

2005

Stocks at a Discount: AAII's Annual Broker Firm Survey

By Jean Henrich

Any shopper knows that discounters can mean big savings. And that applies even when it is investments that you are adding to your cart.

Investment costs quickly add up if you are not paying close attention. Shopping around for the best value when buying and selling securities can help you keep investment costs under control right from the start. By bargain-hunting among the discount brokers, do-it-yourself investors can realize significant savings.

To help, AAIL 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 getting the best bargain for the amenities you need.



This year's survey covers 57 firms that refer to themselves as discount, 47 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 deter-

mined. 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

Contents

Hot Links: How to Check Out a Broker.... 16

AAII Broker Survey:

How the Most Popular Rank..... 17

Discount Broker Listing 18

Judging a Firm by the

Statements They Make 23

SIPC: What Does It Cover? 24



How to Check Out a Broker

There are numerous Web sites you can visit to find information about a particular broker. However, they fall into two camps: Those that provide disciplinary information about a broker or firm, and those 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.

National Association of Securities Dealers (NASD)

www.nasd.com

Under Top Links on the left-hand side of the NASD home page, click on the 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. It also includes disciplinary and disclosure information reported by regulators. Information that has not been reported, 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 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.

BROKER RATINGS

AAII

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 Member Surveys area and scroll down to the 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) to define the elements of quality in the delivery of Internet-based services, measured by how long it takes to navigate a Web site and how frequently that process is impeded by errors.

At Gomez.com, click on the Performance Strategies tab and select Benchmarking. From the pull-down Benchmarks menu, select US Brokerage GPI. The Broker GPI Benchmark presents the top eight firms rated by response time and success (lack of errors) rate.

J.D. Power and Associates

www.jdpower.com

You can choose between two Customer Satisfaction surveys conducted in July of 2004, one covering 13 on-line brokerage firms and the other covering 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 on the Consumer Site, then the Finance/Insurance section.

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 10 major brokerage Web sites.

At the home page, in the right-hand column look under Web Watch, and under the Performance Indices select Broker Trading.

Kiplinger.com

www.kiplinger.com

The Kiplinger broker survey compares 11 large brokerage firms. Ratings are based on a variety of elements including commissions and fees, broker responsiveness and knowledge, mutual fund programs, and Web site ease and usefulness.

In the left-hand column at the opening page, click on Tools and under Top Tools click on the Who's the Best Online Broker? link.

AAIL Broker Survey: How the Most Popular Rank

The Member Surveys area of AAIL.com offers AAIL members the opportunity to voice their opinion on the discount brokers they use. The table below provides rankings for the nine most popular brokers—those for whom we received 20 or more member responses during 2004. We determined a rating for each broker based on member responses, and then ranked the brokers based on their rating. 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 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 price ranking, the key factor members used to choose a broker.

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
BrownCo	1	1	4	3	4	1
Scottrade, Inc.	2	3	5	2	6	2
Fidelity Brokerage Services	3	2	1	1	1	3
Harrisdirect	4	4	9	7	8	8
E*Trade Financial	5	6	8	8	9	7
Ameritrade	6	8	6	6	5	4
TD Waterhouse	7	7	7	4	7	6
Vanguard Brokerage Services	8	9	2	9	2	9
Charles Schwab	9	5	3	5	3	5

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 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 27 that consider themselves primarily on-line are designated by the symbol [i] 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 cer-

tain 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.

