

Selecting a Brokerage Firm for Your Investment Club

Introduction:

Joining or forming an investment club can be an exciting way to pool resources and make informed investment decisions as a group. One of the most crucial decisions an investment club needs to make is selecting the right brokerage firm. Sometimes even established clubs find they need to transfer their account to a different brokerage firm for various reasons. The brokerage firm you choose will play a significant role in the success of your investment club. This article will detail the steps an investment club should follow to select the most suitable brokerage firm.

Define Your Investment Objectives:

Before even considering brokerage firms, it's essential to define your investment objectives as a club. Are you looking for long-term growth, income, or a combination of both? Knowing your objectives will help you choose a brokerage firm that aligns with your goals.

Assess Your Budget:

Determine the amount of money available for investing. Some brokerage firms may have minimum deposit requirements and/or fees that can eat into your capital. Make sure the brokerage firm's fee structure fits within your budget.

Research Brokerage firm Options:

There are various types of brokerage firms, including full-service, discount, and online-only. Each has its pros and cons. Full-service brokers offer personalized advice but come at a higher cost, while discount and online brokers are more cost-effective but offer fewer advisory services. Research and compare different brokerage firm options to find the one that suits your club's needs.

When looking for brokerage recommendations see if anyone in your IC or other IC members you have contact with, have any actual experience researching/comparing brokerages. Also, casually check with colleagues, friends for any good or bad experiences. Try posting on BI's club-treasurers@lists.betterinvesting.net or might also want to read Doug Gerlach's May 2023 PowerPoint on ICLUBcentral, "Moving Your Investment Club to a New Brokerage Firm"; Get the PDF version here:

https://www.iclub.com/tps/2023-05_ChoosingABrokerageFirm.pdf

Table 1 lists questions that my club used to collect information on the brokerage firms we evaluated. Some questions are obsolete or not applicable but I included them for completeness.

Consider Investment Products:

Evaluate the types of investments your club intends to make. Some brokerage firms specialize in certain asset classes, such as stocks, bonds, options, or mutual funds. Ensure the brokerage firm you choose provides access to the specific investment products you plan to trade.

Better Investing investment clubs should focus on stocks only.

Analyze Trading Costs:

Compare the trading commissions and fees charged by different brokerage firms. For active trading clubs, lower commissions can significantly impact overall returns. However, don't just focus on low fees; consider the quality of the trading platform and tools provided as well. Other items to consider are minimum account balances and maintenance fees.

Better Investing investment clubs should focus long-term investing and resist the frequent buy and selling of stocks. Instead, they should plan to hold stocks for the long term.

Investment club accounts are treated as business accounts and may have different fee structures than individual accounts.

Examine Research and Education Resources:

Access to research reports, market analysis, and educational materials can be invaluable for an investment club. Look for brokerage firms that offer robust research and educational resources to help your club make informed decisions.

Access the brokerage firm's website and perform a thorough search of the different tabs.

Evaluate Customer Service:

Good customer service is essential, especially when issues arise. Contact the brokerage firm's customer support to assess their responsiveness and willingness to help. Read reviews and seek recommendations from other investors. Discuss the process for withdrawing club members whether it is by transferring shares or cash.

Security and Account Protection:

Ensure the brokerage firm is reputable and offers robust security measures to protect your club's assets. Verify that they are a member of the Securities Investor Protection Corporation (SIPC) for additional account protection.

Test the Trading Platform:

Most brokerage firms offer a demo account or trial period. Take advantage of these to test the trading platform and ensure it meets your club's needs in terms of usability and functionality.

Review Account Terms and Conditions:

Carefully read and understand the brokerage firm's terms and conditions, including any fine print regarding fees, account minimums, and withdrawal policies. Make sure you're comfortable with all aspects of the agreement.

You will need to designate at least one member who has full access to the account usually the treasurer. It is good to have one or two other members who also have full access: president and assistant treasurer. All members should have read only access to the account. Find out what documentation the brokerage firm will require from members. Find out what is involved when adding or revoking a member's access. Our brokerage firm requires wet signatures from members on all forms so this is something to take into account.

Conclusion:

Selecting the right brokerage firm for your investment club is a critical decision that requires thorough research and consideration. By defining your objectives, assessing your budget, and evaluating factors like trading costs, research resources, and customer service; your investment club can make an informed choice that aligns with your goals and helps you achieve success in the world of investing.

Table 1: Questions/Requirements

Interactions with Investment Clubs	Can Broker work with investment clubs?
	How do we change Brokerage Firm Liaisons?
	What is the process to transfer an Investment Club account?
	Does the Brokerage Firm allow synching of the Brokerage firm account with the accounting club software?
	Does the Brokerage Firm have Check Writing capabilities?
	Does the Brokerage Firm have local offices with live people?
	Does the Brokerage firm offer educational presentations?
	Are there education programs available on Brokerage Firm 's website
Costs, Fees & Commissions	What is the commission charged for trading stock?
	What is the maintenance fee?
	Fees to transfer in stock from another Brokerage Firm?
	What is the process the Brokerage Firm requires to withdraw a member from the club?
	What are the costs to withdraw a member from the club?
	Can the Brokerage Firm transfer shares of stock to a withdrawing member?
	Can Brokerage Firm transfer shares of stock to another Brokerage Firm?
	How easy is it to cash out a member?
	Does the Brokerage Firm allow buying of fractional shares?
	Does the Brokerage Firm allow trades in dollar amounts?
Portfolio Management	Does the Brokerage Firm allow reinvesting of dividends?
	Does the Brokerage Firm provide options: Stop Loss, Buy Limits, Trailing Stops (a percentage drop versus a dollar figure)