

2007

Discount Broker Guide: How to Spot the Right Broker

By Jean Henrich and Maria Crawford Scott

On the discount broker stage, competition continues to hold commissions at bay. Despite some consolidation in the industry, AAI's 2007 Guide to Discount Brokers indicates that commissions are continuing to drop, albeit only slightly. The average commission for a broker-assisted \$5,000 trade (100 shares at \$50/share) totaled 0.67% of the trade, compared to 0.68% for last year's survey; the average commission for a broker-assisted \$25,000 trade (500 shares at \$50/share) totaled 0.21% of the trade, down slightly from last year's 0.22%.

The lowest commissions for broker-assisted trades are



from MB Trading, at a rock-bottom \$1 (or 0.02%) for the \$5,000 trade, and TradeKing, at \$4.95 (0.02%) for the \$25,000 trade. The highest commissions are charged by Cutter & Co. Brokerage and USAA Brokerage Services (1.20% for the \$5,000 trade) and Max Ule (0.78% for the \$25,000 trade).

Picking out Mr.—or Ms.—Right amidst the throng of discount brokers is still a challenge. Spotlighting the features of the current contestants, AAI's annual survey of discount brokerage firms can help you find the perfect match.

Comparing the commissions charged among the discounters, as well as their other fees and services, can help you ensure you are making the right choice for the amenities you need. And with an eye on bargains among the discount brokers, do-it-yourself investors can realize significant savings.

This year's survey covers 56 firms that refer to themselves as discount, 47 of which offer on-line trading. Notable changes this year include the merger of TD Waterhouse and Ameritrade into TD Ameritrade, and the addition of newcomer Zecco.com, which advertises zero commission for on-line trades.

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,

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AAll Broker Survey: How the Most Popular Rank

Interactive Brokers is the top-rated brokerage firm on AAll.com in terms of trade price and execution speed, according to our Member Broker Survey for 2006. USAA Brokerage is the second-highest rated in both those categories.

Scottrade is the most widely used firm among members who took the survey. The firm ranks sixth in terms of trade price and fifth in execution speed.

The Member Surveys area of AAll.com offers members the opportunity to voice their opinions on the discount brokers they use. The survey asks members which discount broker they use and the primary reasons for choosing a broker. It then asks members to rate their satisfaction with their broker on a number of specific criteria.

The table below provides rankings for the 10 most popular brokers—those for whom we received 10 or more member responses during 2006. We determined a rating for each broker based on member responses, and then ranked the brokers based on their rating. The table also indicates the percentage of respondents who use each firm; the numbers do not add up to 100% because not all brokers are listed.

The table 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 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 price ranking, the key factor members used to choose a broker.

Broker	How Broker Ranks Relative to Others in Terms of:						Usage by Respondents (%)
	Trade Price	Execution Speed	Reliability		Overall Satisfaction		
			Broker-Asst. Trades	Electronic Trades	Broker-Asst. Trades	Electronic Trades	
Interactive Brokers	1	1	10	1	10	2	2.9
USAA Brokerage Services	2	2	1	2	1	1	3.1
Banc of America Investment Services	3	8	4	10	4	8	1.1
Fidelity Brokerage Services	4	3	2	3	2	3	15.7
optionsXpress	5	4	9	4	9	4	2.3
Scottrade, Inc.	6	5	5	7	6	7	20.4
E*Trade Financial	7	9	7	5	7	5	9.4
TD Ameritrade*	8	6	8	8	8	9	17.2
Charles Schwab	9	7	3	6	3	6	13.2
Vanguard Brokerage Services	10	10	6	9	5	10	3.6

*Includes responses for TD Waterhouse and Ameritrade prior to their merger in 2006.

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. Brokers that do most of their business on-line 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 \$5 per share, a \$10,000 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 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

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Broker Account Statements: Making the Numbers Look Good

Most investors focus on commissions when selecting a broker. But “service” issues clearly are also taken into consideration. And the brokerage account statements you will be receiving are an important service issue.

Account statements 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.

How do they stack up?

We received sample account statements from several of the discount brokers in our 2007 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 less detail, and were more difficult to read.

What should you look for in a brokerage account statement?

Account Information

If you have multiple accounts with one firm, the best account statements provide a summary 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.

For all broker statements, basic account information is provided at the beginning of the statement, 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.

What to look for: In addition to an overall account summary, 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.

What to look for: The better account statements also provided a summary of the activity and change in value from the prior statement; the account’s current asset al-

location, often in pie-chart format; an income summary that details interest income, dividends and capital gains distributions received from your investments for the statement period and any expenses incurred (for instance, margin interest); and finally, for retirement accounts, a summary of contributions and distributions.

Portfolio Holdings

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.

