

The Disciplined Investor Podcast – Guest Interview Summary

Guest: Steve Sanders

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TDI Podcast

Steve Sanders - TDI Podcast Guest

Quick recap

The meeting covered a wide range of topics, including personal updates, the role of AI in finance, challenges faced by advisors in a tech-driven market, and Interactive Brokers' recent performance and offerings. Discussions touched on the firm's enhanced advisor portal, strategies for increasing FDIC coverage, expansion of crypto offerings, and the flexibility of reporting tools. The conversation also explored Interactive Brokers' universal account system, which allows for global trading and currency management from a single account.

AI in Finance: Opportunities and Challenges

Andrew and Steve Sanders discussed the role of AI in finance and trading, with Steve explaining that Interactive Brokers offers third-party AI platforms for analysis and trading. Steve noted that while some clients find success with these tools, others do not, and successful traders typically keep their strategies private to avoid revealing their advantages. Andrew and Steve also touched on the challenges of sharing successful trading strategies, with Steve mentioning that successful traders often don't disclose their methods to protect their profits.

Advisors' Tech Market Challenges

The discussion focused on the challenges and opportunities advisors face in a tech-driven market, with Andrew and Steve agreeing that early adopters often benefit from new tools but must be aware of the competitive landscape. They emphasized the importance of continuous learning and self-improvement, with Steve suggesting that advisors spend time on educational resources provided by Interactive Brokers to enhance their trading skills. The conversation concluded with Steve highlighting Interactive Brokers' competitive edge, attributing it to the firm's culture of intellectual curiosity and innovation, which has allowed them to introduce new products like forecast contracts.

Options Trading and Market Volatility

Andrew and Steve discussed the significant increase in daily average revenue trades, noting a 63% higher figure in April, which was attributed to market volatility and seasonality. They also talked about the growth in options trading, particularly in Europe and Asia, and the firm's history as an options market maker. Andrew raised concerns about the potential for options to create market volatility, but Steve explained that 0-day options, which can be created days or weeks before expiration, offer increased volatility closer to the expiration date. They concluded by discussing the demand for prediction markets, which Andrew compared to options due to their binary outcomes, but Steve clarified that prediction markets are distinct from options.

Global Political Data Expansion Plans

The discussion focused on the demand for political data, particularly for presidential elections and governor primaries in states like Florida, New Jersey, and Virginia. They discussed expanding their services globally, with plans to launch in Europe and Canada, while considering the acceptability in each country. Andrew and Sanders agreed to meet every three months to discuss ongoing projects and address any questions.

Enhanced Advisor Portal Features

Andrew discussed the enhanced advisor portal, highlighting its features such as automatic group-based allocation, tax loss harvesting, and rebalancing capabilities. He praised the AI commentary generator tool, which provides portfolio reviews and client communication assistance, emphasizing its value for advisors who need to regularly update clients. Andrew noted that the tool is free and can help enhance business operations by providing quick and detailed portfolio insights.

FDIC Coverage Strategy Discussion

Andrew and Steve discussed a strategy for increasing FDIC coverage on cash balances. They explained that by dividing funds among multiple banks, they can provide higher coverage limits, up to \$10 million for individual and joint accounts, compared to the standard \$500,000 per account. Steve clarified that this approach involves working with a service that distributes the money across multiple banks to leverage the total FDIC coverage. They also highlighted the importance of understanding the financial stability of brokerages offering alternative cash sweep options, which typically provide coverage under the broker's full faith and credit, rather than FDIC insurance.

Crypto Portfolio Diversification Strategy

Andrew discussed the recent expansion of crypto offerings, including major coins like Bitcoin and Ethereum, and noted a significant court ruling in favor of Ripple. Steve explained that their firm views crypto as a portfolio diversification tool rather than a standalone trading service, working with third-party custodians due to different state-level regulations compared to traditional brokerages. They emphasized their ability to offer seamless access to crypto alongside other assets like gold, bonds, and traditional stocks through a unified account system.

Customizable Reporting Tools Discussion

Andrew and Steve discussed the flexibility of reporting tools, highlighting the ability to create custom reports with specific data and formats. They mentioned the availability of pre-built templates and automated delivery options, as well as educational resources like the IBKR Campus for learning how to use these tools effectively. Andrew planned to write down the concept of "sharpening the saw" as a potential title for further exploration.

Interactive Brokers Universal Account Benefits

Steve Sanders explained that Interactive Brokers' universal account allows clients to fund in various currencies and trade globally from a single account, offering competitive exchange rates and margin loans. Andrew and Steve discussed the benefits of currency trading and portfolio rebalancing tools, with Andrew expressing preference for the automatic allocation feature in the rebalancer over the manual allocation tool in the client portal.