

2004

Cut Your Costs with AAI's Discount Broker Survey

By Jean Henrich

Investment costs have a way of growing quickly and getting out of hand. Getting them under control means trimming fees wherever possible.

A logical place to start is the point at which securities are bought and sold. Do-it-yourself investors can shave costs down significantly by careful selection of a discount broker.

To help, AAI offers our annual survey of discount broker firms. Comparing the commissions charged among the discounters, as well as their other fees and services, can help you ensure you are paying the bare minimum for the amenities you need.

This year's survey covers 64 firms that refer to themselves as discount, 54 of which offer on-line trading.

What does the listing cover?



Commissions & Fees

The stock commissions charged by discount brokerage firms vary widely, not just by amount, but also by the way in which they are determined. For instance, some discounters' rates are based on the dollar value of the transaction, others' rates are based on the number of shares in the transaction, some use a combination, and some simply provide a table that lists the prices for various transactions without providing any formulas. Primarily on-line brokers tend to charge a flat rate, with a flat surcharge for broker-assisted trades.

This makes generalized comparisons impossible, since certain firms will be cheaper for some kinds of trades, yet more expensive for others. To help overcome that problem, our listing first presents three broker-assisted trades that cover a range of possibilities for the typical individual investor: a modest trade of a higher-priced stock (100 shares at \$50 per share, a \$5,000 transaction); a large trade (500 shares at \$50 per share, a \$25,000 transaction); and a modest trade of a low-priced stock (2,000 shares at \$2.50 per share, a \$5,000 transaction). Commissions charged by each broker for these trades are presented in total dollars and as a percentage of the total transaction.

The trades reflect commissions for exchange-listed stocks; however, some firms charge a different rate for stocks traded over the counter. The minimum commission amount

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How to Check Out a Broker

There are several Web sites you can visit to find information about a particular broker. These fall into two camps: Those that can provide disciplinary information or complaints about a broker or firm, and those that can provide customer evaluations of brokerage firms.

BACKGROUND CHECKS

Background checks of individual brokers or brokerage firms should be made by using both the NASD BrokerCheck and by requesting information from your state securities regulator. The National Association of Securities Dealers (NASD) regulates brokerage firms and their employees; their BrokerCheck service is governed by federal law, Securities and Exchange Commission (SEC) regulations, and NASD rules approved by the SEC. State disclosure programs are governed by state law, and may provide additional information on brokers licensed by the state.

Background information from the NASD and from state securities regulators comes primarily from the Central Registration Depository System (CRD), a computerized database developed jointly by NASD and the North American Securities Administrators Association (the association of state securities regulators) that holds licensing and registration information on over 600,000 stockbrokers and 6,000 brokerage firms throughout the country. Every state securities regulator can access the CRD database.

In addition to employment and examination history, the CRD report will contain the following types of disciplinary history, if applicable: final disciplinary actions that have been taken by federal, state, and foreign securities regulators as well as self-regulatory organizations such as the National Association of Securities Dealers; civil judgments and arbitration decisions involving public customers; criminal convictions or indictments against registered or licensed brokerage firms and their associated persons; settlements of \$10,000 or more among the parties to arbitrations, civil suits, and customer complaints involving securities or commodities

transactions; employment terminations after allegations were made involving violations of investment-related activities; bankruptcies filed within the last 10 years; pending disciplinary actions, arbitrations and civil proceedings.

National Association of Securities Dealers (NASD)
www.nasd.com

Towards the bottom of the NASD homepage, click on the a NASD BrokerCheck button.

NASD BrokerCheck provides information on NASD registered firms and their brokers that is required to be reported on the approved industry registration and licensing forms; the source of the information is the CRD. It also includes disclosure information reported by regulators. Information that has not been reported to the CRD, or that is not required to be reported or is no longer reportable on regulatory forms is not disclosed.

North American Securities Administrators Association (NASAA)

www.nasaa.org

The NASAA is an association of 50 state securities agencies responsible for investor protection. Click on the Find a Regulator Link on the homepage to obtain the address, telephone and Web site of your state regulator. Your state securities regulator can tell you if the broker is properly licensed within your state, can access the CRD system, and may be able to supply you with additional regulatory action taken under state securities laws.

BROKER RATINGS

AAII

www.aaii.com

Our own on-line survey asks members to rate their brokers based on: quality of trade (price and speed), reliability and overall satisfaction. To view the ratings, go to the Member Surveys area and scroll down to the Discount Broker Survey.

Gómez

www.gomez.com

Gómez was initially established to provide insight and advice to security brokerage firms seeking to improve their on-line offerings. In the process, Gómez created the Gómez Scorecard to define the elements of quality in the delivery of Internet-based services.

At Gomez.com, click on Benchmarks and then Scorecards; from the pull-down menu select Broker-Discount or Broker-Full Service. The Scorecard presents the top 10 firms rated by overall score with a review of each. Brokers are additionally ranked by ease of use, customer confidence, on-site resources, relationship services and overall cost categories.

AAll Broker Survey: How the Most Popular Rank

The Member Surveys area of AAll.com offers AAll members the opportunity to voice their opinion on the discount brokers they use.

