

Spotlight on the Dutch turbo market

What is a turbo?

A turbo (also referred to as sprinter, speeder or by other names) is a financial product through which you invest indirectly in an underlying value. This underlying value could, for example, be a share, a bond or a currency. With a turbo you capitalize on an anticipated price rise or price fall in the underlying value. The rate of return can be considerable, either positive or negative. The turbo's leverage effect is the driver for that.

Leverage?

Indeed there is. If the underlying value's price changes, the value of the turbo changes proportionately faster. This is because you are investing in part with borrowed money. Your invested amount is multiplied by a certain factor, and this means that a relatively small investment can yield a high return. The reverse side of the coin: an unfavourable price change to the underlying value can result in a high loss.

This can quickly put your investment at risk, and can even lead to a complete loss.

What is the AFM's opinion about the risks of turbos?

The AFM has warned against the risks of leveraged products like turbos for years. In a previous move, the AFM and the European supervisory authority ESMA introduced restrictions on the sale of contracts for difference (CFDs). CFDs and turbos have much in common. They are both complex and risky products that are not suited for all investors.

What did the AFM study?

The AFM has been monitoring the market developments as regards turbos for some time. The AFM's study examined transaction data from the Dutch turbo market. This enabled it to gain more insight into investors' actual results.



Size of the Dutch retail turbo market

- Period 1 June 2017 to 1 July 2018
- Number of retail investors: 35,000
- Number of orders: 3.9 million



Majority make a loss

- 68% of the retail investors make a loss
- Average return per investor is negative: -€2,680
- Average return per transaction is negative: -2.9%



Other observations

- Higher leverages lead to greater losses (*Figure 1*)
- Trading more actively in turbos leads to greater losses (*Figure 2*)
- 56% of the turbos are held for less than a day

Figure 1:

Higher leverages lead to greater losses



Figure 2:

Trading more actively leads to greater losses

