2006 Hunt for the Best Deal Using AAII's Discount Broker Guide

By Jean Henrich

In the discount broker jungle, bargains still abound for investors who can spot them. AAII's 2006 Guide to Discount Brokers indicates that commissions are continuing to drop. The average commission for a broker-assisted $5,000 trade (100 shares at $50/share) totaled 0.68% of the trade, compared to 0.74% for last year's survey; the average commission for a broker-assisted $25,000 trade (500 shares at $50/share) totaled 0.22% of the trade, down slightly from last year's 0.24%.

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 Charles Schwab (1.6% for the $5,000 trade) and Max Ule (0.78% for the $25,000 trade).

With competition fierce among discounters, bargain-hunting investors can easily miss their target. To help guide you through the jungle of offers, AAII's annual survey of discount brokerage firms can help you capture the best deal.

Comparing the commissions charged among the discounters, as well as their other fees and services, can help you ensure you are getting the best deal for the amenities you need. And by bargain-hunting among the discount brokers, do-it-yourself investors can realize significant savings.

This year's survey covers 55 firms that refer to themselves as discount, 46 of which offer on-line trading. The number has dropped from 57 firms last year due to consolidation within the industry. Most notably, BrownCo and Harrisdirect were purchased by E*Trade and no longer appear separately in our listing.

What does the listing cover?

Contents

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,

AAII Broker Survey: How the Most Popular Rank

USAA Brokerage is the top-rated brokerage firm on AAII.com in terms of trade price and execution speed, according to our Member Broker Survey for 2005. However, USAA is not among the more widely used firms, and the firm declined to participate in AAII's 2006 discount broker guide.

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

The Member Surveys area of AAII.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 11 most popular brokers—those for whom we received 25 or more member responses during 2005. 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.

	How Broker Ranks Relative to Others in Terms of:						
			Reliability		Overall Satisfaction		
Broker	Trade Price	Execution Speed	Broker-Asst. Trades	Electronic Trades	Broker-Asst. Trades	Electronic Trades	Usage by Respondents (%)
USAA Brokerage*	1	1	1	1	1	1	2.1
BrownCo**	2	4	3	6	3	6	6.5
Scottrade, Inc.	3	5	8	5	9	5	21.5
Interactive Brokers	4	6	11	8	11	9	2.3
Fidelity Brokerage Services	5	2	2	3	2	4	14.0
Vanguard Brokerage Services	6	7	9	2	6	3	3.1
Charles Schwab	7	9	4	7	4	7	14.5
Harrisdirect**	8	3	6	4	7	2	2.8
E*Trade Financial	9	10	10	9	10	11	3.2
Ameritrade	10	8	7	11	8	10	8.6
TD Waterhouse	11	11	5	10	5	8	10.5

** Declined to participate in Discount Broker Guide.*
*** Bought by E*Trade in 2005.*

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

(continued on page 20)

Hot Links

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 Insurance Protection Corp.)—for more on this see the box on page 25.

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

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

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

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 Investor Surveys section under Tools in the left-hand column, and then click on 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). At Gomez.com, click on the Performance Strategies tab and select Benchmarking, then go to Performance Benchmarks and 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

Two Customer Satisfaction surveys conducted in 2005 cover nine on-line brokerage firms and 10 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, go to the Performance Indices link and then click on Keynote Broker Web Transaction Performance Index.

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. At the main page, go to the Personal Finance section, then click on Tools, and under the Top Tools section click on Find an Online Broker.

