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2006 BROKER SURVEY

The Right Broker For You

By Megan Barnett and William Mauldin

As mergers change the broker landscape, choosing the best one is more important than ever. After hundreds of trades and countless clicks, we've run 21 brokers through their paces and ranked them on everything from stock picking to trading tools.

KEEN McHUGH DIDN'T CHOOSE TO GO to E*Trade—the choice was made for him in a corporate boardroom. He had spent several happy years with Harrisdirect, another discount brokerage, but in the latest round of the consolidation sweeping the discount broker industry, McHugh and thousands of other Harrisdirect customers instantly became customers of E*Trade one day in January.

With control of four accounts that hold assets in the seven-figure range, McHugh, of Charlotte, N.C., quali-

fied for cheap \$8 commissions at both brokerages. But he says the level of service he was used to at Harrisdirect suddenly disappeared. When he asked for the automatic dividend reinvestment to be halted in one of his accounts, he says, it took four e-mails and two telephone calls to complete his request. When he sought rebates promised him for trades in late January and early February, he had to look up his trade history and read it over the phone. "You send them an e-mail, and it's quicker watching girders rust than getting a reply from those people,"



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McHugh says. “I’m not going to put up with this kind of nonsense.” McHugh, a registered broker himself, plans to transfer his accounts to another firm.

McHugh isn’t the only investor running into problems as the discount broker industry goes through one of the biggest waves of mergers in the industry’s short history. In the fourth quarter of 2005 alone, mergers affected 3 million accounts and nearly half a trillion dollars in assets. The latest round of merger mania redrew the broker landscape: Ameritrade combined with TD Waterhouse to form TD Ameritrade, while E*Trade acquired Harrisdirect and then BrownCo. Transferring hundreds of thousands of accounts from one brokerage to another can be daunting, and the brokers going through mergers have taken heat from customers worried about glitches, poor service, and a new set of trading tools and commission levels.

Indeed, an annual survey from J.D. Power found that even though overall online-broker satisfaction was up slightly last year, each of the brokers involved in a merger had a lower score on the overall satisfaction index. Internet chat boards are packed with messages from angry customers grouching about being forced to switch firms.

Brokers argue that not everyone is losing out during the consolidation: For starters, the nearly \$2 trillion in accounts at Fidelity and Schwab comprises 80 percent of the cash in discount brokers, and neither company was involved in a merger. Even at E*Trade, President Jarrett Lilien says the Harris takeover was the rare “perfect storm”; the merger was complicated by everything from software bugs to a surging market to differences in the cultures of the two brokerages. “Harrisdirect had much higher service levels,” he says, “while E*Trade was more for the people who didn’t need much help.” Nor is the news for investors who do find themselves at a new firm all bad. Commissions at TD Ameritrade are now \$9.99, much cheaper than the \$17.95 for small investors at the old TD Waterhouse. Brown customers will soon be able to trade bonds online at E*Trade, which wasn’t possible at their old broker. Then there’s Warren Potas of Washington, D.C., who’s used Waterhouse for years, enduring a Web site that works so poorly on his Macintosh he has to go to another site to get stock quotes. Potas says he is looking forward to trading from Ameritrade’s platform and gaining access to a new set of tools.

Still, the picture may get worse before it gets better. Some industry experts say the current round of consolidation is just heating up. Joe Moglia, CEO of TD Ameritrade, told SMARTMONEY he expects to see only three large discount brokerages left when the mergers are finished.

What do all these changes mean for the consumer? The bottom line is that you may have to shop around—better that *you* choose a broker rather than allowing a merger to make the choice for you. That’s where our survey comes in. We opened accounts at 14 brokers, where we bought and sold big stocks, little stocks, corporate bonds and covered calls. We pestered customer-service centers by phone and e-mail to see whether or not they could answer our questions, and how quickly. To get a real-world sense of how much you’ll pay to

trade a mutual fund, we found out who charges a hefty transaction fee for out-of-network funds. (Hint: Beware Fidelity and Schwab.) We pored over 1099 tax forms to see which had the information you need on Apr. 15; we checked account statements for readability; and we ran Web sites through their paces, grading them on ease of use and efficiency.

