

## Types of Brokerage Accounts

Making a determination as to where and with whom to commit your investment dollars takes some thought. There are three types of brokerage houses that will transact the purchase and sale of securities for you: full-service, discount and deep-discount brokers.

### What about an online broker?

This has become a misnomer in the past few years. The designation of “online broker” more accurately refers to the way in which the trade is being transacted (i.e. executed online) rather than the *type* of broker that’s doing the transacting. A majority of brokerage firms offer online access to account information and transaction abilities. In addition, most brokers can be contacted via computer and their fees may or may not be adjusted because the trade is being executed electronically. To say that you make investment transactions online is therefore more accurate.

The following are the basic structural differences between the three types of brokerages.

### **THE FULL-SERVICE BROKER**

Financially speaking, full-service brokers are your 24/7 guardian angels. They will feel empowered—and even obligated—to call you before you call them, and offer recommendations based on the tremendous research resources that their firm has at hand. Your club can be provided with as much of this research as it wishes. The broker, upon request, can offer input and advice concerning a stock the club is studying. But for all the research and reports and recommendations, you’ll be paying top dollar in the form of broker commissions or fees.

Yes, full-service brokers will work for annual fees instead of on a commission-per-trade basis. However, the typical one percent per year that they levy based on the value of your account must be enough to make it worth their while. A new club with only a few thousand dollars in the kitty would ordinarily not merit such consideration. One exception might be if the broker is new, too, and considers this a loss leader for future business, especially the prospect of landing the individual accounts of club members.

## THE DISCOUNT BROKER

Now we move to the category created after 1975, when the SEC did away with fixed commissions. The discount broker came into being and swept through the industry like a sandstorm, gobbling up existing full-service accounts and making it possible for virtually anyone to become an individual investor.

At the time, discount brokers were set up simply to make trades. No free research, no reports, no phone calls with hot tips—but no high-end commissions, either.

And then, two things happened. As clients became more knowledgeable about the market, they demanded more services for the same or similar fees. Thus, discounters such as Charles Schwab quietly made their research more accessible and their non-commission-based sales force more helpful.

As these firms moved closer toward full-service status, the gap they left was filled by very willing start-ups who set up shop on the Internet, offering almost nothing and charging the same.

## THE DEEP-DISCOUNT BROKER

“You get what you pay for” was never more appropriate. With a few keystrokes, the investor became able to buy and sell securities for dollars per transaction. Deep discounters thrived because the do-it-yourself investor wanted no more than an electronic conduit to the trading floor and companies like Ameritrade were born to provide it.

Deep discounters, like discount brokers, execute buy and sell orders with great speed. Due to their bare-bones operation, they can do so at great reductions in cost. Some charge a flat per-share commission; others offer a sliding scale based on the number of shares traded.

### **Working with a Broker**

#### **So how do we find a broker with whom we can begin a mutually satisfying relationship?**

First, you need to find a broker who knows a thing or two about investment clubs. Second, you want someone to advise you, not to sell you. One of the prime turn-offs of full-service brokers is their reliance on commission-based products.

So consider cost. Minimum commissions are often the same for both major discount and full-service brokers. Once you begin investing in larger blocks, the discounts become more significant.

In the fourth or fifth year of operation, a club may reach a crossroad. Some clubs “move up” to a full-service broker to gain another perspective on the market, as well as to broaden investment choices. On the other hand, some clubs become more confident in their ability to make good decisions without the advice of a broker, and switch to, or remain with, a deep-discount firm.

### **Meanwhile, how do we begin?**

Whether you select a full-service or a discount firm, all members of the club have to sign an agreement when your account is opened. The agreement varies from firm to firm, but in all cases authorization must be given to the designated individuals to place buy and sell orders.

### **Let’s say we sign up with a full-service broker in hopes of getting exactly that: full service. What can we really expect?**

If you select a full-service broker, remember the most essential and necessary element in the relationship: the broker must understand your investment philosophy and help you to achieve your goals. If the broker tries to force decisions on you, the relationship won’t work.

As part of the relationship, your broker should be willing to provide your club with extra services not necessary for individual customers: custody of securities, dividend collection and forwarding of stockholder notices. Some brokers want a service charge for these extras. The broker probably also expects that several, and possibly all, of your members will eventually open personal accounts with him or her.

Respect the broker’s objectives. Remember, the broker is in business to make money. During the hours the market is open, brokers are consumed with placing buy and sell orders or soliciting such orders from customers. Ask if there is a particular time, either early morning or late afternoon, that is the best time to talk.

Also, out of respect for the broker’s requirements, don’t expect him or her to deal with more than one individual representing the club; usually that’s the financial partner. About twenty-four hours before the club’s meeting, ask the broker for any recent information on stocks in the club’s portfolio, as well as stocks being studied for possible purchase.

## **Shouldn't a full-service broker be telling us what to buy?**

No, that's your club's decision. However, once the decision has been made, you may certainly ask your broker's opinion before placing an order. If he/she has valid objections, you should listen carefully and then poll club members before proceeding.

Information obtained from your broker in advance of the meeting should be recorded and shared with club members before any investment actions are taken. As soon as possible after the meeting, the club's contact person should place the authorized order with the broker. Don't hesitate to call during trading hours with a buy or sell order; that's the best time. However, if you want to talk at length with your broker, wait until after hours and try to schedule such discussions in advance.

When your club has selected a stock to study, ask the broker for copies of *Standard & Poor's* or *Value Line* sheets. Be fair in requesting material from the full-service broker in order to minimize the expense of handling your account. There is no need to order more than the two to four *Standard & Poor's* sheets required for next month's reports.

## **What about calling the broker for prices?**

Try and confine the use of your full-service broker to obtaining that which you can't get anywhere else. The most recent prices are available continuously on various cable TV stations as well as on the Internet. Closing prices from the previous trading session are listed in your local newspaper. Your broker can't do any better.

## **What is the correct procedure once we've decided what to buy?**

Your financial officer should transmit one check to your broker, having deposited members' payments in the club's bank account. Be prompt; payment must reach the broker within three business days following issuance of the buy order. The broker is subject to a fine if he/she fails to require on-time payment. If you don't meet the deadline, your broker could be required to place your club on a restricted list and possibly be forced to collect funds from you in advance of accepting your orders.

## **Shouldn't the broker be attending our meetings? Isn't that part of the "full service"?**

You and your fellow club members are in business to learn by doing, not to defer to the opinions of others you consider more knowledgeable than yourselves. Invite the broker to your annual meeting only.

The broker should be asked to offer suggestions on your study program for the months ahead. However, remember that you started your club to make your own decisions. The broker should be asked only to comment generally, and should not be expected to assume responsibility for your investing success. That's your task.