Discount Broker Guide

				COMMISSIONS												CASH BALANCES				FEES				
				Broker-Assisted							On-Line			Discounts		Automatic Sweep								
				100 Shares at $50/Share ($5,000)		500 Shares at $50/Share ($25,000)		2000 Shares at $5/Share ($10,000)			500 Shares at $50/Share ($25,000)													
Telephone	Brokerage Firm		Minimum to Open an Account ($)	($)	as % of Trade	($)	as % of Trade	($)	as % of Trade	Overriding Minimum ($)	($)	as % of Trade	Maximum Number of Shares at Flat Rate	Account Size	Frequent Trades	Money Markey Fund	Bank Account	Money Market Fund Available	Minimum ($)	Transfer Account ($)	Register Shares in Name ($)	Inactive Account ($)	Low Balance Fee ($)	
888/229-2853	A.B. Watley Direct	🌐	5,000	9.95	0.20	9.95	0.04	9.95	0.10	9.95	9.95	0.04	no limit		✓	✓				25	25	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	✓	✓	✓			2,000	50				
800/669-3900	Ameritrade	🌐	2,000	24.99	0.50	24.99	0.10	24.99	0.25	24.99	10.99	0.04	no limit				✓			50	40		15/qtr.	$2
800/321-1640	Baker & Co.			40.00	0.80	80.00	0.32	85.00	0.85	40.00	na	na	na	✓	✓		✓	✓	500	35	80	35/yr.	35/yr.	$10
800/926-1111	Banc of America Inves't Serv			42.50	0.85	42.50	0.17	42.50	0.43	42.50	14.00	0.06	no limit	✓	✓	✓				75	25		50/6 mos.	$50
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	✓	✓	✓				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		✓		✓	✓		50	75			
800/435-4000	Charles Schwab	🌐	2,500	80.00	1.60	170.00	0.68	140.00	1.40	54.95	19.95	0.08	1,000	✓	✓		✓	✓	500,000	95	50		30/qtr.	$
800/292-6637	Consolidated Financial Inves'ts			35.00	0.70	45.00	0.18	89.50	0.90	35.00	na	na	na	✓	✓	✓				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	✓	✓	✓			500	75				
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		✓	✓						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	✓	✓		✓			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	✓	✓		✓	✓		60	40		40/qtr.	$10
800/343-3548	Fidelity Brokerage Servs, LLC	🌐	2,500	55.00	1.10	111.00	0.44	321.00	3.21	55.00	19.95	0.08	na	✓	✓	✓					15			
888/781-0283	Fimat Preferred, LLC†	🌐	5,000	9.95	0.20	9.95	0.04	9.95	0.10	9.95	9.95	0.04	5,000		✓	✓				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			✓				75	25	75/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			✓				50	25	35/yr.		
888/988-6168	Firstrade Securities	🌐		26.95	0.54	26.95	0.11	26.95	0.27	26.95	6.95	0.03	no limit			✓				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			✓				75	50			
877/442-2757	Interactive Brokers, LLC	🌐	2,000	na	na	na	na	na	na	na	2.50	0.01	na				✓		10,000			10/mo.		
800/327-1883	InvestIN Securities Corp.	🌐	2,000	8.00	0.16	10.00	0.04	10.00	0.10	10.00	6.00	0.02	400		✓		✓	✓	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	✓	✓	✓				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	✓	✓	✓				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	✓	✓	✓				25	20			
800/374-4212	Lantern Investments			45.00	0.90	60.00	0.24	75.00	0.75	45.00	na	na	na	✓	✓	✓				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	✓	✓	✓				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	✓	✓		✓	✓		90		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			✓			2,000	5	50			
800/737-3635	Mercantile Brokerage Services		2,000	38.00	0.76	50.00	0.20	95.00	0.95	38.00	18.00	0.07	2,000			✓				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	✓	✓	✓				15		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	5,000		✓	✓				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	✓	✓	✓			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		✓	✓				25	25			
800/961-1500	NetVest	🌐	2,000	24.00	0.48	24.00	0.10	24.00	0.24	24.00	14.00	0.06	no limit			✓			1,000	25	25	20/6mos.	20/6 mos.	$

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 Preferred Trade.

