

A GUIDE TO DISCOUNTERS OFFERING ONE-STOP MUTUAL FUND SHOPPING

By John Markese

If you find all the mutual funds you are interested in under one discount brokerage roof and they are no-transaction-fee funds, the service is hard to beat.

Hook up the Internet to a shopping cart that investors can fill up with mutual funds and you have a hit. That's why discount brokers are rushing to offer no-fee, no-transaction-cost mutual fund supermarkets: This year the survey tallied 28 discount brokers that levy no brokerage fees for buying and selling a select list of mutual funds.

Investors find one-stop shopping for mutual funds, whether on-line or by that old stand-by the telephone, nearly irresistible. You can buy or sell stocks, bonds, and mutual funds from different fund families (including no-load funds)—and more—all through one broker. That means that if you are buying mutual funds, there is no need to contact different fund families to transfer accounts when changing fund holdings. While switching funds within a family is relatively easy and seamless, switching among fund families has significant costs in time and paperwork. With the mutual fund supermarkets, one click or phone call will do it. Purchasing new funds is easy, and although switching may entail some holding period limitations to avoid switch fees, the restrictions are usually reasonable, and the fees incurred are relatively small.

There are some negatives, however.

The most important one is that the discounter may not trade all the funds or fund families that interest you. Also, you will still have to pay loads if the fund itself has a load, as well as switching fees if you switch too often, but that would be true whether you went with a discounter or to the funds directly.

No-Transaction-Fee Discounters

Table 1 lists the discount brokers that offer no-transaction-fee funds. The number of discount brokers with no-transaction-fee funds is increasing, and the number and mix of funds offered by each firm is growing even more rapidly. This year Scudder Financial Services is at the top of the list with 7,976 no-transaction-fee funds offered.

Another measure of offering depth is the number of different fund families participating in the broker's no-transaction-fee program. Bush Burns leads in no-transaction-fee fund families with 475 choices; second is Waterhouse with 379 no-transaction-fee fund families. Some of these brokers list 500 or more total fund families among those offered both with and without transaction fees.

The Fees

If you do incur a transaction fee, just how expensive is it? Table 1 lists the minimum transaction fees for each broker; they range from a low of \$20 to a high of \$50. But these discounters also have maximum transaction fees and different break points on steps from the minimum to the maximum charge. Some have a sliding scale as a percentage of the trade value. These discount brokerage firms have brochures and Web pages explaining their mutual fund programs, including transaction fees. All seem to have some unique pricing structures, requirements, minimums, etc. It pays to read the descriptions.

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TABLE 1. THE INDIVIDUAL INVESTOR'S GUIDE TO MUTUAL FUND SUPERMARKETS