What to look for: The best account statements provided research information on the individual stock and mutual fund holdings, including ratings (typically from outside sources such as S&P and Morningstar) and performance, as well as tax information (basis and unrealized gains or losses).

Account Activity (Transaction Details)

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

Retirement Account Information

This section will be included if you are holding retirement accounts with the firm. It details information on your retirement accounts including contributions, distributions and withdrawals, and federal taxes withheld.

The Bottom Line


What to look for: 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. Account statements should also provide information on the clearing firm and other operational details such as where you can get information on order execution.

Most investors will not be using the account statement as the primary criterion 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 and use it as a tie-breaker.

Discount Broker Guide

Telephone	Brokerage Firm	MIN ACCT	COMMISSIONS										CASH BALANCES					FEES				
			Minimum to Open an Account (\$)	Broker-Assisted						On-Line				Discounts		Automatic Sweep		Transfer Account (\$)	Register Shares in Name (\$)	Inactive Account (\$)	Low Balance Fee (\$)	
				(\$)	as % of Trade	(\$)	as % of Trade	(\$)	as % of Trade	Overriding Minimum (\$)	(\$)	as % of Trade	Maximum Number of Shares at Flat Rate	Account Size	Frequent Trades	Money Market Fund	Bank Account					Money Market Fund Available
888/229-2853	A.B. Watley Direct	2,000	6.95	0.14	6.95	0.03	6.95	0.07	6.95	6.95	0.03	no limit			4				25	100	25/mo.	
800/222-2228	Accutrade	2,000	30.00	0.60	38.00	0.15	68.00	0.68	30.00	29.95	0.12	1,000				4	4	2,000	50			
800/321-1640	Baker & Co.		40.00	0.80	80.00	0.32	85.00	0.85	40.00	na	na	na	4	4	4				35	80	50/yr.	50/yr.
800/926-1111	Bank of America Investment Services		42.50	0.85	42.50	0.17	42.50	0.43	42.50	14.00	0.06	no limit			4				75	25		50/6mos.
800/221-2111	Barry Murphy & Co.		32.50	0.65	62.50	0.25	175.00	1.75	25.01	29.95	0.12	2,000	4	4	4				65	25	50/yr.	
866/232-4488	Cambridge Discount Brokerage		30.00	0.60	30.00	0.12	30.00	0.30	30.00	15.00	0.06	50,000				4	4		50	75		
866/232-9890	Charles Schwab	2,500	37.95	0.76	37.95	0.15	52.95	0.53	37.95	12.95	0.05	1,000	4	4		4	4	500,000	50	50		12.50/qtr.
800/292-6637	Consolidated Financial Investments		35.00	0.70	45.00	0.18	89.50	0.90	35.00	na	na	na	4	4	4				50	25		
800/536-8770	Cutter & Co. Brokerage		60.00	1.20	125.00	0.50	130.00	1.30	35.00	25.00	0.10	500	4	4	4			500	95	30	50/yr.	
888/283-2407	CyberTrader	5,000	29.95	0.60	29.95	0.12	29.95	0.30	22.95	9.95	0.04	5,000		4	4						49/mo.	
800/780-3543	Downstate Securities Group		45.00	0.90	45.00	0.18	45.00	0.45	45.00	20.00	0.08	no limit				4	4		50	20		
800/786-2575	E*Trade Financial	1,000	57.99	1.16	57.99	0.23	57.99	0.58	57.99	12.99	0.05	2,000	4	4		4	4		60	40		40/qtr.
800/343-3548	Fidelity Brokerage Services, LLC	2,500	55.00	1.10	111.00	0.44	321.00	3.21	55.00	19.95	0.08	1,000	4	4	4					15		
888/781-0283	Fimat USA	5,000	9.95	0.20	9.95	0.04	9.95	0.10	9.95	9.95	0.04	5,000		4	4				50	25	35/yr.	
888/642-2811	First Discount Brokerage		35.00	0.70	55.00	0.22	75.00	0.75	35.00	19.75	0.08	5,000	4	4	4				95	25	50/yr.	
800/687-3800	First Financial Equity Corp.		42.00	0.84	42.00	0.17	42.00	0.42	42.00	31.95	0.13	no limit			4				50	25	35/yr.	
888/988-6168	Firsttrade Securities		26.95	0.54	26.95	0.11	26.95	0.27	26.95	6.95	0.03	no limit			4				50	25		
800/944-4033	Freedom Investments	2,000	25.00	0.50	25.00	0.10	25.00	0.25	25.00	15.00	0.06	no limit			4				75	50		
877/442-2757	Interactive Brokers, LLC	5,000	na	na	na	na	na	na	na	2.50	0.01	na				4				10/mo.	20/mo.	
800/327-1883	InvestIN Securities Corp.	2,000	10.00	0.20	10.00	0.04	10.00	0.10	10.00	6.00	0.02	400				4	4	2,000	15	12.50/qtr.		
800/498-7120	Investrade Discount Securities		17.95	0.36	17.95	0.07	17.95	0.18	17.95	7.95	0.03	no limit	4	4	4				50	25		
800/247-3396	J.D. Seibert & Company		49.00	0.98	140.00	0.56	100.00	1.00	49.00	na	na	na	4	4	4				60	25	50/yr.	
800/606-8844	JH Darbie & Co.		29.95	0.60	29.95	0.12	29.95	0.30	29.95	14.95	0.06	5,000	4	4	4				25	20		
800/374-4212	Lantern Investments		45.00	0.90	60.00	0.24	75.00	0.75	45.00	na	na	na	4	4	4				75	25	50/yr.	
800/221-3305	Marquette de Bary Co.		50.00	1.00	146.43	0.59	118.49	1.18	50.00	na	na	na	4	4	4				95	30	50/yr.	
800/223-6642	Max Ule		57.00	1.14	195.00	0.78	105.32	1.05	40.00	156.00	0.62	na	4	4		4	4		95	30	50/yr.	
866/628-3001	MB Trading	2,000	1.00	0.02	5.00	0.02	12.50	0.13	1.00	5.00	0.02	na			4		2,000	5	50			
800/737-3635	Mercantile Brokerage Services	2,000	38.00	0.76	38.00	0.15	38.00	0.38	38.00	18.00	0.07	2,000			4				50	20	20/yr.	
800/621-2627	Mongerson & Co.		35.00	0.70	95.00	0.38	96.00	0.96	30.00	na	na	na	4	4	4				15	80	35/yr.	
800/424-3934	MTDirect.com	3,000	9.99	0.20	9.99	0.04	9.99	0.10	9.99	9.99	0.04	no limit		4	4				5	25	25/yr.	
800/872-0711	Muriel Siebert & Co., Inc.		45.00	0.90	75.00	0.30	75.00	0.75	37.50	14.95	0.06	1,000	4	4	4		1					
800/698-7225	myTrack	500	27.95	0.56	27.95	0.11	27.95	0.28	27.95	12.95	0.05	20,000		4	4				25	25		
800/961-1500	NetVest		24.00	0.48	24.00	0.10	24.00	0.24	24.00	14.00	0.06	no limit			4			1,000	25	25	20/6mos.	20/6mos.
877/698-7239	Online Brokerage Services	200	24.95	0.50	24.95	0.10	24.95	0.25	24.95	7.95	0.03	no limit			4				50	15		