		OTHER SECURITIES HANDLED				SERVICES												AVAILABLE AT WEB SITE				
						Research				Self-Directed IRA					Touch-Tone Phone Trading							
	Low Balance Threshold	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	Internet Address
		✓($)	✓	✓	✓					✓		35					✓		✓	✓	✓	www.abwatley.com
		✓($)	✓	✓	✓		✓	✓		✓					✓				✓*	✓	✓	www.accutrade.com
r.	$2,000❖	✓($)	✓	✓	✓	✓	✓			✓			✓	✓	✓	✓	✓($)	✓	✓	✓	✓	www.ameritrade.com
r.	$10,000❖	✓($)	✓	✓	✓	✓	✓	✓		✓			✓				✓					www.bakernyse.com
os.	$50,000❖	✓	✓	✓	✓	✓		✓		✓		40	✓		✓	✓	✓		✓*	✓	✓	www.bankofamerica.com/investments
		✓		✓	✓			✓($)		✓		30	✓				✓		✓*	✓	✓	www.barrymurphy.com
		✓	✓	✓	✓					✓			✓				✓			✓		www.cambridge-discount.com
r.	$2,500	✓	✓	✓	✓	✓	✓	✓	✓	✓		50	✓	✓	✓	✓	✓	✓	✓	✓	✓	www.schwab.com
		✓($)	✓	✓	✓			✓		✓		35	✓				✓		✓	✓		www.cfii.org
		✓($)	✓	✓	✓	✓		✓		✓		30	✓							✓	✓	www.cutterco.com
					✓				✓	✓		35								✓	✓	www.cybertrader.com
		✓($)	✓	✓	✓	✓		✓		✓		45	✓		✓	✓	✓	✓*	✓*	✓	✓	www.downstate.com
r.	$10,000❖	✓	✓	✓	✓	✓				✓			✓	✓	✓		✓	✓	✓	✓	✓	www.etrade.com
		✓	✓	✓	✓	✓	✓	✓		✓			✓	✓	✓	✓		✓	✓	✓	✓	www.fidelity.com
					✓					✓		30		✓							✓	www.fimatpreferred.com
		✓($)		✓	✓			✓		✓							✓		✓	✓		www.1db.com
		✓($)	✓	✓	✓			✓		✓		35	✓						✓			www.ffec.com
		✓	✓	✓	✓	✓				✓			✓		✓	✓	✓	✓	✓	✓	✓	www.firstrade.com
					✓					✓		40	✓						✓	✓	✓	www.freedominvestments.com
			✓	✓	✓			✓	✓	✓				✓			✓($)		✓	✓		www.interactivebrokers.com
		✓($)	✓	✓	✓					✓	25	35	✓									www.directaccesselite.com
		✓	✓	✓	✓			✓		✓			✓		✓	✓	✓			✓	✓	www.investrade.com
		✓	✓	✓	✓			✓		✓		25	✓				✓($)		✓			jdseibertandco.com
		✓($)	✓	✓	✓	✓	✓	✓	✓	✓			✓		✓	✓	✓		✓	✓	✓	www.jhdarbie.com
		✓	✓	✓	✓	✓	✓	✓	✓	✓		25	✓				✓($)		✓			www.lanterninvestments.com
		✓($)	✓	✓	✓		✓	✓	✓	✓	25	40	✓				✓		✓			www.debary.com
		✓	✓	✓	✓	✓	✓	✓	✓	✓		35	✓				✓		✓		✓	www.maxule.com
		✓($)	✓	✓	✓					✓		35									✓	www.mbtrading.com
		✓	✓	✓	✓	✓		✓		✓		35	✓		✓	✓	✓	✓	✓	✓	✓	www.mercbrokerage.com
		✓($)	✓	✓	✓	✓	✓	✓		✓		35	✓				✓					
		✓($)	✓		✓					✓		35								✓	✓	www.mastertrader.com
		✓	✓	✓	✓	✓	✓	✓		✓		30	✓		✓	✓	✓	✓	✓	✓	✓	www.siebertnet.com
		✓($)	✓		✓					✓		35						✓	✓	✓		www.mytrack.com
nos.	$2,500	✓	✓	✓	✓			✓		✓			✓		✓	✓	✓		✓	✓	✓	www.netvest.com

Diamond ❖ denotes that fee is waived for active accounts.

See page 22 for explanations of the headings.

*on-line customers only.

Continued on next page

Telephone	Brokerage Firm	Minimum to Open an Account ($)	COMMISSIONS: Broker-Assisted: 100 Shares at $50/Share ($5,000) ($)	as % of Trade	500 Shares at $50/Share ($25,000) ($)	as % of Trade	2000 Shares at $5/Share ($10,000) ($)	as % of Trade	Overriding Minimum ($)	On-Line: 500 Shares at $50/Share ($25,000) ($)	as % of Trade	Maximum Number of Shares at Flat Rate	Discounts: Account Size	Frequent Trades	CASH BALANCES: Automatic Sweep: Money Markey Fund	Bank Account	Money Market Fund Available	Minimum ($)	FEES: Transfer Account ($)	Register Shares in Name ($)	Inactive Account ($)	Low Balance Fee ($)	
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			✓				50	15			
888/280-8020	optionsXpress 🌐		14.95	0.30	14.95	0.06	30.00	0.30	14.95	14.95	0.06	1,000		✓	✓					25			
800/444-5880	👎 Perelman-Carley & Assoc.		9.00	0.18	9.00	0.04	9.00	0.09	9.00	na	na	na							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			✓			2,000					
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	✓	✓	✓				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		✓	✓				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				✓				40			
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			✓				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	✓	✓	✓			25	60	35	50/yr.		
800/222-5520	Sherry Bruce's State Disc. Bkrs.		35.00	0.70	45.00	0.18	100.00	1.00	35.00	14.00	0.06	5,000	✓	✓		✓	✓		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				✓	✓	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	✓	✓	✓				50	25	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	✓	✓	✓				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	na	✓	✓	✓				35	15	30/yr.	30/yr.	$5
800/934-4448	TD Waterhouse 🌐	1,000	45.00	0.90	45.00	0.18	45.00	0.45	45.00	17.95	0.07	2,500	✓	✓		✓	✓		50	25	25/qtr.		
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	no limit	✓	✓		✓			60	30	60/yr.		
800/992-8327	Vanguard Brokerage Services†	3,000	50.00	1.00	70.00	0.28	145.00	1.45	45.05	25.00	0.10	1,000	✓	✓	✓								
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	✓		✓				50	50	15/qtr.		
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	✓	✓	✓				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	✓	✓	✓				60	25	60/yr.		
	Average		**33.77**	**0.68**	**54.09**	**0.22**	**63.58**	**0.64**	**31.51**	**20.21**	**0.08**												
	Lowest		**1.00**	**0.02**	**4.95**	**0.02**	**4.95**	**0.05**	**1.00**	**2.50**	**0.01**												
	Highest		**80.00**	**1.60**	**195.00**	**0.78**	**321.00**	**3.21**	**57.99**	**156.00**	**0.62**												

