

THE BEST OF THE ONLINE BROKERS

FIDELITY AND TD AMERITRADE ARE NUMBER ONE IN OUR LATEST RANKINGS OF 14 TOP DISCOUNTERS. **BY ELIZABETH ODY**

ONE OF THE LESSONS RANK-AND-FILE INVESTORS SEEM to have drawn from the brutal 2007–09 bear market is that professionals can lose money just as easily as they can. A corollary is that keeping costs down is crucial. As a result, many have decided to take investing into

their own hands. “Since 2008, our largest source of new accounts—after people transferring their accounts from other discount brokers—has been investors coming from full-service brokers or from advisers,” says Don Montanaro, chief executive of TradeKing, a discount broker.

Competition among discounters is intense. As they battle for your business, brokers are fighting on a variety of fronts: undercutting one another on price, offering slicker and slicker online-trading experiences, and outdoing each other by introducing ever-more-compelling tools.

To make sense of all the offers out there, we surveyed 14 of the biggest and best brokers in the industry to see which ones make your money go the furthest. **FIDELITY**, the winner of our last survey (see “Best of the Online Brokers,” Nov. 2008), again topped our rankings, but this year it shares the honor with **TD AMERITRADE**.

Each of the brokers we surveyed excels in certain areas and flops in others. That means the weighting we assigned to each area considered in

the rankings—from commissions to customer service to whether customers can purchase stocks overseas—is of supreme importance in determining who ends up on top.

So rather than rank the brokers based solely on what we think is important, we decided to ask you, our readers, what you value in a broker. Not surprisingly, costs topped your list of concerns—49% of *Kiplinger's* readers cited commissions and fees as their number-one issue when choosing a broker. But you said that an easy-to-use Web site and a broad menu of investment choices are also important concerns. With these considerations in mind, we set out to find the best discount broker to suit your needs.

●● COMMISSIONS AND FEES

If commissions were the only fees you had to worry about, then Just2Trade would be the clear cost leader. The broker entered the scene in 2007 with flat \$2.50 commissions for stocks and mutual funds, and no other broker has been able to undercut it. (Founded with active traders in mind, Just2Trade

requires that customers have at least two years of investing experience before opening an account.)

Unfortunately, brokers can charge you in many other, less-visible ways. Many now charge nominal fees for sending paper statements (rather than electronic ones) or for sending you copies of old statements. Other charges aren't so nominal. Merrill Edge, which is Bank of America's new online-brokerage platform, scored worst for annoying fees. It levies as much as \$100 annually for customers with less than \$50,000 combined in Bank of America and Merrill Edge accounts, and it will charge you \$95 if you decide to transfer your account to another broker. Just2Trade's overall score was hurt by the \$25 it charges customers to open an IRA, after which you have to pay \$35 annually.

Vanguard received top marks for the fewest and least-costly nuisance fees. But it fell short of first place for overall costs because its commissions for buying and selling bonds and options are on the high end. The all-around winners on costs, OptionsXpress and Zecco, offer competitive prices on their full menu of services.

Neither Fidelity nor TD Ameritrade shines when judged on costs alone. Fidelity charges \$75 for online purchases of mutual funds that are not in its no-transaction-fee network (however, unlike other brokers, Fidelity

68%

of our readers
**use an
online broker**
for managing some or
all of their investments.



RESEARCH AND TOOLS

Fidelity

www.fidelity.com

Charles Schwab

www.schwab.com

TD Ameritrade

www.tdameritrade.com

#1

PRIORITY:
**LOW
COSTS**



COMMISSIONS AND FEES

OptionsXpress

www.optionsxpress.com

Zecco

www.zecco.com

63%

think it's very
important to have a
broad range
of no-transaction-fee
mutual funds.



INVESTMENT CHOICES

Fidelity

www.fidelity.com

Charles Schwab

www.schwab.com

TD Ameritrade

www.tdameritrade.com

WHAT YOU WANT IN AN **ONLINE BROKER**

KIPLINGER'S
READER SURVEY

6.1

**trades
per month**

is the average
executed per investor.



CUSTOMER SERVICE

E*Trade

www.etrade.com

Scottrade

www.scottrade.com

Vanguard

www.vanguard.com

EASY-TO-USE WEB SITE

E*Trade

www.etrade.com

Fidelity

www.fidelity.com

TD Ameritrade

www.tdameritrade.com



#2

PRIORITY:
**EASY-
TO-USE
WEB SITE**

88%

of our readers'
**transactions
are conducted
online,**
the rest over the phone.