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.

See page 18 for explanations of the headings.

Low Balance Threshold	OTHER SECURITIES HANDLED				SERVICES										AVAILABLE AT WEB SITE			Internet Address			
	No-Load Mutual Funds	Exchange-Traded Funds	Bonds	Options	Free S&P Stock Reports	Free Analyst Reports	Other Standard Research	In-House Analysts	Can Open	Set-Up Fee (\$)	Annual Maintenance Fee (\$)	Dividend Reinvestment Plan Arrangement	Clears Trades Directly	Place Trades	Commission Discount	Offers Tax Lot Accounting	Tax Lot Accounting Software/Tools		Download Portfolio Account Info	Free Web Research	Free Real-Time Quotes
	4 (\$)	4	4	4					4	30						4		4	4	4	www.abwatley.com
	4	4	4	4	4	4	4		4					4			4 *	4 *	4	4	www.accustrade.com
\$10,000*	4 (\$)	4	4	4	4	4	4		4		4					4		4	4		www.bakernyse.com
\$50,000*	4	4	4	4					4	40	4			4	4	4	4 *	4 *	4	4	www.bankofamerica.com/investments
	4		4	4				4 (\$)	4	30	4					4		4 *	4	4	www.barrymurphy.com
	4	4	4	4					4		4					4					www.cambridge-discount.com
\$2,500	4	4	4	4	4	4	4	4	4	50	4	4	4	4	4	4	4	4	4	4	www.schwab.com
	4 (\$)	4	4	4	4	4	4		4	35	4					4	4	4	4		www.cfi.org
	4 (\$)	4	4	4	4		4		4	30	4					4		4	4	4	www.cutterco.com
				4			4		4	35									4	4	www.cybertrader.com
	4 (\$)	4	4	4			4		4	45	45	4				4	4	4	4	4	www.downstate.com
\$10,000*	4	4	4	4	4	4	4		4		4	4	4	4	4	4	4	4	4	4	www.etrade.com
	4	4	4	4	4	4	4		4		4	4	4	4	4	4	4	4	4	4	www.fidelity.com
		4		4					4	30		4								4	www.fimatpreferred.com
	4 (\$)	4	4	4			4		4	60	4					4	4	4	4		www.1db.com
	4 (\$)	4	4	4			4		4	35	4							4			www.ffec.com
	4	4	4	4	4				4		4		4	4	4	4	4	4	4	4	www.firstrade.com
				4					4	40	4			4	4			4	4	4	www.freedominvestments.com
\$3,000		4	4	4			4	4	4			4					4 *	4 *	4		www.interactivebrokers.com
	4 (\$)	4	4	4					4	25	35	4						4 *			www.directaccesselite.com
	4	4	4	4	4	4	4		4		4				4				4	4	www.investrade.com
	4	4	4	4			4		4	25	4				4 (\$)			4			jdseibertandco.com
	4 (\$)	4	4	4	4	4	4	4	4		4		4	4	4	4	4	4	4	4	www.jhdarbie.com
	4	4	4	4	4	4	4		4	25	4				4						www.lanterninvestments.com
	4 (\$)	4	4	4			4	4	4	25	30	4			4						www.debary.com
	4	4	4	4	4	4	4	4	4	30	4				4			4			www.maxule.com
	4 (\$)	4	4	4					4	30										4	www.mtrading.com
	4	4	4	4	4	4	4		4	35	4		4	4	4	4	4 *	4 *	4	4	www.mercbrokerage.com
	4 (\$)	4	4	4	4	4	4		4	35	4				4						
	4 (\$)	4		4					4	35									4	4	www.mastertrader.com
	4	4	4	4	4	4	4		4	30	4		4	4	4	4	4	4	4	4	www.siebertnet.com
	4 (\$)	4		4					4	35							4	4	4		www.mytrack.com
\$2,500	4	4	4	4			4		4		4		4	4	4			4	4	4	www.netvest.com
	4 (\$)		4	4					4	25	45	4						4 *	4	4	www.mytradz.com