†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 16)

may vary for NASDAQ and over-the-counter stocks and orders placed using a non-market order (limit order). Forty-six of the discount brokers listed here offer trading through the Internet; the 27 that consider themselves primarily on-line 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 is offered, the account size and discount are negotiable between the broker and customer. Brokers

		OTHER SECURITIES HANDLED				SERVICES												AVAILABLE AT WEB SITE				
						Research				Self-Directed IRA					Touch-Tone Phone Trading							
…	Low Balance Threshold	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	Internet Address
		✓($)		✓	✓					✓	25	45	✓						✓*	✓	✓	www.mytradz.com
		✓($)	✓	✓	✓			✓		✓							✓($)	✓	✓	✓	✓	www.optionsxpress.com
		✓($)		✓	✓					✓	25			✓								www.pcastocks.com
		✓($)	✓	✓	✓					✓	45	45	✓									www.prestigestatus.com
		✓($)	✓	✓	✓			✓		✓			✓		✓	✓	✓			✓	✓	www.eregal.com
		✓($)	✓	✓	✓					✓		25	✓				✓			✓	✓	www.saturna.com
		✓	✓	✓	✓	✓				✓				✓	✓	✓	✓	✓*	✓*	✓	✓	www.scottrade.com
		✓	✓	✓	✓			✓		✓			✓						✓	✓	✓	www.seaportsecurities.com
		✓($)	✓	✓	✓			✓		✓			✓				✓($)		✓*	✓		www.securitiesresearch.com
		✓	✓	✓	✓			✓		✓			✓		✓	✓	✓	✓		✓		www.statediscountbrokers.com
		✓($)	✓	✓	✓					✓		40	✓							✓		www.sloansecurities.com
		✓($)	✓	✓	✓		✓	✓		✓		35	✓				✓		✓	✓		
		✓	✓	✓	✓			✓		✓		30	✓	✓					✓*	✓	✓	www.stockcross.com
r.	$50,000❖	✓	✓	✓	✓					✓		30	✓		✓	✓	✓	✓*	✓*	✓	✓	www.troweprice.com
		✓	✓	✓	✓	✓	✓	✓		✓		25	✓	✓	✓	✓	✓	✓	✓	✓	✓	www.tdwaterhouse.com
		✓($)	✓	✓	✓		✓	✓		✓			✓							✓	✓	www.tradeking.com
		✓	✓	✓	✓					✓			✓				✓($)		✓	✓	✓	www.tradingdirect.com
		✓	✓	✓	✓	✓	✓	✓		✓			✓		✓	✓	✓	✓	✓	✓	✓	www.vanguard.com
		✓	✓	✓	✓	✓		✓		✓		30	✓	✓	✓	✓	✓	✓	✓	✓	✓	www.wellsfargo.com
		✓	✓	✓	✓		✓		✓	✓		35	✓				✓($)		✓	✓		www.wrhambrecht.com
		✓	✓	✓	✓			✓		✓		50	✓							✓	✓	www.yorktrade.com

Diamond ❖ denotes that fee is waived for active accounts.

*on-line customers only

See page 22 for explanations of the headings.

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 ***Commision Discount***.
- Trades made using a touch-tone phone.

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

- Shares that are particularly low priced, such as stocks selling for under $5 a share.
- A small number of firms levy extra charges for odd lots (any number of shares less than 100—for instance, a sale of 553 shares consists of five round lots of 100 and an odd lot of 53 shares).
- A number of firms levy extra charges for non-market orders such as limit and stop orders.
- More brokers are charging extra for special handling, such as transfer-

(continued on page 23)

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.

ring 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.

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 25 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 brokers 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.*** 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 60% 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 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

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 2006 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 in a brokerage account statement?

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.

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.

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.

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.

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. Over half the discounters allow customers to ***download portfolio account information*** from their sites for use in software programs. However, a few 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 46 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 2006 issue of AAII'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, reserve SIPC funds 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 AAII. Alyna Johnson and Cara Scatizzi provided research assistance.