BEST OVERALL SCORE

Fidelity

www.fidelity.com

TD Ameritrade

www.tdameritrade.com

doesn't ding you again when you sell such funds) and \$100 to purchase them over the phone through a representative. TD Ameritrade will hit you with a \$50 tab if you transfer your brokerage account or IRA to another broker.

●● INVESTMENT CHOICES

Both Fidelity and TD Ameritrade excel when judged by the range of investments they offer. To rate a broker's investment choices, we looked at everything from mutual funds and exchange-traded funds to the ability to trade on foreign exchanges, obtain initial public offerings of stock and get new bond offerings.

For no-transaction-fee funds, Charles Schwab can't be beat. Schwab retail clients can buy no-load mutual funds from nearly 400 fund companies without paying a transaction fee. Muriel Siebert takes second place, with about 250 no-fee fund families available. TD Ameritrade and Fidelity tie for third place, with both brokers offering funds from about 240 families.

TD Ameritrade is now the clear leader for no-fee ETFs. Last October, it began waiving commissions for 101 ETFs for all customers who hold on to the funds at least 30 days. "We want to make ETFs work to the best value of the long-term investor," says TD Ameritrade executive vice-president Peter Sidebottom. The list of funds, which spans nine ETF providers, was handpicked by analysts at fund researcher Morningstar. Vanguard's offerings are also formidable. Its customers can trade all 63 Vanguard ETFs—many of which are the lowest-cost ETFs within their categories—with no commissions.

Globe-trotting investors will appreciate Muriel Siebert's winning list of 49 international exchanges available to customers. It is the only broker we surveyed that offers access to, for example, the Shanghai stock exchange, the Indonesian stock exchange or the Tel Aviv stock exchange. Fidelity and Vanguard also offer broad access to international exchanges, with 26 and 4

foreign bourses available, respectively.

We also appreciate a brokerage that can get clients access to IPOs. Charles Schwab, Fidelity and TD Ameritrade all scored well here. Schwab customers, for example, were able to participate in 81 stock IPOs in the first ten months of 2010.

"Schwab retail clients can buy no-load mutual funds from nearly 400 companies without paying a transaction fee."

All the brokers we surveyed offer access to corporate and municipal bonds. Some, such as Fidelity, hold an inventory of bonds. Others, such as Just2Trade, hold no bonds in inventory but employ traders who will work with a customer to track down a given bond that interests him or her. We gave points to brokers that let customers buy bonds online and that offer new bond issues. We also gave points to the six brokers—which include Fidelity and TD Ameritrade—that can get foreign bonds for clients.

●● WEB SITE

If you do most of your trading and research online, you require a broker with a well-designed Web site. In general, brokers impressed us on this point. But we had nits to pick, too. Rather than bare-bones trading pages, for example, we prefer screens that show a quote for the issue you're trading, your account's available funds and any minimum investment or transaction fees for mutual funds. We gave extra points to brokers that put a wide range of useful information at your fingertips when you look up stocks and funds (such as key ratios and in-

dustry comparisons for stocks, and detailed portfolio information for funds). And we like navigation bars that let you get where you're going without too many clicks.

The notable laggards were Muriel Siebert and Just2Trade. Navigation on the Siebert Web site was so choppy it made us seasick. We found the site's drop-down menus to be unintuitive. It was difficult to find research and tools, and we grew weary of waiting for pages to load. The Just2Trade site was only marginally less vexing. We found it difficult to track down something as simple as a mutual fund quote. While the site's bare-bones feel may be well-suited for investors who are there just for cheap trades, we were looking for a little more.

●● CUSTOMER SERVICE

When you need help or more information, you want your broker to respond accurately and pleasantly without making you wait around all day. We tested every broker's representatives by phone—and, when available, by e-mail as well—with questions ranging from easy to tough. E*Trade's reps aced our tests. They demonstrated thorough knowledge but also took the time to look up the answers to any questions they couldn't immediately answer, and they treated our phone testers with courtesy. Scottrade and Vanguard also impressed us.

Most brokers' customer-service lines will put you through to a warm body within 90 seconds. Only USAA tripped up here—on one occasion we waited more than 15 minutes to speak to a rep, who then missed a softball question we pitched to him about IRAs. But all around, Charles Schwab's reps were the least helpful over the phone. And it took nearly a week for Schwab reps to respond to our e-mail queries.

●● RESEARCH

The final component of our rankings was a site's research and tools. Fidelity rules when it comes to stock research.