The table below provides rankings for the seven most popular brokers—those for whom we received 25 or more AAll member responses during 2003. We determined a rating for each broker based on member responses, and then ranked the brokers based on their rating. The table below shows how each broker ranked relative to the others in terms of:

- Trade price: The price at which an order was filled and how close it was to the price when the trade was placed;
- Execution speed: How quickly an order is filled;
- Reliability: How well you are able to access your broker when you wish to; and
- Overall satisfaction.

The brokers are listed in order of their trade price ranking, since our survey indicates most members use that as the key factor in choosing a broker.

AAll Broker Survey: How the Most Popular Rank

Broker	How Broker Ranks Relative to Others in Terms of:					
	Trade Price	Execution Speed	Reliability		Overall Satisfaction	
			Broker-Asst. Trades	Electronic Trades	Broker-Asst. Trades	Electronic Trades
Scottrade Financial Services	1	4	6	3	6	3
Brown & Co. (BrownCo)	2	1	4	1	4	2
Fidelity Brokerage Services	3	2	5	2	5	1
Ameritrade	4	3	7	5	7	4
Charles Schwab	5	5	3	4	3	5
Vanguard Brokerage Services	6	6	1	6	2	6
TD Waterhouse	7	7	2	7	1	7

represents the minimum dollar amount charged for any broker-assisted stock trade by the firm.

For brokers that offer on-line trades, we present the commission for a sample market order trade of 500 shares at \$50 per share, along with its percentage of the total \$25,000 transaction. If the on-line commission is a **flat rate**, the maximum number of shares that can be traded at the flat rate is noted in the next column. On-line commissions may vary for Nasdaq and over-the-counter stocks and orders placed using a non-market order (limit order). Fifty-four of the discount brokers listed here offer trading through the Internet; the 32 that consider themselves primarily on-line are designated by the symbol [□] to the right of the broker's name in the listing. One of the primarily on-line brokers, Buy and Hold Securities, advertises zero on-line commissions, but charges a flat monthly fee for all accounts.

At the end of the listing, we have indicated the average, the highest, and the lowest charges and percentages for each trade as a point of comparison.

The sample transactions should give you some basis for comparing the various firms. However, certain discounts as well as additional charges by some firms may not be reflected in these particular examples. Other discounts offered by a few firms include:

- Trades of a large number of shares, for instance over 1,000 shares per transaction.
- Trades of a large dollar volume. A few firms, in fact, offer special accounts for customers who consistently trade in large volume.
- Account balances above a certain dollar amount. Where this discount is offered, the account size and discount are negotiable between the broker and customer. Brokers offering a discount for large accounts are noted by a checkmark in the **Acct.**

Size column under **Com. Discount** in the listing.

- Accounts in which frequent trades are made. This type of discount is also usually only offered on a case-by-case basis. Brokers offering a discount for frequent trading are noted by a checkmark in the **Freq. Trades** column under **Com. Discount**.
- Trades made using a touch-tone phone.

Examples of additional charges that may not be reflected in these examples include:

- Shares that are particularly low priced, such as stocks selling for under \$5 a share.
- A small number of firms levy extra charges for odd lots (any number of shares less than 100—for instance, a sale of 553 shares consists of five round lots of 100 and an odd lot of 53 shares).
- A number of firms levy extra charges

