

DISCOUNT BROKER GUIDE:

THE MUTUAL FUND SUPERMARKET

By John Markese

This year, 26 discount brokers offer selected mutual funds with no transaction fees attached. That means you can buy or sell from different fund families all through one broker, saving time and paperwork.

Discount brokers are tripping over each other to offer no-fee, no-transaction-cost mutual fund supermarkets: This year the survey tallied 26 discount brokers that levy no brokerage fees for buying and selling a select list of mutual funds.

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

There are some negatives, however.

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

NO-TRANSACTION-FEE DISCOUNTERS

Table 1 lists the discount brokers that offer no-transaction-fee funds. The number and mix of funds offered by each firm is growing rapidly. This year TD Waterhouse Securities is at the top of the list with 8,593 no-transaction-fee funds offered.

Another measure of offering depth is the number of different fund families participating in the broker's no-transaction-fee program. Again, TD Waterhouse leads in no-transaction-fee fund families with 408 choices; second is Bidwell & Co. with 350 no-transaction-fee fund families. Some of these brokers list up to 600 total fund families among those offered both with and without transaction fees.

THE FEES

If you do incur a transaction fee, just how expensive is it? Table 1 lists the minimum transaction fees for each broker; they range from a low of \$19.95 to a high of \$75.00. But these discounters also have maximum transaction fees and different break points in steps from the minimum to the maximum charge. Some have a sliding scale as a percentage of the trade value. These discount brokerage firms have brochures and Web pages explaining their mutual fund programs, including transaction fees. All seem to have some unique pricing structures, requirements, minimums, etc. It pays to read the descriptions.

The minimum purchase amount is usually the higher of the broker-imposed

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

Broker	No-Transaction-Fee Funds			Transaction Fee Funds			Min. Purchase Amt. (\$)	Switching in NTF Network	
	Funds Offered	No-Load Funds Offered	Fund Families	Funds Offered	Fund Families	Min. Trans. Fee (\$)		Min. Switch Fee (\$)	Free Switching Restrictions
Accutrade	6,518	608	281	1,630	237	27.00	200		6 mos.
American Express Brokerage	2,525	956	188	258	14	39.95	2,000		180 days
Banc of Amer. Investment Servs	3,500	352	31	1,500		40.00	0		90 days
Bidwell & Co.	5,000	900	350	1,000	125	25.00	0		90 days
Charles Schwab	1,667	1,667	268	1,365	136	39.00	2,500		180 days
DLJdirect Inc.	989	878	107	2,012	316	35.00	1,000		6 mos.
Dreyfus Brokerage Services	421	421	41	878	62	20.00	0	35.00	180 days
Dreyfus Lion Account	5,082	902	97	3,014	387	35.00	5,000		6 mos.
E*Trade Securities	1,250+	1,250+	125+	3,800+	250+	24.95	0		90 days
Fidelity Brokerage Services	1,100+	1,100+	150+	3,282	266	75.00	2,500	75.00	180 days
Firsttrade Securities, Inc.	620	620	64	3,314	306	19.95	0	19.95	30 days
Freeman Welwood	3,300	300	84	921	101	34.00	2,000	25.00	90 days
InvesTrade	2,000	600	55	2,000	40	29.00	0		91 days
Morgan Stanley Dean Witter Online	5,428	871	181	241	16	39.00	0		30 days
Muriel Siebert & Co.	6,572	1,132	120	1,304	250	35.00	0		90 days
National Discount Brokers	8,211	886	300	2,117	300	20.00	0		6 mos.
Peremel & Co.	7,500+	1,600+	100+	7,500+	200+	25.00	0		none
Quick & Reilly	2,200	600	27	400	56	25.00	0	25.00	180 days
SureTrade	2,200	600	27	400	56	25.00	0	25.00	180 days
T. Rowe Price Brokerage	4,522	537	63	596	64	35.00	5,000		90 days
TD Waterhouse Securities	8,593	1,386	408	956	93	24.00	0	24.00	varies
USAA Brokerage Services	578	578	60	510	32	40.00	2,000	40.00	90 days
Vanguard Brokerage Services	870	870	85	1,700	235	35.00	5,000		1 year
Wachovia Investments	706	706	91	1,524	266	40.00	1,000	75.00	6 mos.
York Securities	5,000	3,000	317	0	0	—	0		30 days
Your Discount Broker	913	913	96	5,600	500	35.00	0		6 mos.