In addition to offering stock reports and recommendations from a wide variety of firms—from Ativo Research to Zacks Investment Research—Fidelity provides “Research Firm Scorecards,” which rank, for example, how Ned Davis Research’s picks in the energy sector have stacked up historically compared with the sector in general and with other firms’ recommendations. The scorecards also show how your portfolio would have performed over the past three years if you had religiously followed every buy and sell recommendation by, say, Standard & Poor’s stock analysts.

TD Ameritrade doesn’t offer as lengthy a roster of stock-research reports, but it was the only broker we

surveyed that offers credit-quality reports for individual bond issuers. You’ll find detailed Moody’s reports for corporate-bond issuers on the bond-research section of the TD Ameritrade Web site, in addition to S&P credit-quality reports for specific municipal-bond issuers.

We awarded points for tools that help illuminate your portfolio and keep your investment plan on track. Most of the brokers we surveyed offer one or more retirement-planning calculators to help you develop a savings plan. Some of these are bare-bones tools, such as Vanguard’s calculator to estimate your retirement income. Others, such as E*Trade’s Retirement QuickPlan tool, are such a joy to use

they *almost* manage to take the pain out of discovering that you’ll need to save an additional \$1,500 per month to afford the retirement you were planning. (If you’re craving a heavy dose of harsh reality, the tool is available for free at www.etrade.com.)

Other than Just2Trade, all of the brokers we surveyed offer one or more smart-phone applications or a mobile version of their Web site. Zecco and OptionsXpress also offer tools that you can download to your browser so that you can trade stocks within your brokerage account while you’re surfing other sites on the Web. Although these features might make some investors more prone to impulse trading, we can’t deny that they’re awfully nifty. ■

Broker Ratings

HOW 14 LEADING ONLINE DISCOUNTERS STACK UP

A broker’s overall score in a survey of this sort depends heavily on how much weight you assign to each category. We weighted the categories based on what our readers consider important:

costs, 30%; Web site and investment choices, 20% each; customer service and research, 15% each. Ultimately, you should decide what you consider most important and choose a broker accordingly.

Broker	Comment	Costs	Web site usability	Investment choices	Customer service	Research and tools	Overall score
Fidelity www.fidelity.com	Top-notch all around.	★★★★☆	★★★★★	★★★★★	★★★★☆	★★★★★	★★★★★
TD Ameritrade www.tdameritrade.com	Tied for first place, with better investment choices than ever.	★★★★☆	★★★★★	★★★★★	★★★★☆	★★★★★	★★★★★
E*Trade www.etrade.com	Solid in all areas.	★★★★☆	★★★★★	★★★★☆	★★★★★	★★★★☆	★★★★★
Vanguard www.vanguard.com	Low costs and superb customer service set this broker apart.	★★★★☆	★★★★☆	★★★★☆	★★★★★	★★★★☆	★★★★★
OptionsXpress www.optionsxpress.com	A Mecca for options buffs that scores high on costs.	★★★★★	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆
Charles Schwab www.schwab.com	Offers the broadest list of funds with no loads or transaction fees.	★★★★☆	★★★★★	★★★★★	★★★☆☆	★★★★★	★★★★★
Scottrade www.scottrade.com	A better Web site would have boosted this broker’s ranking.	★★★★☆	★★★★☆	★★★★☆	★★★★★	★★★★☆	★★★★★
TradeKing www.trading.com	The first broker to incorporate social networking.	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★★
Firsttrade www.firsttrade.com	Could use additional tools and investment choices.	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★★
Merrill Edge www.merrilledge.com	This newcomer charges high fees.	★★★☆☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★★
Zecco www.zecco.com	Offers low costs but few investment choices.	★★★★★	★★★★☆	★★★☆☆	★★★★☆	★★★☆☆	★★★★★
Just2Trade www.just2trade.com	Bare-bones broker boasts the lowest commissions.	★★★★☆	★★★☆☆	★★★☆☆	★★★★☆	★★★★☆	★★★★★
Muriel Siebert www.siebertnet.com	Impressive range of investment choices; abysmal Web site.	★★★★☆	★★★☆☆	★★★★☆	★★★★☆	★★★★☆	★★★★★
USAA www.usaa.com	Costs are high, and Web site and investment choices are lacking.	★★★☆☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★★

(#22087) Reprinted with permission from the February 2011 issue of **Kiplinger’s Personal Finance**. © 2011 The Kiplinger Washington Editors Inc. For more information about reprints from Kiplinger’s Personal Finance, contact PARS International Corp. at 212-221-9595.

Article copyright 2011 by Kiplinger’s Personal Finance. Reprinted from the February 2011 issue with permission from Kiplinger’s Personal Finance. The statements and opinions expressed in this article are those of the author. Fidelity Investments® cannot guarantee the accuracy or completeness of any statements or data.