(continued on page 22)

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	Req. Trades				
888/229-2853	A.B. Watley Direct	🌐	9.95	0.20	9.95	0.04	9.95	0.20	9.95	9.95	0.03	no limit		✓	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 (\$2,000)	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	1,000	✓			Sweep	75
800/669-3900	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)	50
800/321-1640	Baker & Co.		40.00	0.80	80.00	0.32	85.00	1.70	40.00	na	na	na	✓	✓		Sweep	75
800/926-1111	Banc of America Inv't Servs.		54.00	1.08	154.50	0.62	88.50	1.77	45.00	24.95	0.09	1,000			1,000	Sweep	75
888/326-2347	🌐 Banc One Securities Corp. 🌐		88.00	1.76	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
866/232-4488	Cambridge Discount Brok		30.00	0.60	30.00	0.12	30.00	0.60	30.00	15.00	0.06	50,000		✓		Sweep (\$25)	50
800/435-4000	Charles Schwab		80.00	1.60	170.00	0.68	130.00	2.60	54.95	19.95	0.07	1,000			10,000	Interest (\$100,000)	95
800/292-6637	Consolidated Finan'l Invest		35.00	0.70	45.00	0.18	89.50	1.79	35.00	na	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
888/283-2407	CyberTrader	🌐	29.95	0.60	29.95	0.12	29.95	0.60	22.95	9.95	0.03	5,000		✓	5,000	Sweep	
800/780-3543	Downstate Securities Group		40.00	0.80	55.00	0.22	105.00	2.10	40.00	20.00	0.08	no limit				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	19.95	0.07	1,000	✓	✓	2,500	Sweep	
800/687-3800	First Financial Equity Corp.	🌐	42.00	0.84	42.00	0.17	42.00	0.84	42.00	31.95	0.12	no limit				Sweep	50
888/988-6168	Firstrade 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	🌐	59.95	1.20	59.95	0.24	79.95	1.60	49.95	19.95	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)	
800/327-1883	InvestIN Securities Corp.	🌐	8.00	0.16	10.00	0.04	10.00	0.20	10.00	6.00	0.02	400		✓	1,000	Sweep	
800/498-7120	Investrade Discount Sec.	🌐	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	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	na		✓		Sweep	60
800/221-3305	Marquette de Bary Co.		50.00	1.00	146.43	0.59	91.85	1.84	50.00	na	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	🌐	1.00	0.02	5.00	0.02	12.50	0.25	1.00	5.00	0.02	na			2,000	Sweep (\$2,000)	5
800/737-3635	Mercantile Brokerage Servs.†		38.00	0.76	50.00	0.20	95.00	1.90	38.00	18.00	0.07	2,000			2,000	Sweep	50
800/621-2627	Mongerson & Co.		35.00	0.70	95.00	0.38	96.00	1.92	30.00	na	na	na	✓	✓		Sweep (\$100)	15
800/424-3934	MTDirect	🌐	9.99	0.20	9.99	0.04	9.99	0.20	9.99	9.99	0.03	5,000		✓	3,000	Interest (\$1)	5
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
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	50
888/280-8020	optionsXpress	🌐	14.95	0.30	14.95	0.06	30.00	0.60	14.95	14.95	0.05	1,000		✓		Sweep	

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 Peremel & Co.