Diamond ♦ denotes that fee is waived for active accounts.

*on-line customers only.

See page 18 for explanations of the headings.


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Discount Broker Guide

Telephone	Brokerage Firm	MIN ACCT	COMMISSIONS									CASH BALANCES				FEES					
			Broker-Assisted						On-Line			Discounts		Automatic Sweep		Transfer Account (\$)	Register Shares in Name (\$)	Inactive Account (\$)	Low Balance Fee (\$)		
			Minimum to Open an Account (\$)	100 Shares at \$50/Share (\$5,000) as % of Trade	500 Shares at \$50/Share (\$25,000) as % of Trade	2,000 Shares at \$5/Share (\$10,000) as % of Trade	Overriding Minimum (\$)	500 Shares at \$50/Share (\$25,000) as % of Trade	Maximum Number of Shares at Flat Rate	Account Size	Frequent Trades	Money Market Fund	Bank Account	Money Market Fund Available	Minimum (\$)						
888/280-8020	optionsXpress		14.95	0.30	14.95	0.06	30.00	0.30	14.95	14.95	0.06	1,000			4		50	50			
800/444-5880	Perelman-Carley & Assoc.		9.00	0.18	9.00	0.04	9.00	0.09	9.00	na	na	na			4		50	35			
800/782-8871	Prestige Financial Center	5,000	29.50	0.59	29.50	0.12	29.50	0.30	29.50	na	na	na			4		2,000	75	25		
800/927-3425	Regal Discount		21.95	0.44	21.95	0.09	21.95	0.22	21.95	11.95	0.05	no limit	4	4	4		50	25			
800/728-1266	Saturna Brokerage Services		39.00	0.78	67.50	0.27	75.00	0.75	39.00	62.50	0.25	na			4		25	15			
800/619-7283	Scottrade, Inc.	500	27.00	0.54	27.00	0.11	27.00	0.27	27.00	7.00	0.03	no limit			4		50				
800/732-7678	Seaport Securities Corp.		34.00	0.68	50.00	0.20	120.00	1.20	34.00	14.95	0.06	1,000			4		60	25	50/yr.		
800/327-3156	Securities Research		45.00	0.90	120.00	0.48	140.00	1.40	35.00	35.00	0.14	2,000	4	4	4		25	60	35	50/yr.	
800/222-5520	Sherry Bruce's State Discount Brokers		35.00	0.70	45.00	0.18	100.00	1.00	35.00	14.00	0.06	5,000	4	4		4	4	60	25	50/yr.	
888/756-2628	Sloan Securities Corp.	3,000	39.95	0.80	39.95	0.16	39.95	0.40	39.95	19.95	0.08	1,000				4	4	3,000	75	40	50/yr.
800/782-1522	Sterling Investment Services		45.00	0.90	125.00	0.50	102.00	1.02	40.00	na	na	na	4	4	4		50	35	35/yr.		
800/225-6196	StockCross Financial Services		29.00	0.58	29.00	0.12	29.00	0.29	29.00	20.30	0.08	2,000	4	4	4		50	20	50/yr.		
800/638-5660	T. Rowe Price Brokerage	2,500	50.00	1.00	150.00	0.60	120.00	1.20	40.00	19.95	0.08	1,000			4		35	15	30/yr.	30/yr.	
800/934-4448	TD Ameritrade†	2,000	44.99	0.90	44.99	0.18	44.99	0.45	44.99	9.99	0.04	no limit			4	4	50	40			
877/495-5464	TradeKing		4.95	0.10	4.95	0.02	4.95	0.05	4.95	4.95	0.02	no limit					50				
800/925-8566	Trading Direct		19.95	0.40	19.95	0.08	19.95	0.20	19.95	9.95	0.04	1 million	4	4		4	4	60	30	60/yr.	
800/531-8144	USAA Brokerage Services		60.00	1.20	156.00	0.62	111.00	1.11	54.95	11.95	0.05	1,000	4	4		4	4	75			
800/992-8327	Vanguard Brokerage Services**	3,000	50.00	1.00	70.00	0.28	145.00	1.45	45.00	25.00	0.10	1,000	4	4	4						
800/872-3377	Wells Fargo Investments, LLC	1,000	44.95	0.90	44.95	0.18	59.95	0.60	44.95	19.95	0.08	1,000			4		50	50	15/qr.		
800/673-6476	WR Hambrecht + Co.	2,000	24.95	0.50	24.95	0.10	24.95	0.25	24.95	19.95	0.08	3,000	4	4	4		75	30	20/yr.		
800/221-3154	York Securities		40.00	0.80	40.00	0.16	40.00	0.40	40.00	40.00	0.16	na	4	4	4		60	25	60/yr.		
909/657-6655	Zecco.com	2,500	19.99	0.40	19.99	0.08	19.99	0.20	19.99	0.00	0.00	no limit				4	4	50	50		
Average			33.38	0.67	53.17	0.21	61.67	0.62	31.48	19.42	0.08										
Lowest			1.00	0.02	4.95	0.02	4.95	0.05	1.00	0.00	0.00										
Highest			60.00	1.20	195.00	0.78	321.00	3.21	57.99	156.00	0.62										