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Discount Broker Survey

Telephone	Brokerage Firm		Broker-Assisted Commissions						On-Line Commissions						Min. to Open (\$)	Cash Balance	Transfer Account (\$)
			100Shares at \$50/Share		500Shares at \$50/Share		2,000Shares at \$2.50/Share		500Shares at \$50/Share		Max. No. ofShares at Flat Rate	Com. Discount					
			Total \$5,000 as % of Trade (\$)		Total \$25,000 as % of Trade (\$)		Total \$5,000 as % of Trade (\$)		Total \$25,000 as % of Trade (\$)			Acct. Size	Freq. Trades				
888/229-2853	A.B. Watley Inc.	□	17.95	0.36	17.95	0.07	17.95	0.36	17.95	9.95	0.03	5,000		✓	35,000	Sweep	25
800/494-8939	Accutrade	□	30.00	0.60	38.00	0.15	68.00	1.36	30.00	29.95	0.11	1,000	✓	✓	5,000	Interest (\$1,000)	50
800/297-7378	American Express Brokerage		75.00	1.50	75.00	0.30	105.00	2.10	75.00	19.95	0.07	3,000	✓			Sweep	50
800/546-8378	American Securities Group	□	16.99	0.34	16.99	0.07	16.99	0.34	16.99	4.99	0.01	5,000			5,000	Sweep	25
800/237-8692	Ameritrade	□	24.99	0.50	24.99	0.10	24.99	0.50	24.99	10.99	0.04	no limit			2,000	Sweep (\$5,000)	25
800/321-1640	Baker & Co.		40.00	0.80	80.00	0.32	85.00	1.70	40.00	na	na					Sweep	75
800/926-1111	Banc of America Inv't Serv		54.00	1.08	154.50	0.62	88.50	1.77	45.00	24.95	0.09	1,000			5,000	Sweep	75
888/326-2347	■ Banc One Securities Corp.	□	45.00	0.90	154.00	0.62	88.00	1.76	38.00	24.95	0.09	1,000			2,000	Sweep (\$1)	50
800/822-2021	BrownCo†	□	17.00	0.34	17.00	0.07	17.00	0.34	17.00	5.00	0.02	5,000		✓	15,000	Interest (\$1,000)	50
800/646-8212	■ BUY and HOLD Securities Corp.	□	na	na	na	na	na	na	na	6.99*	0.02	no limit		✓	20	Sweep	50
800/366-1500	Century Discount Investments		29.00	0.58	29.00	0.12	60.00	1.20	29.00	29.00	0.11	na				Interest	50
800/435-4000	Charles Schwab		80.00	1.60	170.00	0.68	130.00	2.60	54.95	29.95	0.11	1,000	✓	✓	10,000	Interest (\$100,000)	95
800/292-6637	Consolidated Finan'l Investments		35.00	0.70	45.00	0.18	89.50	1.79	35.00	na	na		✓	✓		Sweep (\$1,000)	50
800/536-8770	Cutter & Co. Brokerage		60.00	1.20	125.00	0.50	120.00	2.40	35.00	25.00	0.10	500	✓	✓		Sweep (\$100)	75
888/762-9237	CyberTrader	□	29.95	0.60	29.95	0.12	29.95	0.60	12.95	9.95	0.03	5,000			5,000	Sweep	
800/991-5408	Daat Securities		35.00	0.70	35.00	0.14	35.00	0.70	35.00	9.95	0.03	5,000	✓	✓	250	Sweep	25
800/780-3543	Downstate Securities Group		40.00	0.80	55.00	0.22	105.00	2.10	40.00	20.00	0.08	1,000				Interest	50
800/786-2575	E*Trade Financial	□	64.99	1.30	64.99	0.26	64.99	1.30	64.99	19.99	0.07	5,000		✓	1,000	Sweep (\$100)	60
800/343-3548	Fidelity Brokerage Services	□	55.00	1.10	111.00	0.44	250.00	5.00	55.00	29.95	0.11	1,000	✓	✓	2,500	Sweep	
888/642-2811	First Discount Brokerage		35.00	0.70	55.00	0.22	na	na	35.00	19.75	0.07	5,000				Sweep	75
480/951-0079	First Financial Equity Corp.	□	42.00	0.84	42.00	0.17	42.00	0.84	42.00	31.95	0.12	no limit				Interest	50
888/988-6168	Firsttrade Securities	□	29.95	0.60	29.95	0.12	29.95	0.60	29.95	6.95	0.02	no limit				Sweep	50
800/381-1481	Freedom Investments	□	25.00	0.50	25.00	0.10	25.00	0.50	25.00	15.00	0.06	no limit			2,000	Sweep	50
800/825-5723	Harrisdirect	□	44.99	0.90	44.99	0.18	64.99	1.30	34.99	19.99	0.07	1,000	✓	✓		Sweep (\$500)	40
877/442-2757	Interactive Brokers	□	na	na	na	na	na	na	na	5.00	0.02	na			2,000	Interest (\$10,000)	
800/392-7192	InvestEXpress On-line		30.00	0.60	30.00	0.12	40.00	0.80	30.00	13.95	0.05	no limit				Sweep	75
800/327-1883	InvestIN Securities Corp.	□	10.00	0.20	10.00	0.04	20.00	0.40	10.00	6.00	0.02	400		✓	1,000	Sweep	
800/498-7120	Investrade Discount Securities	□	17.95	0.36	17.95	0.07	17.95	0.36	17.95	7.95	0.03	no limit	✓	✓	2,000	Sweep	50
800/247-3396	J.D. Seibert & Company		49.00	0.98	140.00	0.56	60.00	1.20	49.00	na	na		✓	✓		Sweep	60
800/606-8844	JH Darbie & Co.		29.95	0.60	29.95	0.12	29.95	0.60	29.95	14.95	0.05	5,000	✓	✓		Sweep	25
800/374-4212	Lantern Investments		45.00	0.90	60.00	0.24	70.00	1.40	45.00	na	na			✓		Sweep	60
800/221-3305	Marquette de Bary Co.		42.90	0.86	146.43	0.59	91.85	1.84	25.00	na	na		✓	✓		Sweep (\$1,000)	75
800/809-1160	Max Ule		57.00	1.14	195.00	0.78	91.85	1.84	40.00	156.00	0.62	na	✓	✓		Sweep (\$1,000)	50
866/628-3001	MB Trading	□	3.00	0.06	5.00	0.02	13.75	0.28	3.00	5.00	0.02	300			2,000	Sweep (\$2,000)	5
877/653-4732	Merrill Lynch Direct	□	50.00	1.00	147.50	0.59	180.00	3.60	50.00	29.95	0.11	1,000			2,000	Sweep (\$2,000)	75
800/621-2627	Mongerson & Co.		35.00	0.70	95.00	0.38	96.00	1.92	30.00	na	na		✓	✓		Sweep (\$100)	15
800/872-0711	Muriel Siebert & Co., Inc.		45.00	0.90	75.00	0.30	60.00	1.20	37.50	14.95	0.05	1,000	✓	✓		Sweep (\$1)	
800/698-7225	myTrack	□	27.95	0.56	27.95	0.11	27.95	0.56	27.95	12.95	0.05	20,000		✓	500	Sweep (\$1)	25
800/961-1500	NetVest	□	24.00	0.48	24.00	0.10	24.00	0.48	24.00	14.00	0.05	no limit			2,000	Sweep (\$1,000)	25

All firms offer SIPC coverage. Brokers with an ■ before their name do not insure accounts above the SIPC minimum of \$500,000.

