our plans going forward.

Now, in terms of being able to point to that for the current quarter weakness, the bad news is we can't. But the good news is that the items that I tried to outline in our commentary was that we consider them temporary and fleeting, in such that if you look at a bunch of drivers as I mentioned in terms of the things that normally drive volatility, disparity between interest rate, approaches by different monitory authorities globally or economic changes or sporadic items like our Brexit move, all of those lined up to have pretty constricting drivers of trading opportunities for our customers. And when they are forced to the sidelines, they say, look there really isn't much going on, for example our most traded product, the Eurodollar traded in $0.04 range for the whole quarter. That's a tightest we've seen literally ever since the euro was launched by way and particularly lower than kind of average. So it wasn't even a bullet that was really low. Now before somebody says well, that's the new normal, the reality is if you look back at even three, four, five years worth of activity, we do have seen pockets of low volatility.

In this particular case, it was extreme because you had low volume effects, the lowest vol in our most predominant products coupled with similarly lower vol in our other portfolio products like equity, metals, energies, I mean, so they are all kind of stacked up to push customers to the sideline. And if we have a weakness as a company it's not new that we are vol dependent, in extremely quiet markets we're going to struggle. And this was an extreme for us in terms of, of a quiet market and so it stacked up across the board that way. The good news though was that if we were dependent on…if we were dependent on ESMA related activity, that's not something that will come back.

And so the industry suffered as a whole, but at least the bulk of our setback or challenges are what we would consider product market cycles and temporary. And if there's any mean regression across the board in any of these products, or any of the approaches to volatility, we'll do just fine unlike some of the people who are ESMA dependent and say, well, maybe they'll change their mind. That's not something we're depending on. So I think we'll divorce those two and say, the ESMA stuff related is the same for us which is why we didn't actually put kind of repeated guidance to say, the ESMA changes are what they are, they were very muted for us. They remain very muted for us, but it doesn't really change our outlook. That market environment for us was very challenging and no, we don't expect it to remain so because there hasn't been a change to our customer profile or market or business model that we think is lasting.

Kyle Voigt
Thanks.

Glenn Stevens
Sure.

Operator
Our next question comes from Rich Repetto from Sandler O'Neill. Please go ahead with your question.

Rich Repetto
Yes. Good evening, Glenn, good evening, Nigel.

Glenn Stevens
Hi, Rich.

Rich Repetto
I guess, my typical question is no doubt market conditions were very unfriendly, but if you look at in April so far, it's even more as if you look at hotspot and seeing the FX futures, they're down about 20%, the CVIX is down again in April to-date. So I guess can you comment on conditions so far as it can…do they sort of reflect the performance in April as well?

Glenn Stevens
So, a couple things. We're obviously only a few weeks into the quarter, but the reality is that in some cases we've started to see some evidence of mean regression if you will to some of the trends and some of the more normal RPM capture. Our RPM capture for Q1 was particularly low. It was quite the outlier. It wasn't quite Black Swan, but it was certainly out on the tails for what we've witnessed over the last three to five years. It doesn't make it impossible, but certainly makes it pretty unlikely and so to that end, no, we haven't seen a continuation of that particularly low environment. Although you're right, we didn't see a switch back to say oh good, more normal markets are showing. So I guess we would say that we're seeing some evidence of more normal activity and some more normal RPM capture but we're three weeks into the quarter.

Rich Repetto
Hi, and then I guess the question would be then what's driving the normal RPM if the hedging was working effectively, but just in tough market conditions in the first quarter then what normalized the RPM then when market conditions are…if you look at the numbers there, the only thing they don't have is Eurodollar spread, but the CVIX and volumes appear down?

Glenn Stevens
Correct. So again we've had this conversation in the past where the silver bullet isn't just CVIX and VIX, it's also kind of the complexion of it. And so, when we look at the trading ranges, when we look at movements, when you look so for example, as we said with the portfolio effect, you'll see currencies do one thing, but you might get some trading opportunities in metals or in energy or in the indices or any other in single stock equities that we offer outside the U.S. And so, in this case part of, I suspect, part of the drivers for a more normal RPM environment are such things like we saw…we've seen some movement in oil. We've seen some lack of the super tight range, it doesn't mean necessarily mathematical vol changes for euro and some other currency pairs, but we had seen some trading in it.

