The Individual Investor's Guide to No-Transaction-Fee Discount Brokers

By John Markese

The competition is hot and getting hotter among discount brokers for the investment hearts of mutual fund investors. And that means more choice, more services, and lower costs.

There are more discounters offering a no-fee, no-transaction-cost mutual fund supermarket and even more are planning to join the club: This year the survey has turned up 15 discount brokers that levy no brokerage fees for the funds sold, compared to nine last year.

Why the growth and popularity of fund supermarkets?

One-stop shopping at no cost. You can buy or sell stocks, bonds, and mutual funds from different 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 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 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. The discounters are also increasingly computer-accessible, with many offering on-line trading and, increasingly, access through the Internet.

Any negatives?

Yes. The most important one is that the discounter may not trade all the funds that interest you. For example, you may have done careful research and found the best no-load international fund in your opinion, but it may not be on the menu of the discounter you choose. 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 full-service broker.

Table 1 lists the discount brokers that offer no-transaction- fee funds. But the field is fluid, with both the number of discount brokers with no-transaction-fee funds changing rapidly and the number and mix of funds offered by each firm changing even more rapidly. As an example, Fidelity just pulled its Magellan fund along with many others from the Charles Schwab supermarket. Most discounters are adding new funds. The 1995 survey had Jack White leading in no-transaction-fee funds with 3,305, while this year National Discount Brokers lists 4,060 funds with Jack White close behind at 3,968.

An important breakdown of the number of no-transaction-fee funds offered is the no-load/low-load versus loaded funds tally. For example, while AccuTrade offers fewer total funds for no transaction fee than most of the others, all of its no-transaction-fee funds are no-load or low-load. Jack White, one of the first to create a supermarket of funds, offers the most no-load/low-load funds, with 817 available.

A second measure of offering depth is the number of different fund families participating in the broker's no-transaction-fee program. Jack White leads with 128 no-load/low-load fund families; AccuTrade is close behind at 115. Many of these brokers list 300 or more fund families among those offered both with and without transaction 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 $25 to a high of $45. Jack White charges a minimum $27 and then raises the charge in two more steps to a maximum $50 for transactions over $25,000. Charles Schwab uses a traditional brokerage approach and has a minimum of $39 per trade and then a sliding scale percentage of the trade value. Thus, for a $100,000 transaction Jack White's charge is $50 and Schwab's is $275. Most of these discount brokerage firms have brochures explaining their mutual fund programs, including transaction fees. All seem to have some unique pricing structures, requirements, minimums, etc. It pays to get the brochures and read them.

The minimum transaction amount is usually the higher of the broker-imposed minimum or the fund's minimum. Re-

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Table 1.
No-Transaction-Fee Discount Brokers*

		No-Transaction-Fee Funds				Transaction Fee Funds		Fee & No-Fee Funds		
Phone Number	Broker	Total No. of Funds Offered	No. of Load Funds	No. of No-Load/ Low-Load Funds	No. of No-Load/ Low Load Families	Total No. of Funds Offered	Minimum Trans-action Fee ($)	Total No. of Funds Offered	Total No. of Families Offered	Broker Minimum Purchase Amt. ($)
(800) 882-4887	AccuTrade	662	0	662	115	5,519	27.00	6,181	535	200
(800) 221-2111	Barry Murphy & Co.	836	506	330	43	205	25.00	1,041	160	none
(800) 435-4000	Charles Schwab	677	100	577	71	423	39.00	1,100	169	1,000
(800) 544-8666	Fidelity Brokerage Services	2,103	1,671	432	46	118	28.00	2,221	223	2,500
(800) 233-3411	Jack White & Company	3,968	3,151	817	128	596	27.00	4,564	284	none
(800) 252-0090	Kennedy, Cabot & Co.	1,466	1,270	196	18	159	25.00	1,625	88	none
(800) 688-3462	Lombard Institutional	3,026	2,641	385	28	142	25.00	3,168	120	500
(800) 872-0711	Muriel Siebert	3,199	2,725	474	46	802	39.50	4,001	250	none
(800) 888-3999	National Discount Brokers	4,060	3,665	395	42	1,045	34.00	5,105	366	5,000
(800) 825-5723	PC Financial Network	3,822	3,431	391	47	973	40.00	4,795	328	5,000
(800) 638-5660	T. Rowe Price Discount	2,288	2,215	73†	1	370	35.00	2,658	138	none
(800) 531-8628	USAA Brokerage Services	2,927	2,610	317	60	320	45.00	3,247	130	2,000
(800) 992-8327	Vanguard Discount	85	0	85††	1	190	35.00	275	13	none
(800) 934-4443	Waterhouse Securities	688	297	391	59	872	25.00	1,560	185	none
(800) 221-3154	York Securities	1,738	1,281	457	22	0	—	1,738	119	none