□ □ Primarily on-line firm. †Formerly Brown & Co. *monthly fee

Fees			Other Securities Handled				Services						Internet Services			Internet Address http://
Shares in Name (\$)	Inactive Account (\$)	Low Balance (When Levied) (\$)	Research	No-Load Mutual Funds	Bonds	Options	Self-Directed IRA		Div. Reinvest Plans	Clears Trades Directly	Touch-Tone Phone	Free Web Research	Free Real-Time Quotes			
				Can Open	Set-up (\$)	Main (\$)				Place Trades	Com. Disc.					
15	25/mo.			✓ (\$)	✓	✓	✓	35					✓	✓	www.abwatley.com	
			Standard	✓	✓	✓	✓			✓	✓		✓	✓	www.accutrade.com	
15			Standard	✓	✓	✓	✓	40	✓	✓	✓		✓	✓	www.americanexpress.com/trade	
		15/6 mos. (<\$250)		✓	✓	✓	✓	40			✓	✓			www.invest.com	
40	15/6 mos.	15/6 mos. (<\$2,000❖)		✓ (\$)	✓	✓	✓		✓	✓	✓	✓	✓	✓	www.ameritrade.comx	
			Standard	✓	✓	✓	✓		✓				✓		www.bakernyse.com	
25		50/6 mos. (<\$50,000❖)	Standard	✓	✓	✓	✓	40	✓		✓	✓	✓	✓	www.bankofamerica.com/investments	
15	25/yr.		Custom	✓ (\$)	✓	✓	✓	35	✓ (\$)		✓	✓	✓	✓	www.bancone.com	
50			Custom	✓ (\$)	✓	✓	✓			✓			✓	✓	www.brownco.com	
30	7/mo.		Standard (\$)				✓	25	✓	✓			✓		www.buyandhold.com	
				✓	✓	✓	✓	30	✓					✓	www.centurydiscount.com	
50		45/qtr. (<10,000)	Both (\$)	✓	✓	✓	✓	50	✓	✓	✓	✓	✓	✓	www.schwab.com	
25			Standard	✓ (\$)	✓	✓	✓	40	✓				✓		www.cfii.org	
			Standard	✓	✓	✓	✓	30	✓				✓	✓	www.cutterco.com	
	25/mo.		Custom			✓	✓	35					✓	✓	www.cybertrader.com	
25			Standard	✓ (\$)	✓	✓	✓	25 45						✓	www.daat.net	
25			Standard	✓ (\$)	✓	✓	✓	45	✓		✓	✓	✓	✓	www.downstate.com	
40	25/3 mos.	25/3 mos. (<\$5,000❖)		✓	✓	✓	✓	25	✓	✓	✓		✓	✓	www.etrade.com	
15	50/yr.		Standard	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	www.fidelity.com	
25	75/yr.		Standard	✓ (\$)	✓	✓	✓						✓		www.1db.com	
25	35/yr.		Standard	✓ (\$)	✓	✓	✓	35	✓					✓	www.ffec.com	
25	35/yr.			✓	✓	✓	✓		✓		✓	✓	✓	✓	www.firstrade.com	
50	25/13 mos.				✓	✓	✓	35					✓	✓	www.freedominvestments.com	
15		15/qtr. (<\$10,000❖)	Custom	✓	✓	✓	✓	35	✓		✓		✓	✓	www.harrisdirect.com	
	10/mo.					✓	✓			✓					www.interactivebrokers.com	
	35/yr.		Standard	✓ (\$)	✓	✓	✓	30 30					✓	✓	www.investexpress.com	
15	13/qtr.			✓ (\$)	✓	✓	✓	25 35	✓				✓	✓	www.street-trader.com	
25			Standard	✓	✓	✓	✓		✓		✓	✓	✓	✓	www.investrade.com	
25	50/yr.		Standard	✓	✓	✓	✓	25	✓						jdseibertandco.com	
15			Standard	✓	✓	✓	✓	35	✓		✓	✓	✓	✓	www.jhdarbie.com	
25	50/yr.		Standard	✓	✓	✓	✓	25	✓						www.lanterninvestments.com	
	50/yr.		Standard		✓	✓	✓	25 40	✓						www.debary.com	
			Both	✓	✓	✓	✓	35	✓					✓	www.maxule.com	
50				✓ (\$)	✓	✓	✓	35							www.mbtrading.com	
15			Both	✓	✓	✓	✓		✓	✓			✓	✓	www.mldirect.ml.com	
	35/yr.		Standard	✓	✓	✓	✓	35	✓							
			Standard	✓	✓	✓	✓	30	✓		✓	✓	✓	✓	www.siebertnet.com	
25				✓ (\$)		✓	✓						✓	✓	www.mytrack.com	
25	20/6 mos.	20/6 mos. (<\$2,500)	Standard	✓	✓	✓	✓		✓		✓		✓	✓	www.netvest.com	

Diamond ❖ denotes that fee is waived for active accounts.

See pages 20 and 21 for footnotes concerning the headings.

