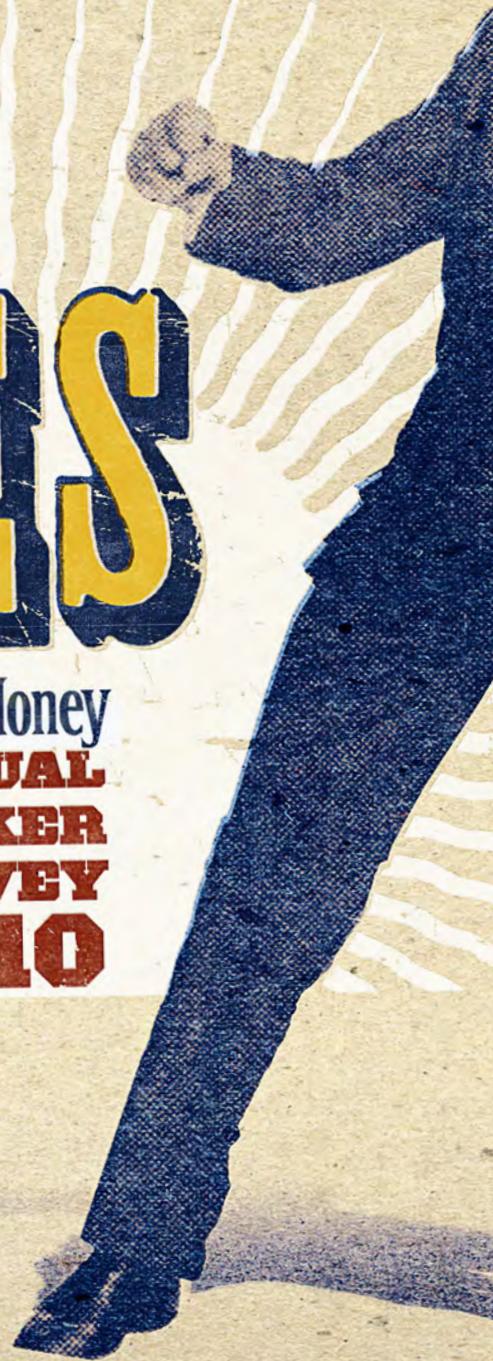


THE GLOVES ARE OFF

SmartMoney
**ANNUAL
BROKER
SURVEY
2010**





to be seen whether these new price-cutting tactics will ultimately drive up business, the discount industry is already making some full-service firms nervous: Nearly a third of financial advisers recently surveyed by research firm Aite Group say their business is threatened by online brokers who may lure clients away, with price cited as the top reason. But discounters aren't safe either from penny-pinching customers. In fact, when SMARTMONEY recently teamed up with research firm Synovate, we found that 22 percent of discount customers were considering switching to a rival firm for cheaper commissions and fees, up from 13 percent last year.

Still, as investors focus on saving a few bucks, they might end up paying in other, less obvious ways. The industry has been shifting how it collects revenue over the past decade, experts say, ever since the dot-com bubble burst and trading levels plummeted. Firms steadily beefed up other offerings, adding advisory services and banking products. Today analysts say such areas have become a critical profit source, especially as trading volumes have been dropping at double-digit rates at some firms. Michael Curcio, who heads E-Trade Financial's brokerage business, says a growing share of the firm's revenue in recent years has come from account and product fees, rather than from trading commissions. And officials at Schwab and TD Ameritrade say they've been expanding fee-based services for clients interested in, say, retirement and investment consultations. "Online brokers have become better at finding more ways to monetize relationships," says Seth Dadds, an analyst with Garp Research & Securities.

For our 18th annual ranking of brokers—itsself top-ranked by the Web site ConsumerSearch—we scrutinized a wide range of factors, from trading commissions and account fees to the cost of certain banking services and margin rates. In addition to parsing survey responses from the brokerages, we consulted with research firms and put brokers through our usual litany of customer-service tests. Our findings follow.

DISCOUNT BROKERS

COMMISSIONS AND FEES

■ **BEST: USAA**

■ **WORST: BANC OF AMERICA**

IF YOU TRADE ONLINE, YOU MIGHT BE spending less this year on commissions. A wave of price-cutting by the firms in our survey sliced the average commission for a 100-share trade to \$8.47, down 8 percent from last year. But while brokers are quick to highlight that online prices keep falling, some of their under-the-radar fees aren't changing. Getting help from a live broker to trade a stock can more than triple the cost of a trade. Some brokerages charge fees of up to \$100 a year if customers don't trade frequently enough. Even closing an account costs money at some firms.

Our winner in this category, USAA, doesn't charge for many of these "extras." The nine-decades-old firm is best known for selling financial products to members of the military and their families. But other investors can open brokerage accounts—and pay just \$5.95 for online stock trades. The San Antonio, Texas-based firm doesn't charge customers for things such as paper statements and trade confirmations, either. At the bottom of our rankings is Banc of America, the discount-brokerage arm of Bank of America. Unless you keep a hefty \$25,000 at the bank, online stock trades can cost \$14 a pop, with broker-assisted trades costing as much as \$54. Marc Wood, director of the Banc of America online brokerage, says some bank customers with less than \$25,000 and certain types of checking accounts can qualify for cheaper trades.

