

E*TRADE Accounts: What to do now?

Shirley M. Mueller

MyMoneyMD.com

Reprinted from Physician's Financial News, January 2007

I have a large account at E*TRADE and consequently was frightened by Citi Investment Research analyst Prashant Bhatia's statement on Monday that clients could flee E-trade because of its recent write-down scandal, thereby causing the equivalent of a "run on the bank." This left me in a quandary, "What to do now?"

Although securities are protected by the Securities Investor Protection Corporation (SIPC) up to \$500,000.00 including \$100,000.00 for cash, and the banking deposits by the Federal Deposit Insurance Corporation (FDIC) to at least \$100,000 (\$250,000 for IRAs), accounts over these amounts—the larger accounts—initially appeared to me to be more problematical.

"Not so," in this new era of electronic trading according to two trading specialists from different firms. One was from that E-trade and the other was from a directly competing organization, TDAmeritrade. Each told me the same thing. All listed stocks and bonds at each brokerage house are held in The Depository Trust & Clearing Corporation (DTCC), rather than the specific brokerage per se. The only exception to this is the stocks and bonds traded during the day and these are covered by excess insurance such as Lloyds of London up to an aggregate number, in the case of E-trade, 600 million. The reason this figure is so low and still covers the hundreds of millions of assets that the brokerage deals in is because it needs only to cover the stocks and bonds not held in DTCC. These would largely be those stocks and bonds traded in any one day. This coverage makes it secure that clients will retain their stocks and bonds, should the worst happen.

There is one caveat of caution, however. Cash accounts over \$100,000 are not covered by the SIPC or the FDIC (unless IRA as above). This lack of coverage refers to monies in proprietary money markets offered by the brokerage firm itself. If the money market is generic, however, it is considered a security. For

example, in the case of E-trade, the JP Morgan money markets that are offered through them fall into this latter category.

So, it appears that the worst case scenario for large accounts at E-trade might be suspended animation of assets for a while if the company does declare bankruptcy (God forbid). It seems more likely to be a take-over target. Then, what would happen? If TDAmeritrade, for example, took over E*TRADE, there would be a merger much like the E*TRADE union that took place with Brown and Company several years ago. Those of us who went through this adaptation surely can do it again. Somehow that seems less painful than transferring to a new brokerage firm now. Yes, inertia is alive and well where my mind lives, but at least not after some thoughtful analysis.