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Discount Broker Survey

Telephone	Brokerage Firm	Broker-Assisted Commissions							On-Line Commissions							Min. to Open (\$)	Cash Balance	Transfer Account (\$)
		100Shares at \$50/Share		500Shares at \$50/Share		2,000Shares at \$25.00/Share		Min. (\$)	500Shares at \$50/Share		Max. No. ofShares at Flat Rate	Com. Discount						
		Total: \$5,000 as% of (\$)	Total: \$5,000 as% of Trade	Total: \$25,000 as% of (\$)	Total: \$25,000 as% of Trade	Total: \$5,000 as% of (\$)	Total: \$5,000 as% of Trade		Acct. Size	Freq. Trades								
877/698-7239	Online Brokerage Services††	24.95	0.50	24.95	0.10	24.95	0.50	24.95	7.95	0.03	no limit			200	Sweep			
800/444-5880	Perelman-Carley & Assoc.	9.00	0.18	9.00	0.04	9.00	0.18	9.00	na	na					Interest (\$5)	40		
800/737-3635	Peremel & Co.	38.00	0.76	50.00	0.20	95.00	1.90	38.00	18.00	0.07	2,000			2,000	Sweep			
888/889-9178	Preferred Trade, Inc.	15.00	0.30	15.00	0.06	30.00	0.60	15.00	9.95	0.03	5,000		✓	5,000	Sweep			
800/782-8871	Prestige Status	29.50	0.59	29.50	0.12	29.50	0.59	29.50	na	na			✓	5,000	Sweep (\$1,000)			
800/927-3425	Regal Discount	21.95	0.44	21.95	0.09	21.95	0.44	21.95	11.95	.04	no limit	✓	✓	2,000	Sweep	50		
800/728-1266	Saturna Brokerage Services†††	39.00	0.78	67.50	0.27	72.50	1.45	39.00	62.50	0.25	na		✓		Sweep	25		
800/619-7283	Scottrade Financial Services	17.00	0.34	17.00	0.07	17.00	0.34	17.00	7.00	0.02	no limit			500	Interest			
800/732-7678	Seaport Securities Corp.	34.00	0.68	50.00	0.20	120.00	2.40	34.00	19.95	0.07	1,000				Sweep	60		
800/327-3156	Securities Research	45.00	0.90	120.00	0.48	100.00	2.00	35.00	35.00	0.14	2,000	✓	✓		Sweep	50		
800/222-5520	Sherry Bruce State Disc	35.00	0.70	45.00	0.18	100.00	2.00	35.00	14.00	0.05	5,000	✓	✓		Sweep	60		
888/756-2628	Sloan Securities Corp.	39.95	0.80	39.95	0.16	60.00	1.20	39.95	19.95	0.07	1,000			3,000	Sweep	75		
800/726-7401	St. Louis Discount	39.00	0.78	66.00	0.26	92.00	1.84	39.00	na	na					Interest	50		
800/782-1522	Sterling Investment Services	45.00	0.90	124.50	0.50	80.00	1.60	40.00	na	na		✓	✓		Sweep	50		
800/225-6196	StockCross Financial Services	29.00	0.58	29.00	0.12	29.00	0.58	29.00	20.30	0.08	2,000		✓		Interest (\$3,000)			
800/368-1550	Strong Investments	55.00	1.10	79.00	0.32	139.00	2.78	49.00	24.95	0.09	1,000	✓	✓	2,500	Sweep	60		
800/638-5660	T. Rowe Price Brokerage	50.00	1.00	150.00	0.60	120.00	2.40	40.00	19.95	0.07	1,000			2,500	Sweep	35		
800/934-4448	TD Waterhouse	45.00	0.90	45.00	0.18	45.00	0.90	45.00	17.95	0.07	2,500	✓	✓	1,000	Sweep	50		
800/925-8566	Trading Direct	29.95	0.60	29.95	0.12	29.95	0.60	29.95	9.95	0.03	500,000	✓	✓		Interest (\$1)	60		
800/531-8144	USAA Brokerage Services	60.00	1.20	151.00	0.60	87.00	1.74	49.95	19.95	0.07	1,000	✓	✓	2,000	Sweep	35		
800/992-8327	Vanguard Brokerage Services*	50.00	1.00	70.00	0.28	145.00	2.90	45.03	25.00	0.10	1,000	✓	✓	3,000	Sweep			
800/925-5781	Wall Street Access	45.00	0.90	45.00	0.18	45.00	0.90	45.00	19.95	0.07	5,000		✓	10,000	Sweep (\$2,000)	35		
800/872-3377	Wells Fargo Investments, LLC	74.95	1.50	74.95	0.30	94.95	1.90	74.95	24.95	0.09	1,000	✓	✓	1,000	Sweep	50		
800/673-6476	WR Hambrecht & Co.	24.95	0.50	24.95	0.10	24.95	0.50	24.95	19.95	0.07	3,000	✓	✓	2,000	Sweep	50		
800/221-3154	York Securities	40.00	0.80	40.00	0.16	40.00	0.80	40.00	40.00	0.16	na	✓	✓		Sweep	60		
Average		37.58	0.75	62.31	0.25	66.11	1.32	34.57	21.01	0.08								
Highest		80.00	1.60	195.00	0.78	250.00	5.00	75.00	156.00	0.62								
Lowest		3.00	0.06	5.00	0.02	9.00	0.18	3.00	4.99	0.01								

All firms offer SIPC coverage. Brokers with an **†** before their name do not insure accounts above the SIPC minimum of \$500,000.

* Charges \$30 annual maintenance fee on all brokerage accounts. **††** Primarily on-line firm **†††** Formerly GlobalTradz **††††** Formerly Investors National Corp.