CUSTOMER SERVICE

■ **BEST: TRADEKING**

■ **WORST: SHAREBUILDER**

STEVE BRORBY WAS STUCK. THE RETIREE was reviewing his Fidelity online account but had trouble including an account from another brokerage. He says he sent an e-mail to Fidelity and



RANK*	BROKER	COMMENT	COMMISSION (\$)**	HIGHEST INTEREST RATE ON CASH (%)	SCORES				
					MUTUAL FUNDS AND INVESTMENT PRODUCTS	BANKING SERVICES	TRADING TOOLS†	RESEARCH	CUSTOMER SERVICE
1	Fidelity www.fidelity.com	Snags top ranking with robust mix of investments, tools and banking services.	7.95	.10	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
2	E-Trade www.etrade.com	Strong in research and trading tools; smartphone apps include live quotes.	9.99	.40	★★★★	★★★★★	★★★★★	★★★★	★★★★★
3	TD Ameritrade www.tdameritrade.com	Moves up two spots, with a big improvement in customer service.	9.99	.80	★★★★★	★★★	★★★★★	★★★★★	★★★★★
4	Charles Schwab www.schwab.com	Offers more advice and research than many competitors.	8.95	.50	★★★★★	★★★★★	★★★	★★★★★	★★★★
5	TradeKing www.trading.com	Regains top spot in customer service. CEO is a frequent blogger.	4.95	.05	★★★	★★	★★★★★	★★★	★★★★★
6	Scottrade www.scottrade.com	Nearly 500 branch offices nationwide. Placing online trades is quick and easy.	7.00	.15	★★★★	★★	★★★★	★★★	★★★★
7	WallStreet-E www.wallstreete.com	New customer-service system enables quick responses by phone and e-mail.	7.99	.02	★★★★	★★★	★★★	★	★★★★★
8	Firsttrade www.firsttrade.com	Keeps No. 8 spot with good mix of products, but light on research.	6.95	.25	★★★★	★★★	★★★	★★	★★★
9	Just2Trade www.just2trade.com	Cheap trades are geared toward active investors. Short on research.	2.50	.01	★★	★★	★★★★	★	★★★★
10	Muriel Siebert www.siebertnet.com	High marks for customer service, but the Web site was sluggish.	14.95	.01	★★	★★★	★★★★	★★★	★★★★
11	USAA www.usaa.com	Newcomer to survey is most affordable, with a wide array of products.	5.95	.30	★★	★★★★	★★	★★	★★
12	OptionsXpress www.optionsxpress.com	Big emphasis on tools; new phone applications have options quotes.	9.95	.02	★★★	★	★★★★★	★★★	★
13	Zecco www.zecco.com	Ten free trades a month with \$25,000 balance. Spiffed up Web site.	0	.03	★★★	★★	★★	★★	★★
14	WellsTrade www.wellstrade.com	Lags behind the pack in trading tools and investment products.	19.95	.20	★★	★★★★★	★	★★★	★★
15	Banc of America www.baisdirect.com	Commissions and fees can be pricey for nonbank customers.	14.00	.55	★★★★	★★★	★★★	★★	★
16	ShareBuilder www.sharebuilder.com	Expanded research and tools, but ranks low in banking and investment products.	9.95	.03	★★	★★	★★	★★	★
17	SogoTrade www.sogotrade.com	No plans to offer funds or bonds. Slow to answer phone and e-mail.	3.00	0	★	★	★	★	★

*Criteria not equally weighted. **Trade of 100 shares at \$20; for clients with a brokerage balance of \$50,000, with as many as five trades a month. †Includes data from Gomez Inc. SmartMoney research by Daniel Cho and Jami Makan.

made three separate phone calls, but still couldn't resolve the issue. Finally, he contacted Fidelity's branch manager near his home in Pasadena, Calif., and found the solution: Switch to a different Web browser. "She stepped up to bat," says Brorby. Discount brokers are finding that good customer service matters more than ever at a time when many investors are nervous about their future. That helps explain why six of the firms in our survey added branches in the past year and why laggards are trying to catch

up. Last year WallStreet-E didn't respond to one of our e-mails. The company says it has staffed up its e-mail and phone centers. The result: A speedy response to our queries helped the firm improve on its dead-last ranking from a year ago.

Our category winner, TradeKing, had swift and courteous answers to our e-mails and phone calls. But ShareBuilder took three and a half minutes, on average, to answer our calls during the testing period, a performance the company blames on an upgrade to its phone

system under way at the time. Indeed, when we gave it another try, it took less than a minute and a half, on average, for ShareBuilder to answer our calls.