We also added a new variable this year: rates on cash. After the dramatic rise in short-term interest rates, payouts range from a stingy 0.95 percent (TD Ameritrade) to a stellar 4.77 percent (Vanguard). So make sure you ask for the best rate or transfer your cash to a high-yield money-market fund.

We based our rankings and the commissions we report below on a hypothetical buy-and-hold customer with an account of \$50,000 who invests in stocks, bonds and funds and wants to write covered calls. That means our top-ranked site would not be the first choice, say, for a day trader or for someone who buys only mutual funds. Below are our results.

(The following is excerpted)

Discount Brokers

TRADEKING Beginner’s luck? Perhaps. Our surprise winner in the discount category is TradeKing, which was launched in December by the same people who founded Suretrade, a dot-com-era online brokerage that was eventually acquired by Quick & Reilly (now part of Bank of America). With its \$4.95 market and limit orders, TradeKing carries the banner of cheapest broker.

The bare-bones trading platform was fast and easy to navigate. Getting answers from customer service through the online chat function was a breeze. TradeKing isn’t perfect: You can’t buy bonds online, and all funds carry a \$14.95 transaction fee. And for some reason our “preview” screen was disabled, so we couldn’t check orders before sending them. As a result, we accidentally bought the wrong stock during our testing. Lucky for us, that stock was Google, and it jumped 7 percent in short order.

FIRSTRADE Originally founded to serve the Chinese community in New York, Firstrade has been adding more and more features over the years, keeping its commissions at a low \$6.95 per trade. That's less of a deal, however, now that competitors have lowered their commissions, and Firstrade's Web site has started to look a bit out of date. But with efficient bond trading and improved accounting software that's integrated into the platform, Firstrade has all the tools most online investors will need. The broker also offers extensive banking amenities including a debit card and online bill-paying services. Firstrade impressed us with prompt, informative responses to our e-mail and phone queries, but we were frustrated with the absence of a search box to help us find our answers online.

OPTIONSXPRESS Options-Xpress topped our rankings when it debuted two years ago, but took a hit this year because stock commissions are still \$14.95 even as competitors have lowered prices. But we still like its easy-to-use but sophisticated trading tools, the lack of any hidden fees, and the decent rate it charges on margin loans. In addition, the firm has added futures trading in the past year. We were not put on hold a single time during our five calls to customer service, though we were disappointed that one e-mail request went unanswered entirely. And we're still waiting to find out how to access the site from our mobile device. But that was a minor glitch—for self-directed investors interested more in stocks and options than in mutual funds, bonds and banking amenities, OptionsXpress is a good choice for an online broker.

MURIEL SIEBERT “Wow, you have a Treo 650? I'm very jealous. I only have a 600. I'm in the Stone Age.” That's what a Siebert rep told us when we called customer service to ask about accessing the firm's Web site with a smart phone. But the “Stone Age” reference could just as easily apply to the Siebert Web site, which, even after improvements in the past year, is stuck in the late 1990s. That said, the site remains functional, and customer service is excellent. We got prompt, satisfactory answers when we called with questions, and our e-mails were answered in half an hour. Of course, in the age of TradeKing, Siebert's \$14.95 commissions are a bit old-fashioned too, but founder and CEO Muriel Siebert told us that they're negotiable. And what customers lose on commissions they may gain in a high-yielding money-market sweep fund.

SCOTTRADE With its 1.7 million accounts, Scottrade seemed a prime acquisition target. But Rodger Riney, the founder and CEO, has refused to sell his closely held brokerage. Judging from letters we received from readers, the new Web site the firm introduced last year caught some clients off guard, but Scottrade has smoothed out the glitches, and customer service is still top-of-the-line. (During trading hours, calls are typically routed to the Scottrade branch nearest the client.) When we went to buy a corporate bond, we were disappointed that the firm had a \$10,000 minimum. And though we were pleased Scottrade offers news from Dow Jones, we couldn't access company news from the quotes section—you have to go into a separate part of the Web site, which slows the process considerably.