Commissions

Broker-Assisted Commissions: Commission rate and its percentage of the total trade for three sample market order trades. Also shows the overriding minimum commission for broker-assisted market order trades.

On-Line Commissions: Commission and its percentage of the total trade for one sample market order trade placed via the Internet. Also noted is whether this commission represents a flat rate offered by the broker for on-line market order trades of any exchange-listed stock and the maximum number of shares that can be traded at the flat rate.

Com. Discount: Offers a reduced commission rate for premium accounts. Brokers offering a discount for large accounts are noted under Acct. Size. Brokers offering a discount based on trading

activity are noted under Freq. Trades.

Cash Balance

Min. to Open: Minimum dollar amount needed to open a new account with broker.

Interest: Pays interest on customer's cash balance. Amounts in parentheses, if any, indicate minimum amount at which interest is paid. If a discount firm offers a sweep account, we do not include information on cash balance interest.

Sweep: Automatically invests cash balances in an interest-bearing money market fund until those funds are reinvested.

Fees

Transfer Account: Fee to transfer account to or from another broker. Shares in Name: Fee to register stock certificate in owner's name.

Inactive Account: Fee levied if account remains inactive for specified

Fees			Research	Other Securities Handled			Self-Directed IRA			Services			Internet Services			Internet Address http://
Shares in Name (\$)	Inactive Account (\$)	Low Balance (When Levied) (\$)		No-Load Mutual Funds	Bonds	Options	Can Open	Set-up (\$)	Main (\$)	Div. Reinvest Plans	Clears Trades Directly	Touch-Tone Phone Place Trades	Com. Disc.	Free Web Research	Free Real-Time Quotes	
25				✓ (\$)	✓	✓	✓	25	45	✓				✓	✓	www.mytradz.com
35				✓ (\$)	✓	✓	✓	25			✓					www.pcstock.com
15	20/yr.		Standard	✓	✓	✓	✓		35	✓		✓	✓	✓	✓	www.peremel.com
15	35/yr.			✓ (\$)	✓	✓	✓	25	45		✓				✓	www.preferredtrade.com
20					✓	✓	✓	45	45	✓						www.prestigestatus.com
			Standard	✓ (\$)	✓	✓	✓			✓		✓	✓	✓	✓	www.eregal.com
15				✓ (\$)	✓	✓	✓		25	✓				✓	✓	www.saturna.com
25				✓	✓	✓	✓				✓	✓	✓	✓	✓	www.scottrade.com
25	50/yr.		Standard	✓ (\$)	✓	✓	✓		25	✓				✓	✓	www.seaportsecurities.com
35	50/yr.		Standard	✓ (\$)	✓	✓	✓			✓				✓		www.securitiesresearch.com
25	50/yr.		Standard	✓	✓	✓	✓		35	✓		✓	✓	✓		www.statediscountbrokers.com
40	50/yr.			✓ (\$)	✓	✓	✓			✓				✓		www.sloansecurities.com
25	50/yr.		Standard	✓ (\$)		✓	✓		25	✓		✓	✓			www.stldiscount.com
25	30/yr.		Standard	✓ (\$)	✓	✓	✓		35	✓						
20	50/yr.			✓ (\$)	✓	✓	✓			✓	✓				✓	www.stockcross.com
25		13/qtr. (<\$10,000)	Standard	✓	✓	✓	✓		10	✓		✓	✓	✓	✓	www.strong.com
15	25/yr.			✓	✓	✓	✓		25	✓		✓	✓	✓	✓	www.troweprice.com
25	25/qtr.	25/qtr. (<\$25,000❖)	Standard	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	www.tdwaterhouse.com
30	60/yr.		Standard	✓ (\$)	✓	✓	✓							✓	✓	www.tradingdirect.com
	10/qtr.		Standard	✓	✓	✓	✓			✓	✓	✓		✓	✓	www.usaa.com
			Standard (\$)	✓	✓	✓	✓		30	✓		✓	✓	✓	✓	www.vanguard.com
			Both	✓	✓	✓	✓			✓		✓	✓	✓	✓	www.wallstreetaccess.com
25	15/qtr.		Standard	✓	✓	✓	✓		30	✓	✓	✓	✓	✓	✓	www.wellsfargo.com
			Custom	✓	✓	✓	✓		24	✓				✓	✓	www.wrhambrecht.com
25	60/yr.		Standard	✓	✓	✓	✓			✓ (\$)				✓	✓	www.yorktrade.com

Diamond ❖ denotes that fee is
waived for active accounts.

period of time, rounded to whole dollar amount.
Low Balance (When Levied): Fee levied if account balance falls below
specified amount for specified period of time, rounded to whole dollar
amount.

Research

Standard: Research is supplied to the firm by outside sources.
Custom: Research is supplied by the firm's own analysts.

Other Securities Handled

Firm offers securities as checked. For trading no-load mutual funds, note
that some firms charge for this, others do not.

Services

Self-Directed IRA: Self-directed individual retirement accounts can be set
up. If the firm charges a fee for initial set up or annual maintenance, the
amount is noted.

Dividend Reinvest Plans: Stock dividends can be automatically reinvested
through the brokerage firm.

Clears Trades Directly: Firm is able to clear trades without going to an
outside clearinghouse.

Touch-Tone Phone: Offers electronic trading via customer's telephone. If
broker offers discounted commission rate for trades placed through a
touch-tone phone, this is noted under Com. Disc.