We're not getting any relief yet on some of the Brexit driven trades. We're not getting any relief on some of the interest rate trades for indices, but we are seeing some activity in some other pockets where we didn't see at all. And again if you look back at the way markets lined up in

Q1 between metals particularly gold and oil and equities and currencies across the board, they really all lined up on the sidelines, and we're seeing some movement around that. And as we've said before, it doesn't take much. We don't need full rock and roll vol.

Even if you look back at the vol chart we showed, you can see there's an 18 year average, which were for 2016 and 2017 we were below, and 2018 show that we're even…we were below that 18 year average we there produced some pretty decent EBITDA results. The spike in Q1 was kind of below that...in that low. So we put that chart up for a reason because you can see the long term chart. Then you see this little kind of spike down and then another mini trend. We're not sitting here needing to get back to the even normal. We kind of need just to get back to the softer levels, particularly look in those last few years from kind of mid 50 through Q1 you can see that we…if that was a channel with the 18 year on the high we busted even below that for Q1. That's not the case so far.

Rich Repetto
Okay. And maybe just one last quick one, but just briefly the marketing it seems like it's continuing to work, can you just comment on little bit more color on the success of the marketing spend and the results it seems still positive?

Glenn Stevens
Yes…and that something that's encouraging to us because at least as a harbinger of opportunity forward being able to, you know, we're at…you go back and look at the chart that shows new direct account interestingly enough you have this environment that isn't exactly creating an impetus for customers to want to open and trade and yet kind of commensurate or correlated with our continued higher investment we've had the highest number of new direct accounts that we can recall. I mean, we show the chart going back to Q1 2017, we got two and a half years going back, but we haven't been in this realm of new direct accounts opening.

So in terms of…and even from a kind of active perspective and assets perspective, those numbers are all pointing up and so we have been measuring the effectiveness of the marketing spend on multiple levels when we put out the slide that shows ROI, that shows payback time, that shows just good old fashioned new accounts and new assets and all those look good. Now, getting those new customers to trade usually is easier than it is to get your existing customers to trade because the new customers open because they have an idea they want to trade. So you try to make that opening process so that journey is frictionless as possible and you get them to open and they start trading. The older ones which are good solid group of customers for us as we've showed north of 50% have a tenure over three years, the challenging part there is that arguably you say, you should trade and they say, why? What am I missing? Because they're already on board, the good news though is that when markets do show any returned to life, they get on board coupled with the new guys who are getting on board. For now, it's…we're working through the analysis, but it's the newer customers are doing the activity and is the older customers that aren't which isn't surprising though because that bigger group of older customers are waiting for something interesting.

Rich Repetto
Great. Thanks for the comment, Glenn.

Glenn Stevens
Thanks Rich.

Operator
Our next question comes from Dan Fannon from Jefferies & Company. Please go ahead with your question.

Dan Fannon
Thanks. So just given the kind of changes in the cost structure and now the spending in marketing. Can you talk about kind of what the breakeven kind of levels are, we should think about for the business given the big loss we saw this past quarter. Obviously, it sounds like April is little better but not back to where we've been. So how do we think about kind of the breakeven level here?

Glenn Stevens
So breakeven level from…I mean if you mean breakeven level from an RPM driver or sorry I just too kind of clarify what you're asking for.

Dan Fannon
Yes, I mean, the inputs to revenue, right, I mean, RPM and volume, I guess, what in kind of the…and what that would mean for the expense base. So kind of thinking about what the expense base is on a fixed and with the elevated marketing spend, and then what we need to see in terms of minimal level of revenues to kind of get back to breakeven?