See page 18 for explanations of the headings.

†Formerly Ameritrade and TD Waterhouse. **Charges \$30 annual maintenance fee on all brokerage accounts.

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.

(continued from page 12)

may vary for NASDAQ and over-the-counter stocks and orders placed using a non-market order (limit order). Forty-seven of the discount brokers listed here offer trading through the Internet; the 30 that consider themselves primarily on-line brokers are designated by the symbol  to the right of the broker's name in the listing.

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

Low Balance Threshold	OTHER SECURITIES HANDLED				SERVICES								AVAILABLE AT WEB SITE				Internet Address	
	No-Load Mutual Funds	Exchange-Traded Funds	Bonds	Options	Free S&P Stock Reports	Free Analyst Reports	Other Standard Research	In-House Analysts	Self-Directed IRA	Dividend Reinvestment Plan Arrangement	Clears Trades Directly	Touch-Tone Phone Trading	Offers Tax Lot Accounting	Tax Lot Accounting Software/Tools	Download Portfolio Account Info	Free Web Research		Free Real-Time Quotes
4 (\$)	4	4	4	4		4			4	4			4 (\$)	4	4	4	4	www.optionsxpress.com
4 (\$)			4	4					4	25		4			4			www.pcastocks.com
4 (\$)	4	4	4	4					4	45	45	4	4					www.prestigestatus.com
4 (\$)	4	4	4	4	4	4	4		4				4			4	4	www.eregal.com
4	4	4	4	4					4	25	4		4		4 *	4	4	www.saturna.com
4	4	4	4	4	4	4	4		4		4	4	4	4 *	4 *	4	4	www.scottrade.com
4	4	4	4	4					4				4		4 *	4	4	www.seaportsecurities.com
4 (\$)	4	4	4	4					4				4 (\$)		4 *	4		www.securitiesresearch.com
4	4	4	4	4					4			4	4	4		4		www.statediscountbrokers.com
4 (\$)	4	4	4	4					4	40	4					4		www.sloansecurities.com
4 (\$)	4	4	4	4		4	4		4	35	4		4	4	4			
4	4	4	4	4					4	30	4	4			4 *	4	4	www.stockcross.com
\$50,000*	4	4	4	4					4	30	4		4	4 *	4 *	4	4	www.troweprice.com
4	4	4	4	4	4	4	4		4		4	4	4 (\$)	4	4	4	4	www.tdameritrade.com
4 (\$)	4	4	4	4					4					4	4	4	4	www.tradeking.com
4	4	4	4	4					4				4 (\$)		4	4	4	www.tradingdirect.com
4	4	4	4	4	4		4		4		4	4	4	4	4	4	4	www.usaa.com
4	4	4	4	4	4	4	4		4	10	4		4	4	4	4	4	www.vanguard.com
4	4	4	4	4	4		4		4	30	4	4	4	4	4	4	4	www.wellsfargo.com
4	4	4	4	4			4		4	35	4		4 (\$)		4	4		www.wrhambrecht.com
4	4	4	4	4					4	50	4					4	4	www.yorktrade.com
4 (\$)	4			4					4					4 *			4	www.zecco.com