Internet Services

Free Web Research: Customer can access standard research reports at
the firm's Internet site at no extra charge.

Free Real-Time Quotes: Customer can access real-time quotes on stock
trades at the firm's Internet site at no extra charge.

Internet Address: Web address is given where available for all brokers.
A few sites are informational only.

(continued from page 17)

for non-market orders such as limit and stop orders.

- More brokers are charging extra for special handling, such as transferring an account to or from another broker or registering certificates in the owner's name and mailing it to the owner. These charges are shown in the table under **Fees**. Many brokers charge a fee for accounts that post no activity for a period of time. In the majority of cases, the fee is triggered after an account has been idle for one year; however, some on-line brokers have instituted quarterly or monthly inactivity fees. A few brokers charge a fee when the account balance falls below a certain amount, but in some cases the fee is waived for active accounts.

Minimum to Open. Some discounters require a minimum to open an account. This can usually be met by sending the broker either cash or securities.

Cash Balance. Investors want assurance that any cash balances in their accounts are earning interest. Most discount firms pay interest on these funds, although some will only pay interest on amounts above a certain minimum. A sweep account automatically invests cash balances (for instance, funds from the sale of shares) in an interest-bearing money market fund until those funds are reinvested. Money market funds usually pay a higher rate of interest than cash balance accounts that simply earn interest, and investors may have additional choices dealing with taxable versus tax-exempt interest. In the listings, we indicate if a brokerage firm offers a sweep account by the word "Sweep," followed by any minimum amounts required for such an arrangement (note that after this minimum is met, any additional cash, regardless of how small, is swept into the money market fund). If the firm does not offer a sweep account but pays interest on uninvested funds, we use the word "Interest," followed by the minimum amount upon which it pays interest, if a minimum applies.

Research and Other Services

Price isn't the sole consideration for most individual investors when selecting a discount broker. Other services provided by the firm are also important considerations.

All of the firms in the survey have SIPC coverage, which insures (through the Securities Investor Protection Corp.) the securities and cash in customer accounts up to a maximum of \$500,000 per customer. In addition, all but five of the firms in the survey have purchased additional private insurance protection for their customer accounts; the firms without additional protection are designated by the symbol [] before their names. Starting in 2003, many insurers began letting excess SIPC insurance policies expire without offering renewal to brokers. Whether or not brokers will replace this additional insurance remains an open question as of this writing. (See the box on page 24 for more on the SIPC.)

Other services provided by discount brokerage firms vary, and in the listing we have included information on the most popular ones:

- **Research.** Some discounters offer research information and investment recommendations on various topics, such as the economy, business conditions, and specific companies. In the listing, we have divided research reports into two types: "Standard" denotes reports that are supplied to the firm by an outside source, such as Standard & Poor's or Value Line; "Custom" refers to reports that are researched in-house by the firm's own analysts. Brokers may charge for standard or custom research information; those that do are noted under the column labeled Research. Remember to check whether research is available through a broker's Web site for free (see Internet Services).
- **Other Securities Handled.** Most discount firms offer **no-load mutual funds** for their customers; while many charge a fee for the transaction, many discounters offer a certain number of no-load funds at no charge to

the customer. Investors interested in this service should request a list of the funds offered from the discounter, as well as the charges. We indicate if the firm offers no-load mutual funds and we note if a fee is charged on any no-load mutual funds traded. Brokers may also offer securities such as **bonds** and **options** to their customers. These are noted in the listings. If you are interested in these securities, be sure to request a schedule of the appropriate fees.

- **Self-Directed IRA.** All of the firms in the survey offer self-directed individual retirement accounts. IRA accounts can have different minimums than regular accounts at brokerages, so be sure to check the requirements when setting up an IRA. Also, many brokers charge a fee to set up an IRA account and an annual fee to maintain the account. These fees are noted in the listings.
- **Dividend Reinvestment.** Most discount brokers will allow an investor to automatically reinvest dividends through the firm. We indicate if the firm offers this arrangement for all dividend-paying stocks and if a fee is charged.
- **Direct Clearing of Trades.** Some brokerage firms, particularly smaller ones, use other brokers to clear their trades. Some investors feel that firms able to clear their own trades may offer somewhat better execution of trades.
- **Touch-Tone Phone System.** Many firms offer an electronic option of receiving information and placing trades through the customer's telephone. In most cases, commissions on trades placed using a touch-tone telephone system are discounted (**Com. Disc.**), ranging from 10% to 60% below the regular broker-assisted commission rate charged.

Internet Services

An additional feature of brokers with a presence on the Internet is the availability of research reports on com-

Judging a Firm by the Statements They Make

The AAIL member survey on discount brokers indicates that commissions are the key factor investors use in selecting a broker. But “service” issues clearly are also taken into consideration, and the statements you receive are important service issues.

How can you judge a broker by their statements?

First, let’s review the kind of paperwork you’ll be receiving.

In general, investors are sent two kinds of statements from their brokerage firms: confirmation statements when transactions occur, and periodic brokerage account statements.

Confirmation statements are relatively straightforward. These statements are sent whenever a transaction occurs—any purchase or sale in your account. It includes the date of the transaction, the settlement date, the quantity and a description of the security, including the price, fees and commissions, and the total cost of or proceeds from the transaction. For stock transactions, it will indicate whether the stock was sold from the dealer’s inventory.