Glenn Stevens
Okay, so a couple of things. You're right, the combination of RPM and volume can…it's a combination of two that's matters, you can have a modest RPM with spikes and volume or vice versa or both good or both poor like we saw Q1. But the other lever for us to pose the expense side. And I think where…as I try to reference a little bit from the deck is we are acutely conscious of being responsible and say where can we adjust our expense base. When we came into this year we made revenue assumptions based on our model, based on just what you said, RPM expectations, volume expectation. One thing I will point out is, if you look back over kind of a trailing 12 months we're at $104. So in terms of guidance we've provided to say, here's what we think drives on model on RPM, it is at $104 and that's with Q1 in it.

So that still hasn't like diverted too much from where we were in terms that. That said volumes are lower then where expected, because we expected a less than placid market that we have now. So we've gone back and looked and say okay on the expense side what can we do. We look at it two ways. We look at one set of expense as our outward spend which would be our marketing spend and we've provided some guidance there. And we're tweaking that from quarter-to-quarter to try to be opportunistic when the market is right and maybe save some dry powder when we can without mortgaging the future. And the hard part about that one Dan, is that, if you are getting the results from new customers that I was talking to on the previous Q with Rich, is that if you are getting the results from the new customers you don't actually want to shy away. They may not be converting into revenue and that expense may look ill timed, but if it looks like you are attracting the customers for future opportunity you should keep doing it.

On the other cost bucket, which is a bigger number that's on the OPEX if you will, and on the OPEX or the overhead that Nigel would refer to, those are levers we are trying to see if we can pull both short term and medium term to try to right size it, because let's face it, we dug ourselves a hole for revenue in the first part, we are not just going to stick with our plans on the expense side to leave them where they are. I don't know if you want to add…

Nigel Rose
Yes, just to add to that Glenn, Dan, if you look at the trailing 12 month numbers we've got there to the point on the $104 rather than the quarter or so. The EBITDA across the group would be 30 million on a trailing 12 month basis with an RPM of $104 and ADV at $9 [billion]. So clearly our intention is that the ADV at $9 [billion] will grow as those new accounts go on to trade as we continue to put new accounts, bringing new account into the business. And so, in terms of breakeven I think we have to be seeing a meaning lower RPM than the trailing 12 months for a meaningful period of time, before we would start to have any sort of concerns around that aspect.

Glenn Stevens
And, I guess, if I summarize it would be a collection, of course, corrections over the course that are driven by what we're seeing in revenue opportunity and new customer opportunity, not course change like, less $180 or less even $90 left or right. These are incremental changes that we are able to make in a good way to both our commercial spend or marketing spend and also to our operating expense. Now, in that respect we made a bunch of assumptions about investing in growth we outlined that when we gave our fourth quarter future looking three year plan, and those we haven't adjusted our plans for 2020 and 2021, but we are conscious of hey what can we do as we monitor this because again ultimately one thing is to not just hope, we're not doing that. Number two, we are not going to turn around and over correct and say gee this is the new norm, markets will no longer trade anymore. So I think it’s one quarter, it's a 12 quarter plan. And so, that's the idea is to be conscious of it, react to it, but not over react.

Dan Fannon
Got it, that’s helpful. And then, in terms of the capital, I mean, based on the valuation of the stock and where things are, it seems like that's probably the best use, but I guess, I just want to get a layout of kind of M&A and how much time you are spending on that, if that's a use of capital as we think about over the next kind of 12 to 24 month if that's realistic?

Glenn Stevens
It's a good point because by one measure we’re particularly… where we're trading around tangible book and such and even intangible book. You have to sit there and you don't want to blindly say, well gee that seems silly not to just do that, because you are right, without doubt there will be opportunities on the M&A front that would require us to have some liquidity. So on the one hand you might have somebody who is watching this say and how are you not putting every single dollar into buying every share back you possibly can. Well, the other potential for capital, if you go back and look how successful our purchase of FXCM U.S. assets were or some other deals we've had in the past that's because we were Johnny-on-the-spot being liquid and being available. And so it is a balance, and I think that, I've said this in the past that sometimes when we have these stock downturns it does create opportunities and I still believe that, so we are trying to be judicious about balancing both.