| Broker | No-Transaction-Fee Funds | | | Transaction Fee Funds | | | Minimum Purchase Amt. (\$) | Mutual Fund Switching Within No-Transaction-Fee Network | | |
|-----------------------------|--------------------------|------------------------------|-------------------------|-----------------------|-------------------------|----------------------|----------------------------|---|----------------------|-----------------------------|
| | No. of Funds Offered | No. of No-Load Funds Offered | Number of Fund Families | No. of Funds Offered | Number of Fund Families | Transaction Fee (\$) | | Minimum Switch Fee (\$) | No. of Free Switches | Free Switching Restrictions |
| AccuTrade | 6,835 | 614 | 314 | 1,403 | 200 | 27.00 | 200 | | unlimited | 6 mos. |
| Baker & Co. | 3,300 | 160 | 39 | 0 | 0 | — | 0 | | unlimited | none |
| Bidwell & Co. | 5,000 | 900 | 350 | 1,000 | 125 | 25.00 | 0 | | unlimited | 90 days |
| Bull & Bear Securities | 396 | 28 | 29 | 400+ | 79 | 23.00 | 2,000 | 25.00 | 6 | 180 days |
| Bush Burns Securities | 5,097 | 1,020 | 475 | 1,075 | 89 | 35.00 | 2,500 | 35.00 | 2 | 6 mos. |
| Charles Schwab | 1,659 | 1,659 | 257 | 1,542 | 151 | 39.00 | 2,500 | | unlimited | 180 days |
| Discover Brokerage Direct | 5,120 | 811 | 173 | 240 | 14 | 25.00 | 2,000 | | unlimited | 30 days |
| DLJdirect Inc. | 5,368 | 865 | 97 | 1,967 | 312 | 35.00 | 1,000 | | unlimited | 6 mos. |
| Dreyfus Brokerage Services | 58 | 58 | 1 | 0 | 0 | — | 2,500 | | unlimited | none |
| Dreyfus Lion Account | 5,302 | 894 | 93 | 3,631 | 387 | 35.00 | 5,000 | | unlimited | 6 mos. |
| E*Trade Securities | 1,100+ | 900+ | 100+ | 3,200+ | 250+ | 24.95 | 0 | | unlimited | 90 days |
| Fidelity Brokerage Services | 900+ | 900+ | 140+ | 3,081 | 265 | 28.95 | 2,500 | 75.00 | 1 | 180 days |
| Freeman Welwood | 1,437 | 300 | 80 | 843 | 96 | 34.00 | 2,000 | | unlimited | 90 days |
| Investrade | 2,000 | 600 | 55 | 2,000 | 40 | 29.00 | 0 | | unlimited | 91 days |
| Muriel Siebert | 5,050 | 1,001 | 113 | 1,200 | 92 | 35.00 | 0 | | unlimited | 3 mos. |
| Mydiscountbroker.com* | 400 | 400 | 34 | 6,600 | 300 | 25.00 | 0 | | unlimited | 5 days |
| National Discount Brokers | 7,919 | 889 | 296 | 1,965 | 291 | 20.00 | 5,000 | | unlimited | 6 mos. |
| Peremel & Co. | 7,500+ | 1,600+ | 100+ | 7,500+ | 200+ | 25.00 | 0 | | unlimited | none |
| Quick & Reilly | 3,900 | 330 | 27 | 636 | 56 | 25.00 | 0 | | unlimited** | 90 days |
| Scudder Financial Services | 7,976 | 890 | 95 | 2,000 | 250+ | 35.00 | 0 | 32.00 | limited | 6 mos. |
| Shochet Securities | 200 | 40+ | 140+ | 100+ | 40+ | 50.00 | 0 | | unlimited | none |
| T. Rowe Price Discount | 4,522 | 537 | 63 | 596 | 64 | 35.00 | 5,000 | | unlimited | 90 days |
| Vanguard Brokerage Services | 890 | 890 | 85 | 1,800 | 235 | 35.00 | 5,000 | | limited | 1 year |
| Wachovia Investments | 890 | 890 | 97 | 1,963 | 257 | 40.00 | 1,000 | 75.00 | 5 | 6 mos. |
| Waterhouse Securities | 7,760 | 1,419 | 379 | 853 | 82 | 24.00 | 0 | 24.00 | varies | varies |
| WellsTrade | 3,400 | 450 | 125+ | 600 | 20+ | 34.95 | 0 | | unlimited | 90 days |
| York Securities | 3,000 | 275 | 211 | 0 | 0 | — | 0 | | unlimited | 30 days |
| Your Discount Broker | 2,000+ | 500+ | 93 | 2,500+ | 200+ | 35.00 | 5,000 | | unlimited | 6 mos. |

* formerly Sovereign Securities

** 10/yr. if held less than 90 days

† primarily an on-line firm; discount does not apply

The minimum purchase amount is usually the higher of the broker-imposed minimum or the fund's minimum. Retirement account minimums are generally less. Payment for no-load funds is usually required the next business day, and for load funds it is within three business days, the same as a stock purchase. But if the brokerage is offering its own funds—Fidelity for example—there may be differences. Again, it is crucial to read and

understand each supermarket's rules.

Switching within the no-transaction-fee network has even more rules unique to each broker, so keep that description handy. Table 1 lists the number of free switches and any minimum switch fees along with how long shares must be held to qualify for a free switch. Most have unlimited free switches, but some restrict the number. Ninety-day and six-month minimum holding periods are common as a free switching

restriction, but not standard.

On-Line Access and Trading

Table 1 also details the on-line mutual fund services offered by these discount brokers. Discount brokers are encouraging electronic access and trading directly through on-line services and through the Internet. Internet trading is now available for most of these discounters and a few offer discounts for trading on-line.