Account statements, on the other hand, can be very complicated, particularly if you have multiple accounts (for instance, several IRAs) and various types of holdings with one firm. Brokerage firms are required to send out account statements at least quarterly, although some may provide you with statements more frequently. In addition, many will make the information available on-line (in a secured-access, password-protected location).

These are the statements to focus on if you want to compare the service among various firms.

How do they stack up?

We received sample account statements from a little over one-third of the discount brokers in our 2004 survey. Most of them were well-organized and provided a considerable amount of useful information, particularly in their account summary section; many, in fact, use the exact same format. Several, on the other hand, provided somewhat less detail, and were much more difficult to read.

What should you look for?



Statement Summary

If you have multiple accounts with one firm, the best account statements provided a summary page that includes the “main” account name and address to which all other accounts are linked, as well as a summary of all of the individual accounts.

Account Information

At the top of the main broker statement, basic account information is provided, including the names of the account owners, the time period covered and the account number. It also should provide you with contact information to report any changes in account ownership or other updates.

The best account statements also included any account instructions—for instance, how securities are to be held, or whether dividends should be sent or reinvested.

Account Summary

This section shows how your investments are doing by summarizing the total value of your stocks, bonds, mutual funds, other investments, and any cash, as of the statement date.

The better account statements also provided the value from the prior statement, so you can see how it has changed, and they provided a summary of the account’s asset allocation, often in pie-chart format.

Income Summary

This section details interest income, dividends and capital gains distributions received from your investments for

the statement period and year-to-date, and any expenses incurred (for instance, margin interest).

Portfolio Detail

This section identifies the individual holdings in your account, broken down by asset class. It also shows the value of your investments at the end of the statement period and other details of the holding, such as income and yield, bond insurance ratings, stock symbols, unrealized gains and losses.

Account Activity

This provides detailed information on all account activity and transactions during the statement period, including securities transactions, capital gains distributions, dividend reinvestments, etc.

Overall Appearance

The best account statements have layouts that are easy to follow, they do not use confusing terms in their headings, and they use print typefaces and sizes that make it much easier to read.

Bottom Line

What’s the bottom line on account statements?

Clearly most investors will not be using the account statement as the primary criteria for choosing a broker.

But if you are trying to decide among several different brokerage firms, ask them to send you a sample account statement. If the statement appears confusing or not well-detailed, move on to the next broker—there are plenty of others with well-formatted statements.

panies. The range of information offered is wide—from current quotes and news headlines to in-depth financial statistics. Some Web sites charge for this information, and others provide it free to customers. **Free Web Research** and **Free Real-Time**

Quotes are indicated in the listings where available.

Internet addresses are listed, but trading through the Internet is only available with the 54 brokerage firms that show on-line sample commissions.

More information on on-line brokers, including types of orders that can be placed and portfolio activity details that can be accessed through the Internet, is available in the January/February 2004 issue of AAI's Computerized Investing publication. □

SIPC: What Does It Cover?

The Securities Investor Protection Corporation (SIPC) helps customers of failed brokerage firms retrieve their cash and securities. It is a non-profit group that is overseen by the SEC. All U.S. broker-dealers are required to be members of the SIPC and they provide its funding.

When a broker-dealer closes due to insolvency or bankruptcy, the agency works with a federal court to return investor cash and securities. However, when you are checking out a broker and asking about SIPC coverage, note that you must also find out who clears trades for the firm. If your broker does not clear trades directly, ask who the clearing firm is and check on their SIPC membership. The clearing firm is the entity that actually holds your cash and securities; if an outside clearing firm fails, your broker has no responsibility regarding your funds. To find out whether a firm is a member of SIPC, you can search SIPC's membership database at www.sipc.org or contact the SIPC at 805 15th Street, NW, Suite 800, Washington, D.C. 20005, (202) 371-8300.

What are the limits of SIPC coverage? Stocks, bonds, mutual funds and other SEC-registered securities are insured up to \$500,000, including up to \$100,000 for cash. SIPC coverage does not include unregistered investment contracts, fixed annuities, currency, and commodity futures contracts or options. Also, SIPC does not protect customer funds placed with a broker solely to earn interest.

SIPC insurance does not protect investors against stock market risk or broker fraud. Market risk, of course, is a normal part of trading securities. In the case of a brokerage failure, you should know that the SIPC calculates the value of securities as of the date the SIPC files for protection of customer accounts, which may be higher or lower than when the broker actually closed its doors.

Fraudulent activity, such as deceptive selling schemes, falls under federal and state securities laws, therefore, the SIPC is not involved.

Excess SIPC Coverage

Until 2003, most brokers also carried insurance for cash and securities above the SIPC minimum of \$500,000. This additional private insurance protection was seen as a feature to attract larger account holders. However, starting in 2003, many insurers began letting excess SIPC insurance policies expire without offering renewal to brokers. The reasons vary, but most of the insurers offering excess SIPC coverage found the policies to have low return for unlimited risk potential. Others deemed it unnecessary since broker liquidations in general are uncommon and claims in excess of the SIPC limit are even more uncommon.

However, brokers see the excess coverage as a selling point and some type of replacement option will probably be instituted. As an investor, just bear in mind that this amenity is in flux this year when you are checking out brokers.

Jean Henrich is associate editor of the AAI Journal.