Dan Fannon
Got it. And then just a quick word on the tax rate Nigel, is that for the remainder of this…the quarter too…for the remainder of the year or for the full year tax rate?

Nigel Rose
Yes, the way that works, Dan, as we'll look at our actual results, we'll forecast the rest of the year and based on that have a tax rate for the full year that we will then apply to each quarter. So the full year rate of 16%...17% to 19% is what we are estimating. That's for the full year. It also applies for the quarter, if Q2 turns out the way we forecast it will apply to Q2 as well. If Q2

is more profitable then it's likely to tweak the tax rate if it's less profitable again it'll tweak the tax rate but based on where we stand now and our estimate…the rate slightly be between 17% to 19% for the full year.

Dan Fannon
Got it. Thank you.

Nigel Rose
Okay. Thank you, Dan.

Operator
And our next question comes from Ken Worthington from JP Morgan. Please go ahead with your question.

Ken Worthington
Hi, good afternoon. So maybe to follow-up on some previous questions being the new guy here. So when looking at rate per million it seems to me as the outsider that the level goes kind of beyond bad a environment in low vol, and maybe to Rich's point you are seeing things aren't as bad in April from an RPM perspective, but the drivers from I guess our perspective seem like they're even worse in April than they were in 1Q. So maybe to what extent was there a product or a hedging strategy or region or a number of days where things just went really wrong and losses mounted. Could it…it just seems hard for at least me again as the outsider to not think that there weren't some losses somewhere that offset some of the revenue that you would have driven?

Glenn Stevens
So a couple of things here. No…yes, outlier yes, but actually still within our consideration set. When we model out how could things lay out in terms of an RPM. We do have examples particularly in the short term like 90 days or particular 90 days even we…we actually even model rolling quarters that don't go calendar quarters that go any kind of 90 day period. And this isn't unprecedented, it's low, but it's not unprecedented. So just in terms of model there and as I said you go back to Q1 of 2017 that was like $63, I know that's not $50 where we are here, but in other words I'm trying to show that, that all those spikes in those instances which is why every time we ask people to pull the lens back to 12 months or more it's a lot more stable. As we've mentioned here even with this quarter in we're at 12 months of $104. So that's number one.

In terms of losses going in there, keep in mind it's not so much losses going in there. More comes back to the opportunity to capture a fuller part of the spread when you have customers internalizing. So if you're able so if you are able to effectively make markets in your products then you have the opportunity to capture a larger part of the spread. I mean there is a lot of two way trading right then that opportunity goes up. This is one of those instances where as I was mentioning in our portfolio none of the products showed two way opportunities. So it's not so much losses, it's that the lower volume coupled with lots of high hedging it's no surprise that in really competitive markets like equity indices and high volume currency products like the euro/dollar or the Japanese yen your ability to capture a large part of the spread or big office spread comes from your ability to have more to a trading and when customers don't do that so you see our volumes and you see the shape of the trading curve in that period you end up…you end up hedging at very small incremental capture of spread, so you end up with these really tight channels where people trade the narrow ranges which means everybody's selling on these rallies or buying on these dips and what did it do, it had small rallies and small dips, almost the whole quarter, almost all the product. So we end up in a situation where our spread capture aka RPM is low, and usually it's a mix where it'll be low in FX, but it was high in equities or it was high in metals, it was high in energies and sometimes we end up where it's high in a bunch and we have $150, and that's also an outlier. It's a more enjoyable outlier discussed, but if you go back to Q3 of 2018 it was $164, that this outlier as $50 is on the other side it just looks better. So what it means is that more often they are not, the markets lined up and our ability to have capture a bigger part of the spread of curve. So it's actually less about losses and really much more about being able to capture a larger part of the bid offer spread versus a smaller part of a bid offer spread.

Ken Worthington
Okay, great. Thank you for that. And then in your deck on slide five, we've got direct new accounts and the three months trailing active accounts, I know they measure different things. But why aren't we seeing more of the new direct accounts kind of flowing into the trailing three month active account numbers, like the direct new accounts probably had the biggest increase we've seen in a couple of years and it's unperceivable on the three month active account I mean, chart. So why is that?