Fees			Other Securities Handled				Services						Internet Services			
Shares in Name (\$)	Inactive Account (\$)	Low Balance (When Levied) (\$)	Research	No-Load Mutual Funds	Bonds	Options	Self-Directed IRA 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	Internet Address http://
25	25/mo.			✓ (\$)	✓	✓	✓	35						✓	✓	www.abwatley.com
			Standard	✓ (\$)	✓	✓	✓				✓	✓		✓	✓	www.accutrade.com
15			Standard	✓	✓	✓	✓	40	✓		✓	✓		✓	✓	www.americanexpress.com/trade
40		15/qtr. (<\$2,000❖)		✓ (\$)	✓	✓	✓			✓	✓	✓	✓	✓	✓	www.ameritrade.com
			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
75				✓	✓	✓	✓			✓						www.cambridge-discount.com
50		45/qtr. (<\$10,000)	Both (\$)	✓	✓	✓	✓	50	✓		✓	✓	✓	✓	✓	www.schwab.com
25			Standard	✓ (\$)	✓	✓	✓	35	✓					✓		www.cfii.org
			Standard	✓ (\$)	✓	✓	✓	30	✓					✓	✓	www.cutterco.com
	25/mo.		Custom			✓	✓	35						✓	✓	www.cybertrader.com
20			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	35/yr.		Standard	✓ (\$)	✓	✓	✓	35	✓						✓	www.ffec.com
25				✓	✓	✓	✓			✓		✓	✓	✓	✓	www.firsttrade.com
50					✓	✓	✓	40	✓					✓	✓	www.freedominvestments.com
15		15/qtr. (<\$10,000❖)	Custom	✓	✓	✓	✓	35	✓			✓		✓	✓	www.harrisdirect.com
na	10/mo.				✓	✓	✓				✓			✓		www.interactivebrokers.com
15	13/qtr.			✓ (\$)	✓	✓	✓	25	35	✓						www.directaccesselite.com
25			Standard	✓	✓	✓	✓			✓		✓	✓	✓	✓	www.investrade.com
25	50/yr.		Standard	✓	✓	✓	✓	25	✓							jdseibertandco.com
20			Standard	✓ (\$)	✓	✓	✓	35	✓			✓	✓	✓	✓	www.jhdarbie.com
25	50/yr.		Both	✓	✓	✓	✓	25	✓							www.lanterninvestments.com
	50/yr.		Standard	✓ (\$)	✓	✓	✓	25	40	✓						www.debary.com
			Both	✓	✓	✓	✓	35	✓						✓	www.maxule.com
50				✓ (\$)	✓	✓	✓	35							✓	www.mbtrading.com
20	20/yr.		Standard	✓	✓	✓	✓	35	✓			✓	✓	✓	✓	www.mercbrokerage.com
	35/yr.		Standard	✓ (\$)	✓	✓	✓	35	✓							
25	25/yr.			✓ (\$)		✓	✓	35						✓	✓	www.mastertrader.com
			Standard	✓	✓	✓	✓	30	✓			✓	✓	✓	✓	www.siebertnet.com
25				✓ (\$)		✓	✓							✓		www.mytrack.com
25	20/6 mos.	20/6 mos. (<\$2,500)	Standard	✓	✓	✓	✓			✓		✓		✓	✓	www.netvest.com
15				✓ (\$)	✓	✓	✓	25	45	✓				✓	✓	www.mytradz.com
25			Standard	✓ (\$)	✓	✓	✓							✓	✓	www.optionsxpress.com

Diamond ❖ denotes that fee is waived for active accounts.


See pages 20 and 21 for footnotes concerning the headings.

Continued on next page

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				
800/444-5880	 Perelman-Carley & Assoc.	9.00	0.18	9.00	0.04	9.00	0.18	9.00	na	na	na				Interest (\$5)	50
888/889-9178	Preferred Trade 	9.95	0.20	9.95	0.04	9.95	0.20	9.95	9.95	0.03	5,000		✓	5,000	Sweep	50
800/782-8871	Prestige Status	29.50	0.59	29.50	0.12	29.50	0.59	29.50	na	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	0.04	no limit	✓	✓	2,000	Sweep	50
800/728-1266	Saturna Brokerage Servs.	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, Inc. 	29.00	0.58	37.00	0.15	67.00	1.34	27.00	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	14.95	0.05	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	60
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	na		✓		Sweep (\$1)	60
800/782-1522	Sterling Investment Servs.	45.00	0.90	125.00	0.50	80.00	1.60	40.00	na	na	na	✓	✓		Sweep	50
800/225-6196	StockCross Financial Servs.	29.00	0.58	29.00	0.12	29.00	0.58	29.00	20.30	0.08	2,000		✓		Interest (\$3,000)	
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	1,000,000	✓	✓		Interest (\$1)	60
800/992-8327	Vanguard Brokerage Servs. *	50.00	1.00	70.00	0.28	145.00	2.90	45.05	25.00	0.10	1,000	✓	✓	3,000	Sweep	
800/872-3377	Wells Fargo Investments, LLC 	69.95	1.40	69.95	0.28	84.95	1.70	69.95	19.95	0.07	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		37.21	0.74	59.77	0.24	62.78	1.26	33.90	20.54	0.08						
Highest		88.00	1.76	195.00	0.78	250.00	5.00	75.00	156.00	0.62						
Lowest		1.00	0.02	5.00	0.02	9.00	0.18	1.00	5.00	0.02						

