

How to Select an Online Low Cost Brokerage Firm

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Physician's Financial News Live; *Published on July 16, 2008*

Dr. Bill Biggs (not his real name) used large brokerage firms for years. It seems, though, that his portfolio is still suffering in spite of the fact that he thought he had the best. Now, he is worried about the impact of the full service broker's fees on his expense and is considering switching to a low cost on-line brokerage. How can he choose from the many options?



An online, low-cost broker saves money, facilitates effortless trading, and offers a host of other benefits, including immediate unrealized/realized gains reporting. Though these features are attractive, many people still don't switch for various reasons, including inertia or fear of the unknown. The latter is indicative of a lack of knowledge, which can be cured. To begin with, there are several websites available that give investors valuable information about low-cost, online brokerage firms.

In my mind, Broker Adviser is the best of these sites. It was first published in 2006, and it showcased 12 low-cost brokerage firms. The 2007 report, entitled Top Twenty Brokers for Individual Investors, is the second edition. It assesses the strengths and weaknesses of each brokerage covered, in addition to services, available investments, and media reviews. The report is free and easily downloadable.

Here are some insights into its coverage from my personal experience. I have accounts at two of the brokerages that the report treats, so I matched my own assessment against that of Broker Adviser. There are some differences, though in general, we agree.

E-trade, on page 11 of the report, has worked for me in the past. I can buy individual bonds, stocks, Exchange Traded Funds and mutual funds. My service has been good, perhaps in part because I have a large account. This may change in the future as my assigned account executive left and another may not be as good. My experience with customer service at E-Trade is in conflict with Broker Adviser, which specifically states that E-trade is not as high in this area as its peers. Certainly it is likely to be squeezed in the future as E-Trade deals with its structured product fiasco. Please see E*TRADE Accounts: What to do now and Yet Another Investment Risk (an update on E*TRADE).

Another possible downside that Broker Adviser mentions about E-Trade is that the company has slow execution, though I have not experienced this except in a fast moving market, and then one time my order was not filled, which meant that I lost money because I couldn't buy at a lower price. My representative told me to call him in the future when this happened and he would get my orders through. I haven't tried this, but wonder if I could get to him on the phone when everyone else is trying to do the same thing.

TD Ameritrade, also known as Ameritrade, on page 20 of the report has been frustrating for me. Nevertheless, it offers similar benefits to E-trade. The downside for me is that there is poorer customer service in general, though my bond trader there is good. Originally one of the accounts I run was not set up properly and in spite of multiple exasperating attempts on my part, it took a long time to correct. Another time, I was told I could deposit a large check the same day and then was called and told it couldn't be done, only to be informed later it was OK. These frustrating interactions are in sync with Broker Adviser, which states that, Ameritrade's "Customer service is considered in the bottom rung..."

On the other hand, Ameritrade will wire money within 24 hours—a perk compared to E-trade, where the same wire can take 3 days. Additionally since I am an APEX (high level account) client at Ameritrade, the wire is free, where at E-trade, even though I am also a high level client, the wire costs \$25.00.

Broker Adviser is a good place to start when picking a low cost online broker. To make your search even easier, go to the summary chart at the end of the report on page 27. It can be used to screen for the most cost effective brokers. Then, go to each broker's report to assess customer service and other strengths or weaknesses that can't easily be included in a chart.

Still, there are some specifics that can't readily be known ahead of time, like the difference in wire fee and wire execution time between E-trade and Ameritrade. Appreciating these finer points of performance might require more time and effort. Though none of us want to do this, a test drive with several of the low cost brokerages might ultimately be required in order to find the ideal fit. In addition, having knowledgeable service is essential, something that can only be assessed by signing on the dotted line.

There are two other sites that are less helpful, in my opinion:

- Gomez, which monitors response time plus availability and consistency ratings among the large online brokerages. These parameters give some indication of the speed and efficiency of the firms.
- Online Brokerages US, which compares the most popular online brokers. It states that it updates its fees and services frequently. It really only shows cost; therefore its usefulness is limited, as service is at least as important for most people's satisfaction.