Glenn Stevens
Yes, a couple things. One would be just lower percentages in that…and that the new accounts we brought in against our universe of total accounts, new direct is just a measure of that, so it's easy to see the change in terms of active accounts against the whole pool of accounts. It's only a few months that we've seen this explosive growth of direct new accounts. So part of it is that two things. Part of it is that they're not being able to have the tail wag the dog yet, because the tail is not big enough. And the other part that I mentioned is that there's a disproportionate amount of activity that comes with new accounts because when they open up, they want to trade. And the older accounts are harder to activate in quiet market, what's interesting is that we'll see that even in quiet markets when somebody opens up a new account, they'll trade like that. I'll use the example of our kind of high net worth customers. They'll often drive as you might expect a disproportionate amount of our volumes and revenue opportunities, and a lot of them on the sidelines, they had positions, they left them on and watch the market and versus over their last, let's say, somebody who's a two year plus customer with us who we have an eight quarter track record with us, this is one of the lowest quarters in volumes they came out with. So we'll see that vol. We'll see them not be engaged whereas new customers as I said they'll normally come in and do some trading. Now, the question whether they whether they start to add and form to kind of the old customer group will depend on what the market looks like. But I do suspect that as we continue to bring in new customers all of those new customers will be active because that's why they opened. Then whether they stay active is more market.

Now, all that said, I don't want to be passive in this. We have redoubled our efforts to what we call life cycle marketing which isn't actually marketing for new acquisition which we've obviously spent a lot of time and effort on in the last six to nine months. We're trying to spend more time now in resources and trying to replace that group of customers who are quiet and say, hey how do we re-engage you? What can we do for your decision support tools? What can we do for some now factors to get involved? And then there were another piece that's a little bit of a residual from the ESMA ranks kind of pre Q3. We did have a bunch of smaller customers who would qualify as active who are no longer active because we had to re-class them and basically, it's…they didn't produce a lot of revenue but they were in the ranks of active. And when ESMA change those rules those customers would have come out as a count. We can't really show that but they get offset by that. So if look at the new accounts coming in now that replaces new active accounts, and if you go back in the trailing three, one of the kind of, let's say, offsetting situation not to revenue so much, but to active numbers was a lot of those small retail accounts in Europe that are no longer active because they're no longer on our books.

Ken Worthington
Okay. I think it's fair enough and just maybe a slight follow-up. In the new direct accounts, you mentioned that they are opening account therefore they want to trade. Is it fair to say that maybe like 90% or 95% of the new direct accounts in any given quarter are active in the quarter in which they open an account? Is it something like that?

Glenn Stevens
That's a good start; I would have to check that accuracy. That sounds a little high to me, and I would say because some of it is environment dependent, meaning that when things are moving then the number definitely does that. When things are quiet, I think it depends what time frame you're talking about. When you say in the quarter, yes, you're probably right. But it can be shorter time than that or maybe even a little bit over the quarter if the markets are really quiet. We do try to create a journey such that someone can open and trade very quickly, because arguably some of these things are impulse purchases meaning that they have an idea, they want to get involved and I don't think there's that many people for example, I'll give you a scenario. There is not… there are many people that open up equity brokerage accounts on a discount side here and not trade in the beginning. They may go dormant but in the beginning the whole point is hey I want to do this. I just saw a commercial and I want to go do this. So they get driven to open. You make the journey really easy. They open and they do a trade. What happens after that kind of depends on market conditions, their success rate and their relationship with their broker which is the stuff I was talking about. The other side of it though is that if you slow down their ability to open and trade then you know, any kind of friction slows it down. So I'm not so sure I'd sign up for the 90% as a blanket statement, but I think over time absolutely in terms of doing that math some of its going to be environment driven.

Ken Worthington
Okay. Thank you very much.

Glenn Stevens
Got it, Ken.

CONCLUSION

Operator
And ladies and gentlemen with that we'll conclude today's question and answer session as well as today's conference. We do thank you for attending today's present. You may now disconnect your lines.