**This list is not exhaustive; brokers who did not supply information could not be included.*
†T. Rowe Price funds
††Vanguard funds

Table 2.
No-Transaction-Fee Brokers: On-Line Mutual Fund Services

	On-Line Account Access					
	On-Line Trading	View Account Balance	On-Line Software Program	Fee for Software Program	Internet Trading	Internet Address
AccuTrade	yes	yes	Accutrade for Windows	none	yes	http://www.accutrade.com
Barry Murphy & Co.	no	no			no	
Charles Schwab	yes	yes	StreetSmart	$39.95	yes	http://www.schwab.com
Fidelity Brokerage Services	yes	yes	Fidelity On-Line XPress (IBM only)	$49.95	no	http://www.fid-inv.com
Jack White & Company	yes	yes	none		yes	http://pawws.com/jwc
Kennedy, Cabot & Co.	no	no			no	
Lombard Institutional	yes	yes	none		yes	http://www.lombard.com
Muriel Siebert	yes	yes	Siebert On-line Services***	none	no	
National Discount Brokers	no	yes	none		no	http://pawws.secapl.com/ndb/
PC Financial Network	yes*	yes*	none		no	
T. Rowe Price Discount	yes**	yes	T. Rowe Price Online	$15.00	no	http://www.troweprice.com
USAA Brokerage Services	no	no			no	
Vanguard Discount	no	no			no	http://www.vanguard.com
Waterhouse Securities	no	no			no	
York Securities	no	no			no	

**AOL, Prodigy, Reuters, or Magic Link*
***Only of T. Rowe Price Funds*
****Only for accounts of $10,000 or more.*

Mutual Fund Switching Within No-Load/Low-Load No-Transaction-Fee Network

Minimum Switch Fee ($)	No. of Free Switches	Free Switching Requirements
27.00	unlimited	For shares held more than 6 mos.
25.00	unlimited	Must hold shares for 90 days
39.00	unlimited	For shares held over 90 days
28.00	5/yr.	For shares held 6 mos.
27.00	14/yr.	For shares held 90 days
25.00	unlimited	Require 45-day holding period
30.00	7/mo.	3-day holding period required
none	unlimited	None
50.00	unlimited	Shares must be held for 6 mos.
40.00	unlimited	Must hold shares for 6 mos.
none	6/yr	Only bet. T. Rowe fds; limit 6 exch/yr.
none	unlimited	1% charge if sold in 90 days
none	2/yr.	Only between Vang. Fds. Limit 2 exch/yr
25.00	4/yr.	Limited to 4 short-term redempt (6 mo.) in 1 yr.
70.00	unlimited	Hold shares for 30 days

tirement 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 an unbeatable idea to read the brochure.

When must you place an order to get the closing price for the current business day? No later than 2:30 p.m., Eastern time for many funds, primarily no-loads, and as late as 4:00 p.m. Eastern for load funds, but switches within the same load family may have a 2:30 p.m. Eastern deadline. Confused? Read the brochure or call the firm.

Switching within the no-load/low-load, no-transaction-fee network has even more rules unique to each broker, so keep that brochure 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. Ninety-day or six-month minimum holding periods are the most common, but the funds have been creative, tacking on the odd bell or whistle and making any statement of a norm impossible.

Table 2 outlines the on-line account access capabilities of these discount brokers and whether there is proprietary software required. Some may charge for the software or waive the fee for active customers. Others give the software away. The trend is toward making Internet trading available and the number of firms participating will probably accelerate very shortly.

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 purchases or switches, and a single account statement are all very valuable benefits. For some, convenience may trump cost while others will want a pure no-transaction-fee service. But the programs and offerings are all different and at times the rules are daunting, so it is well worth the trouble to do brochure-to-brochure comparisons before you reach a final decision.

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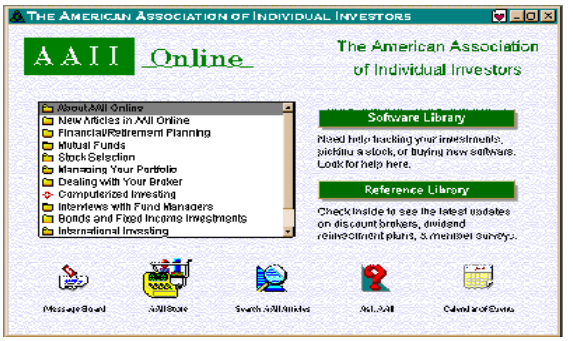

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