Diamond ❖ denotes that fee is waived for active accounts.

See page 18 for explanations of the headings.

*on-line customers only

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 **Account Size** column under **Commission 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 **Frequent Trades** column under **Commission Discount**.

- Trades made using a touch-tone phone.


In a new twist, Banc of America now offers customers with *bank* deposits of \$25,000 or more zero commission


for on-line equity trades.

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
- (continued on page 19)

Definitions of Table Symbols and Column Headings

: Does not insure accounts above the SIPC minimum of \$500,000.

: Broker is primarily an on-line firm.

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

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.

Commission Discount: Offers a reduced commission rate for premium accounts. Brokers offering a discount for large accounts are noted under Account Size. Brokers offering a discount based on trading activity are noted under Frequent Trades.

Cash Balances

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

Money Market Fund Available: Broker uses bank account as automatic option, but a money market fund alternative can be requested by the customer.

Minimum: Minimum dollar amount at which automatic sweep is initiated.


Fees

Transfer Account: Fee to transfer account to or from another broker.

Register Shares in Name: Fee to register stock certificate in owner's name and send to the owner.

Inactive Account: Fee levied if account remains inactive for specified period of time, rounded to whole dollar amount.

Low Balance Fee: Fee levied if account balance falls below a specified amount after a specified period of time, rounded to whole dollar amount.

Low Balance Threshold: Account balance below which low balance fee is levied. Diamond  indicates that low balance fee is waived for active accounts.

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

Research: Broker offers free S&P Stock Reports, free analyst reports, other standard company research supplied by outside sources or research supplied by the firm's own analysts. A (\$) denotes that a broker charges a fee for reports.

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 Reinvestment Plan Arrangement: 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 Trading: 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 the Commission Discount column.

Offers Tax Lot Accounting: Record-keeping tools and systems that allow customers to more easily determine and specify the trading of specific share lots to minimize taxes.

Available at Web Site

Tax Lot Accounting Software/Tools: Customers can track tax status of trades on Web site or by downloading software. An asterisk denotes that this feature is only available to on-line customers.

Download Portfolio Account Info: Customer can access portfolio account information at the broker's Web site and download account data to their computer. An asterisk denotes that this feature is only available to on-line customers.

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.

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 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 Balances. Investors want assurance that any cash balances in their accounts are earning interest. Most discount firms sweep cash balances into either an interest-bearing money market fund or bank account until those funds are reinvested. Money market funds usually pay a higher rate of interest than bank accounts, and some brokers that sweep into bank accounts will offer a money market fund alternative if you request it. In the listing, we indicate if a brokerage firm sweeps into a money market fund or an interest-bearing bank account. For brokers that use a bank account as the automatic option, we note whether a money market fund alternative is available. The table also shows any minimum cash balance that the firm requires before initiating the automatic sweep. [For more on cash sweep accounts, see the box on page 22].

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.

SIPC Coverage. 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 three 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 [S] before their names. (See the box on page 21 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:

- **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 **exchange-traded funds, 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.
- **Research.** Some discounters offer research information and investment recommendations on various topics, such as the economy, business conditions, and specific companies. More than half the brokers in our guide offer research supplied by an outside source. The listing indicates which discounters provide free S&P stock reports, free analyst reports, and other standard research. A few discount bro-

kers maintain in-house analysts who perform custom research. Brokers may charge for research information; those that do are noted. Remember to check whether research is available through a broker's Web site for free (noted in Available at Web Site section of table).

- **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 Plan Arrangement.** Over three-quarters of the 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; currently, none of these firms charges a fee for the service.
- **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 Trading.** One-third of the 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 (**Commission Discount**), ranging from 10% to 63% below the regular broker-assisted commission rate charged.
- **Tax Lot Accounting.** Some firms are offering better tax-lot accounting tools for their customers. The most sophisticated programs automatically update the cost basis of positions to reflect wash sales and corporate actions, such as mergers and splits. This leads to accurate capital gains

(continued on page 22)



How to Check Out a Broker

Broker information on the Web can be divided into two camps: Sites that provide disciplinary or background information about a broker or firm, and sites that 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. State disclosure programs may provide additional information on brokers licensed by the state.