Discount Brokers Commissions continue to fall, even while tools and research improve.


SCORES

RANK*	DISCOUNT BROKERS	COMMENT	**COMMISSION**	DEFAULT RATE ON CASH	SCORES					
					MUTUAL FUNDS	INVESTMENT PRODUCTS	BANKING AMENITIES	TRADING TOOLS	RESEARCH	CUSTOMER SERVICE
1	TradeKing www.tradeking.com	Cheap and simple for stocks, options and funds, but no bonds.	\$4.95	4.16%	★★★★	★★★★	★★★★	★★★	★★★★	★★★★★
2	Firstrade www.firstrade.com	Efficient stock and bond trading, but screen seems cluttered.	6.95	2.50	★★★★	★★★★★	★★★★★	★★★	★★★★	★★★★
3	OptionsXpress www.optionsxpress.com	No hidden fees; best bet for serious options traders.	14.95	3.83	★★★	★★★★	★★★	★★★★★	★★★★	★★★★
4	Muriel Siebert www.siebertnet.com	Great customer service, but site could use a facelift; pricey.	14.95	4.15	★★★★★	★★★★★	★★★★	★★★	★★★★★	★★★★
5	Scottrade www.scottrade.com	Easy stock trades, but high minimums for bonds.	7.00	3.00	★★★★	★★★★	★★	★★★	★★★★	★★★★
6	Thinkorswim www.thinkorswim.com	Three free fund trades a month, but Web platform is quirky.	5.00	3.98	★★★★★	★★★	★★★★	★★★	★	★★★★★
7	WallStreet*E www.wallstreete.com	Talking Web site is unique, but good luck getting help.	9.99	3.98	★★★★	★★★★★	★★★★	★★	★★	★★★★★

*Criteria are not equally weighted. **For clients with a balance of \$50,000 making no more than a few trades per month.

SOURCE: SMARTMONEY RESEARCH

THINKORSWIM Maybe they should have named the brokerage “sink or swim.” When you want to trade a stock on this offbeat new site, there’s initially no “buy” button. You just run your cursor across the “bid” price and click to call up an order ticket. A similar move is necessary to sell a stock. Making the strange interface even less user-friendly: There’s no “help” button on the trading page. In fairness to the company, we should note that for this survey we evaluate Web-based trading platforms; most Thinkorswim customers actually use a software download that makes trading quicker and easier once you’ve figured out how to use it. Tom Sosnoff, CEO and founder of the Chicago-based broker, describes it as a boutique for stock and options traders. If you can get past the site’s oddities, we’d say it’s also a great place to buy mutual funds, because you can pick up to three funds each month with zero transaction fees. That means you could complete 36 mutual fund transactions a year for free. Customer service was great, and Sosnoff told us that his trading-support employees have a minimum of 10 years’ experience on a trading floor.

WALLSTREET*E Though it still ranks dead last on our list, WallStreet Electronica has made progress since it first appeared in our survey in 2001. One of the glitches we experienced that first year was that the Web site simply shut down one day; this year the phone went dead while we spoke to customer service. The rep said the company was having problems with its Internet phone line. Perhaps the oddest change to arrive this year on the site is a sultry female voice that greeted us when we logged on, said farewell when we logged out and notified us of executed trades. Francisco Otalvaro, the firm’s president, said voice prompts were something that investors had requested; if so, then this broker’s scrappy customers deserve their eccentric Web site. Commissions at WallStreet*E are cheap, even for small-time traders, thanks to a cap that limits commissions to 5 percent of the amount of the trade. We paid just \$1.35 to trade one share of Microsoft. Now *that’s* a discount. 

► **SmartMoney.com** To see expanded versions of our broker tables, including margin rates, log on to www.smartmoney.com/mag.

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TRADEKING™

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