On-Line Mutual Fund Services

| Trading | Account | Free | Internet | Telephone | Broker |
|----------|---------|-----------|-------------------------------|--------------|--------------------------------|
| Discount | Balance | Screening | Address | Number | |
| | | Research | | | |
| ✓ | ✓ | ✓ | www.accurtrade.com | 800/494-8946 | AccuTrade |
| | | | www.bakernyse.com | 800/321-1640 | Baker & Co. |
| ✓ | ✓ | ✓ | www.bidwell.com | 800/547-6337 | Bidwell & Co. |
| ✓ | 20% | ✓ | www.ebullbear.com | 800/400-6432 | Bull & Bear Securities (Midas) |
| ✓ | ✓ | ✓ | www.bushburns.com | 800/821-4803 | Bush Burns Securities |
| ✓ | 20% | ✓ | www.schwab.com | 800/435-4000 | Charles Schwab |
| ✓† | ✓ | ✓ | www.discoverbrokerage.com | 800/688-6896 | Discover Brokerage Direct |
| ✓† | ✓ | ✓ | www.dljdirect.com | 800/825-5723 | DLJdirect Inc. |
| ✓ | ✓ | ✓ | www.edreyfus.com | 800/421-8395 | Dreyfus Brokerage Services |
| | | | www.dreyfus.com | 800/843-5466 | Dreyfus Lion Account |
| ✓† | ✓ | ✓ | www.etrade.com | 800/786-2575 | E*Trade Securities |
| ✓ | 25%-70% | ✓ | www.fidelity.com | 800/544-8666 | Fidelity Brokerage Services |
| ✓ | 10% | ✓ | www.freemanwelwood.com | 800/729-7585 | Freeman Welwood |
| ✓† | ✓ | ✓ | www.investrade.com | 888/969-2947 | Investrade |
| ✓ | ✓ | ✓ | www.siebertnet.com | 800/872-0666 | Muriel Siebert |
| ✓† | ✓ | ✓ | www.mydiscountbroker.com | 888-882-5600 | Mydiscountbroker.com |
| ✓† | ✓ | ✓ | www.ndb.com | 800/888-3999 | National Discount Brokers |
| ✓ | ✓ | ✓ | www.peremel.com | 800/666-1440 | Peremel & Co. |
| ✓ | ✓ | ✓ | www.quick-reilly.com | 800/533-8161 | Quick & Reilly |
| ✓ | ✓ | | www.scudder.com | 800/700-0820 | Scudder Financial Services |
| | | | | 800/327-1536 | Shochet Securities |
| ✓ | ✓ | ✓ | www.troweprice.com | 800/222-7002 | T. Rowe Price Discount |
| ✓ | ✓ | ✓ | www.vanguard.com | 800/992-8327 | Vanguard Brokerage Services |
| ✓ | ✓ | ✓ | www.wachovia.com | 800-922-9008 | Wachovia Investments |
| ✓ | ✓ | ✓ | www.waterhouse.com | 800/934-4443 | Waterhouse Securities |
| ✓ | 20% | ✓ | www.wellsfargo.com/wellstrade | 800-872-3377 | WellsTrade |
| ✓ | ✓ | | www.yorktrade.com | 800/221-3154 | York Securities |
| ✓ | | | www.ydb.com | 800/800-3215 | Your Discount Broker |

As noted in the table, some firms do most of their business on-line; in these cases, a discount would not apply.

On-line account data, including portfolio value, transactions, and quotes, is an extremely useful function offered by most discounters. Most also offer mutual fund screening, but the power, depth of data, and flexibility of these on-line tools are usually limited. Free research, when offered, is often summary material but can be useful

for quick first looks and comparisons.

The Bottom Line: Convenience

If you find all the funds you are interested in under one brokerage roof and they are no-transaction-fee funds, the service is hard to beat. There is a reason these fund supermarkets are popular—simplified paperwork, quick transactions and switches, and a single account statement are all very valuable benefits.

Add to this the on-line features most supermarkets offer and it is easy to explain the interest. For some, convenience and service may be more important than cost, while others will want a pure no-transaction-fee service.

The services, funds, costs, and rules of these programs are all different. Be sure to take the time to study the Web sites or do a brochure-to-brochure comparison before you reach a final decision. ♦