You also should check to make sure that your broker is covered by SIPC (Securities Investor Protection Corp.) insurance—for more on this see the box on page 21.

National Association of Securities Dealers (NASD)

www.nasd.com

Under Investor Information on the right-hand side of the NASD home page, click NASD BrokerCheck.

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. It also includes disciplinary and disclosure information reported by regulators.

North American Securities Administrators Association (NASAA)

www.nasaa.org

The NASAA is an association of 50 state securities agencies. Click on the Contact Your Regulator link on the home page 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 central brokerage registration database, and may be able to supply you with additional regulatory action taken under state securities laws.

Securities Investor Protection Corp. (SIPC)

www.sipc.org

Under Who We Are, click on Member Database to make sure a brokerage firm is an SIPC member.

BROKER RATINGS

AII

www.aaii.com

Our own on-line survey asks members to rate their brokers based on: trade price and speed, reliability and overall satisfaction. To view the ratings, go to the Investor Surveys section under Tools in the left-hand column, and then click on the On-Line Discount Broker Survey.

Gómez

www.gomez.com

Gómez helps businesses measure and improve their on-line offerings. In the process, Gómez created the Gómez Performance Indices (GPI). At Gomez.com, click on the Performance Strategies tab and select Benchmarking, then select US Brokerage: Discount—Generate Order from the list. The Brokerage Generate Order Benchmark presents the top 14 firms rated by response time, availability, and consistency.

J.D. Power and Associates

www.jdpower.com

Two Customer Satisfaction surveys conducted in 2006 cover eight on-line brokerage firms and 13 full-service brokerage firms. Customers were asked to rate the firms on a variety of issues including cost, customer service, trade execution, information resources, Web site capability (for the on-line broker survey) and account management and the representative/advisor (for the full-service broker survey). At the home page, click the Finance & Insurance tab.

Keynote.com

www.keynote.com

Keynote helps businesses measure and improve their on-line offerings. In the process, Keynote created the Keynote Broker Web Transaction Performance Index, which shows the average response times and success rates for 12 major brokerage Web sites. At the home page, go to the Performance Indices link, click on Industry Indices, and then click on Broker Web Sites.

Kiplinger.com

www.kiplinger.com

The Kiplinger broker survey compares 11 large brokerage firms. Ratings are based on your answers to questions covering elements such as commissions and fees, broker responsiveness and knowledge, mutual fund programs, and Web site ease and usefulness. At the main page, click on Tools & Calculators, and then click on “Which on-line broker is best for me?” under the Stocks or Funds tools.

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 nonprofit 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.

SIPC Coverage and Limits

Cash, stocks, bonds, mutual funds and other SEC-registered securities are insured up to \$500,000, including up to \$100,000 for cash.

Investments that are not eligible for SIPC protection include commodity futures contracts and currency, as well as investment contracts (such as limited partnerships) and fixed annuity contracts that are not registered with the SEC.

SIPC insurance does not protect investors against stock market risk or broker fraud (such as deceptive selling). Market risk, of course, is a normal part of trading securities. Fraudulent activity, such as deceptive selling schemes, falls under federal and state securities laws, therefore, the SIPC is not involved.

What Happens

When a brokerage firm fails that owes customers cash and securities, SIPC usually asks a federal court to appoint a trustee to liquidate the firm and protect the customers.

Typically, the SIPC calculates the value of a customer's account as of the date the SIPC files for court protection, which may be higher or lower, due to market fluctuations, than when the broker actually closed its doors.

When the SIPC steps in, customers get back all securities that already are registered in their name or are in the process of being registered. Then, the remaining customer assets are divided on a pro rata basis, with funds shared in proportion to the size of claims. If sufficient funds are not available in the firm's customer accounts to satisfy the claims, reserve SIPC funds are used to supplement the distribution up to the SIPC coverage limit (\$500,000 per customer, including a maximum of \$100,000 for cash claims).

Wherever possible, the actual stocks and other securities owned by a customer are returned to him or her. SIPC's reserve funds are used, if necessary, to purchase replacement securities (such as stocks) in the open market.

Most customers can expect to receive their property in one to three months. When the records of the brokerage firm are accurate, deliveries of some securities and cash to customers may begin shortly after the trustee receives the completed claim forms from customers, or even earlier if the trustee can transfer customer accounts

to another broker-dealer.

Delays of several months usually arise when the failed brokerage firm's records are not accurate. It also is not uncommon for delays to take place when the troubled brokerage firm or its principals were involved in fraud.

