Price is the new battleground for discount brokers, with some slashing their commissions in half. But who comes out on top in other areas, from research to customer service?

OR BARRY NORTHROP, IT’S ALL ABOUT THE DETAILS.
When the University of Colorado employee decided to open an account with a discount broker last year, he thought he’d be getting a good deal. After all, the firm was advertising commissions of just $2.50 a trade. But it wasn’t until Northrop started poking around that the 56-year-old discovered other charges he could have easily incurred—like $3 for every paper-based trade confirmation, $5 for a monthly statement in the mail and a $50 fee to transfer his account to his wife in the event of his death. In the end, Northrop was able to dodge these fees by changing his account’s settings, though he first had to contact customer service in order to know where to look: “I don’t know how anybody could find this on their own,” he says. ★★★★★ Ladies and gentlemen, prepare to scrutinize the fine print. After spending 2009 trying to entice beleaguered investors back into the market by rolling out more-robust investment research and new hand-holding services (introducing the “chartered retirement planning counselor”), discount brokers are now fighting for new business by duking it out on pricing. Earlier this year Charles Schwab slashed commissions by more than 30 percent, to $8.95 a trade. Archrival Fidelity, which just a year ago charged as much as $19.95 for a single transaction, quickly undercut Schwab with $7.95 commissions. The discount industry has taken its price wars to other product lines as well. Schwab cut fees on certain equity and bond funds, and even offered free trades for eight exchange-traded funds. Fidelity has countered by offering free trades on 25 ETFs. “The reality is that the average investor was psychologically damaged by the downturn,” says William Blair & Co. analyst Mark Lane. “The pricing adjustments reflect a new environment.” ★★★★★ Of course, commissions have been falling for a while now, and a few firms have long doled out free Toasters, er, trades, with certain restrictions. Yet it’s been years since there was this much movement. Though it remains
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—itself 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.

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 brokers 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
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.

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 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—a 529 plan—something that Fidelity does not offer. (Fidelity says its customers are more interested in 529 plans than in Coverdell 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: OPTIONSXPRESS

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
THOUSANDS OF BROKERS LEFT UBS IN THE PAST YEAR, THANKS TO A COMBINATION OF LAYOFFS, ATTRAITION AND THE SALE OF 56 U.S. BRANCHES TO STIFEL NICOLAUS. STILL, THE BROKERAGE EARNED A SOLID RATING IN CUSTOMER SATISFACTION, AND ITS ACCOUNT STATEMENTS GET HIGH MARKS FOR PUTTING THE FIRM’S BUY AND SELL RECOMMENDATIONS IN THE STOCK HOLDINGS SECTION. AT THE SAME TIME, CORPORATE INSIGHT FINDS THE FIRM’S INTERNAL POLLS SHOW THAT CUSTOMERS ARE HAPPY WITH THEIR OWN INDIVIDUAL BROKERS.

Make money,” says David Lo, director of investment services at J.D. Power and Associates. Sure, lots of brokers will pay you interest on any cash in a brokerage account; they just won’t pay you much. The highest amount any of the 17 brokers in our survey pay is a paltry 0.80 percent, and some pay zero.

Nevertheless, the highest-ranked brokers—Fidelity and E-Trade—offered a variety of bank-like options, including online bill payment, debit cards and even a storage service for precious metals. Not all firms want to be one-stop financial shops, however. “We’ve decided not to compete with the banks,” says Options-Xpress CEO David Fisher.

RESEARCH

BEST: CHARLES SCHWAB
WORST: WALLSTREET-E

When it comes to research, self-directed investors are getting harder to please. More than ever, they want a robust suite of news, data and education tools or educational seminars on brokerage Web sites to help them make investing decisions. Our survey found that 16 percent of investors say having access to research is the most valuable part of being a customer at an online brokerage, up from 4 percent in our previous survey. Many discount brokers are happy to oblige: Investors who use the research, planning tools or educational seminars on brokerage Web sites are much more satisfied customers, says Lo, of J.D. Power. The biggest area of growth is social media, as more adults jump into an arena once thought the province of the young. Most of our firms are on both Facebook and Twitter. Of course, social media can work both ways. E-Trade, for example, has more than 40,000 “fans” on Facebook, but not all seem happy. “The platform has been real buggy lately,” one wrote recently. (An E-Trade spokesperson says the company fixed the problem.)

Schwab wins in our research category again this year. It was also among the fastest Web sites to navigate and provides research reports from many outside firms, including Argus Research, Ned Davis Research and Standard & Poor’s Zecco, which tied with WallStreet-E for last place a year ago, earns a second star in this category after adding real-time quotes, detailed sector- and industry-performance analysis, and technical charting. WallStreet-E gets the lowest marks for research. The site was also among the slowest to navigate, and our Web testers never found the commission price list. (The company says the list is on its publicly available site and that it will add it to the customer site.) Also in the works at WallStreet-E: a new mutual fund screener and a social-media presence. “We always have plans,” says CEO Francisco Otalvaro.