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

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	
35				✓ (\$)	✓	✓	✓	25			✓					www.pcastocks.com
25	35/yr.					✓	✓		30		✓					www.preferredtrade.com
					✓	✓	✓	45	45	✓						www.prestigestatus.com
25			Standard	✓ (\$)	✓	✓	✓			✓		✓	✓	✓	✓	www.eregal.com
				✓ (\$)	✓	✓	✓		25	✓				✓	✓	www.saturna.com
40				✓	✓	✓	✓				✓	✓		✓	✓	www.scottrade.com
25	50/yr.		Standard	✓ (\$)	✓	✓	✓		25					✓	✓	www.seaportsecurities.com
35	50/yr.		Standard	✓ (\$)	✓	✓	✓			✓				✓		www.securitiesresearch.com
25	50/yr.		Standard	✓	✓	✓	✓		35	✓		✓	✓	✓		www.statediscountraders.com
40	50/yr.			✓ (\$)	✓	✓	✓		40	✓				✓		www.sloansecurities.com
25	50/yr.		Standard	✓ (\$)		✓	✓		25	✓		✓	✓			www.stldiscount.com
25	30/yr.		Standard	✓ (\$)	✓	✓	✓		35	✓						
20	50/yr.			✓ (\$)	✓	✓	✓			✓	✓			✓	✓	www.stockcross.com
15	25/yr.			✓	✓	✓	✓		25	✓		✓	✓	✓	✓	www.troweprice.com
25	25/qtr.		Standard	✓	✓	✓	✓		25	✓	✓	✓	✓	✓	✓	www.tdwaterhouse.com
30	60/yr.			✓ (\$)	✓	✓	✓							✓	✓	www.tradingdirect.com
			Standard	✓	✓	✓	✓			✓		✓	✓	✓	✓	www.vanguard.com
25	15/qtr.		Standard	✓	✓	✓	✓		30	✓	✓	✓	✓	✓	✓	www.wellsfargo.com
25			Custom	✓	✓	✓	✓		24	✓				✓	✓	www.wrhambrecht.com
25	60/yr.		Standard	✓	✓	✓	✓			✓				✓	✓	www.yorktrade.com

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)

- 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 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 two 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. (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 num-

ber 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.** 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 System.** Less than half 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 (**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

Judging a Firm by the Statements They Make

The AAI 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—and include 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.

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?



Account Information

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.

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 allocation, 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.

Account Activity (Transaction Details)

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

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.

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.

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 2005 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.

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.

SIPC coverage does not include unregistered investment contracts (such as limited partnerships), commodity futures contracts and currency, or options.

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.

What Happens

When the SIPC steps in, customers of a failed brokerage firm get back all securities (such as stocks and bonds) that already are registered in their name or are in the process of being registered. After this first step, the firm's remaining customer assets are then 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 claims within these limits, the reserve funds of SIPC are used to supplement the distribution. Additional funds may be available to satisfy the remainder of customer claims after the cost of liquidating the brokerage firm is taken into account.

In a failed brokerage firm with accurate records, the court-appointed trustee and the SIPC may arrange to have some or all customer accounts transferred to another brokerage firm. Customers whose accounts are transferred are notified promptly and then have the option of staying at the new firm or moving to another brokerage of their choosing.

Checking for SIPC Membership

The words "Member SIPC" 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.

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. 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.

Jean Henrich is managing editor at AAI.