Your Claim: Keep Good Records!

If your brokerage firm fails, you will need to fill out a claim form, which will include a description of the cash and securities that are owed to you. The court-appointed trustee will compare what you claim against the books and records of the brokerage firm.

SIPC and court-appointed trustees assume that the brokerage firm's records are accurate. However, there are instances of mistakes in brokerage firm records.

For your own protection, it is important to keep copies of trade confirmations, as well as your latest monthly or quarterly statement of account from your brokerage firm. If you ever discover an error in a confirmation or statement, you should immediately bring it to the attention of the brokerage firm in writing, and you should keep a copy of your correspondence. If there is something wrong with the brokerage firm's records of your account, you will have to prove that, or SIPC and the trustee will assume that the firm's records are accurate.

Checking for SIPC Membership

Keep in mind that SIPC only protects broker-dealer customers as long as the broker-dealer is an SIPC member.

You should be aware that some SIPC members have affiliated or related companies that are not members of SIPC, some of who have names that are similar to the name of the SIPC member. Be sure you receive written confirmation of each securities transaction in your securities account with the SIPC member, and that each confirmation statement and each statement of account is issued by the SIPC member and not by a non-SIPC affiliate.

Note in particular that when you are checking out a broker and asking about SIPC coverage, 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, since the clearing firm is the entity that actually holds your cash and securities.

To make sure you are dealing with an SIPC member, look for the words "Member SIPC," which appear in all signs and ads of SIPC members.

If you have a question as to whether or not a particular firm is a member of the SIPC, you can call the SIPC Membership Department at 202/371-8300 or visit the SIPC Web site at www.sipc.org.

Know the Deal on Cash Sweeps

Your money should be working for you even if you are temporarily parked in “cash” at your brokerage firm.

Brokers differ on their cash balance offerings. Some offer to sweep cash balances into money market mutual funds, while others offer sweeps into accounts that are deposited in an affiliated or third-party bank, and some offer several choices.

The primary point to keep in mind is that your brokerage firm has no obligation to seek the highest rates available when it comes to the cash in your sweep account. In fact, your brokerage firm may receive payments for introducing your cash sweep account to a bank, which may, in turn, pay a lower interest rate on your funds.

To protect your investment dollars, the New York Stock Exchange suggests you ask these questions concerning the cash sweep account:

What choices are available for cash balances?

You should compare the rates available on common money market instruments, including short-term and long-term money funds, certificates of deposit or Treasury bills and notes, as well as the bank deposit sweep program that may be offered by your brokerage firm. You should also inquire if your brokerage firm offers choices for cash sweeps that include money market alternatives, and compare the benefits of having your cash balances swept to a bank (for instance, possible FDIC insurance coverage) versus the money market alternatives (possibly higher rates).

Are these introductory rates and, if so, what is the longer-term rate?

Some firms offer an inducement to sign on to a new program with “tester” rates of limited duration.

If my funds are being swept into a bank deposit account, whom do I call to gain access to these funds?

Because some brokerage firms have arrangements with banks that allow recordkeeping to be done by the brokerage firm, the bank may not know the name of individual customers. So, ask your broker or customer service representative—especially when you open the account or at the inception of the bank deposit arrangement.

How long will it take to obtain my funds?

The length of time will vary according to your brokerage firm.

Does my brokerage firm need my consent to move my cash balance from one investment to another?

Some brokerage firms have contractual language in their customer agreement—that may have been signed before implementation of a new program or changes to an existing program—that gives the firm the authority to adopt or amend the cash sweep plan without further consent from the customer. Often, disclosure of changes to existing plans may be made through newsletters, statement stuffers or similar mass-mailed documents. If you wish to revoke your consent to a bank sweep, talk to your broker or customer service representative.

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calculations throughout the year and makes it easier for investors to spot and select specific tax lots when buying or selling shares to recognize maximum or minimum gains or losses. Some discount brokerage firms will also allow you to select specific shares when trading on-line.

Web Services

Discount brokers that maintain a Web site may provide services to customers through the Internet, whether or not they offer on-line trading. Several brokers in our guide offer tax lot

accounting software or tools on their sites so that customers can track the tax status of trades on their computers. Three-quarters of the discounters allow customers to download portfolio account information from their sites for use in software programs. However, several only offer tax lot tools or portfolio downloading to customers who place all their trades on-line; these are footnoted in the listing.

An additional feature of brokers with a presence on the Internet is the availability of research reports on companies. 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 47 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 2007 issue of AAI's *Computerized Investing* publication. ▲

Jean Henrich is managing editor at AAI and Maria Crawford Scott is editor of the AAI Journal. Cara Scatizzi provided research assistance.