* For primarily on-line firms, discount does not apply

** Research Key: L = Lipper, M = Morningstar, S = Standard & Poor's, T = Thomson, V = Value Line

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

Switching within the no-transaction-fee network has even more rules unique to each broker, so keep that description handy. Table 1 lists any

minimum switch fees along with how long shares must be held to qualify for a free switch. Ninety-day and six-month minimum holding periods are common as a free switching restriction, but not standard.

ON-LINE ACCESS AND TRADING

Table 1 also details the on-line mutual fund services offered by these discount brokers. Discount brokers are encouraging electronic access and trading directly through on-line services and the Internet. Internet

trading is now available for all but one of these discounters and a few offer discounts for trading on-line. As noted in the table, some firms do most of their business on-line; in these cases, a discount would not apply.

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

On-Line Mutual Fund Services

Trading Discount*	Account Balance	Data Source	Screening		Free Research**	Internet Address	Telephone Number
			Funds	Data Points			
	✓	Morningstar	11,381	11	M	www.accutrade.com	800/494-8946
prim. on-line	✓				S	www.americanexpress.com/trade	800/297-8800
10%	✓	Standard & Poor's	352	25		www.bankofamerica.com/investments	800/926-1111
	✓				L, M, S, V	www.bidwell.com	800/547-6337
20%	✓	Schwab	10,000	2	M	www.schwab.com	800/435-4000
prim. on-line	✓	Lipper	7,306	9	L, S, T	www.dljdirect.com	800/825-5723
prim. on-line	✓	Thomson	1,299	29	T	www.edreyfus.com	800/421-8395
na						www.dreyfus.com	800/843-5466
prim. on-line	✓	Morningstar	5,000	104	M	mutualfunds.etrade.com	800/786-2575
prim. on-line	✓	Fidelity	4,100	12	M	www.fidelity.com	800/544-8666
prim. on-line	✓	Stockpoint	10,000+	17	V	www.firsttrade.com	800/869-8800
10%	✓	Thomson		11	L, T	www.freemanwelwood.com	800/729-7585
prim. on-line	✓	Morningstar	6,000+	10	M	www.investrade.com	888/969-2947
prim. on-line	✓	Stockpoint	4,370	18	V	www.msdownline.com	800/688-6896
	✓	Morningstar	11,381	10	M, S	www.siebertnet.com	800/872-0666
prim. on-line	✓	Stockpoint	10,000+	27		www.ndb.com	800/888-3999
	✓	Morningstar	3,000	50		www.peremel.com	800/666-1440
	✓	Lipper	3,100	50	L	www.quickandreilly.com	800/533-8161
prim. on-line	✓	Lipper	3,100	50	L	www.suretrade.com	
	✓	Morningstar	4,522	9	M	www.troweprice.com	800/222-7002
prim. on-line	✓	INVESTools	5,030	5	M	www.tdwaterhouse.com	800/934-4448
15%	✓	Value Line	6,300	15	V	www.usaa.com	800/531-8343
	✓	Vanguard	2,600+	7	M	www.vanguard.com	800/992-8327
	✓					www.wachovia.com	800/922-9008
	✓					www.yorktrade.com	800/221-3154
	✓					www.ydb.com	800/800-3215

for quick first looks and comparisons.

THE BOTTOM LINE: CONVENIENCE

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

Add to this the on-line features most supermarkets offer and it is

easy to explain the interest. For some, convenience and service may be more important than cost, while others will want a pure no-transaction-fee service.

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

For More Information

To find out more about these and other discount brokers, visit our Web site at www.aaii.com. In the **Special Reports** section on the right-hand side of the home page, you'll find a link to our annual **Discount Broker Survey**.

- See how stock commissions stack up
- Compare the services offered
- Check member ratings of individual brokers
- Add your opinion of discounters you've tried