TRADING TOOLS

- BEST: FIDELITY
- WORST: WELLSTRADE

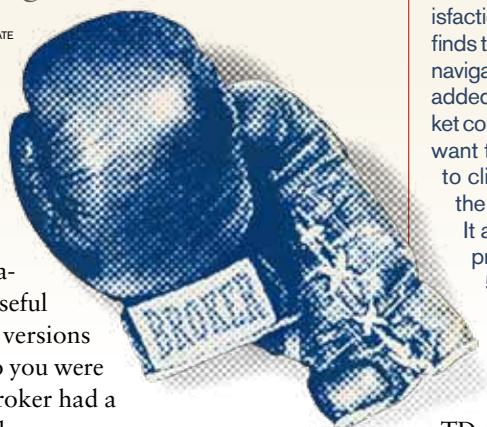
A NEW ARMS RACE HAS BROKEN OUT among discount brokers. The must-have tool: applications for the iPhone, BlackBerry and other smartphones. Matthew Poepsel, vice president of performance



Full-Service Brokers

Over the past two years, thousands of full-service brokers have either switched firms or set up their own shop. The turmoil has rankled customers. Fewer than half of brokerage clients surveyed by Forrester Research agreed with the statement “My financial provider does what’s best for me, not just its own bottom line.” It could be time to start mending fences.

SOURCES: ZACKS INVESTMENT RESEARCH; J.D. POWER & ASSOCIATES; FORRESTER RESEARCH; DALBAR; CORPORATE INSIGHT; SMARTMONEY RESEARCH



strategies at Gomez, a Web site-monitoring company, says the new smartphone applications are much more useful than the older mobile versions of sites. “Ten years ago you were just glad when your broker had a Web site,” says Poepsel.

The top-ranked brokers also have a full suite of trading tools, from stock screeners to streaming quotes. Fidelity has before-hours and after-hours trading and a free app for the iPhone and iPod Touch. Online investors also want speed, and the differences can be a lot more than clients realize. In tests conducted by Gomez, Fidelity clocked in at an average of four seconds to sign in and place a trade, while WellsTrade’s Web site took more than four times as long. WellsTrade says part of the delay is due to stringent security measures, but that it’s looking at ways to speed up the process.

MUTUAL FUNDS AND INVESTMENT PRODUCTS

- **BEST: CHARLES SCHWAB**
- **WORST: SOGOTRADE**

WE LOOK FOR DISCOUNT BROKERS THAT offer a wide array of investment products. But when do they risk information

1. Edward Jones WWW.EDWARDJONES.COM

NUMBER OF BROKERS: 12,600
NUMBER OF BRANCHES: 11,200
HIGH MARKS: STOCK PICKING
LOW MARKS: WEB SITE

■ Across-the-board strength vaults Edward Jones into first place, switching spots with Raymond James. The St. Louis-based firm ranks first in three survey categories this year: stock picking, brokerage statements and customer satisfaction. But Corporate Insight finds the firm’s Web site hard to navigate. The company recently added more research and market commentary to the site. “We want to give more information to clients,” says Jim Weddle, the firm’s managing partner. It also has more brokers to provide it: up by more than 500 since last year.

2. Raymond James WWW.RAYMONDJAMES.COM

NUMBER OF BROKERS: 5,400
NUMBER OF BRANCHES: 2,500
HIGH MARKS: CUSTOMER SATISFACTION
LOW MARKS: STOCK PICKING

■ The St. Petersburg, Fla.-based firm has taken advantage of the exodus of brokers from Wall Street, adding 400 brokers last year. “We had the best recruiting year ever,” says Chet Helck, chief operating officer of the 48-year-old firm. Since last year Raymond James has lowered maintenance fees while revamping its brokerage statements and Web site. But the firm gets low marks in stock picking from Zacks Investment Research. The firm says the annual list that it compiles of its best picks has consistently beaten the broader market.

overload?

TD Ameritrade,

which offers more than 15,000 mutual funds, says a recent survey of its customers found that nearly half who invest in these products think there are too many. Sandy Motusesky, TD Ameritrade’s director of mutual funds and ETFs, says that to help investors narrow the choices, the firm recently updated its list of recommended funds, focusing it on specific investment strategies, such as generating income or hedging against inflation.

TD Ameritrade is among a trio of five-star brokers in the investment-products category, which also includes Charles Schwab and Fidelity. This year Schwab edged out last year’s winner, Fidelity, in a photo finish. Schwab has all the investment products we were looking for, including a Coverdell account—an education-savings account similar to a 529 plan—something that Fidelity does not offer. (Fidelity says its customers are more interested in 529 plans than in Cov-

erdell accounts.) Like Ameritrade, both firms sell about 15,000 mutual funds. But about half the funds on Fidelity’s site come with a sales charge, while fewer than 4 percent of the funds on Schwab’s site are load funds. A Fidelity spokesperson says the company wants to give investors a wide range of choices.

Of course, some brokers don’t want to be all things to all people. Dave Whitmore, SogoTrade’s president, says he has no intention of offering CDs, bonds or mutual funds anytime soon. “Our strategy is to remain price competitive for the active trader,” he says.

BANKING SERVICES

- **BEST: E-TRADE AND FIDELITY**
- **WORST: OPTIONSPRESS**

MORE INVESTORS ARE LOOKING FOR one-stop shopping in financial services, and many discount brokers are happy to help—especially if they can profit from the trend. “As prices continually drive down, firms have to find other ways to

