

# BROKERS 2009

Frustrated Americans are thinking about dumping their broker. How firms are trying to keep old clients—and woo new ones.

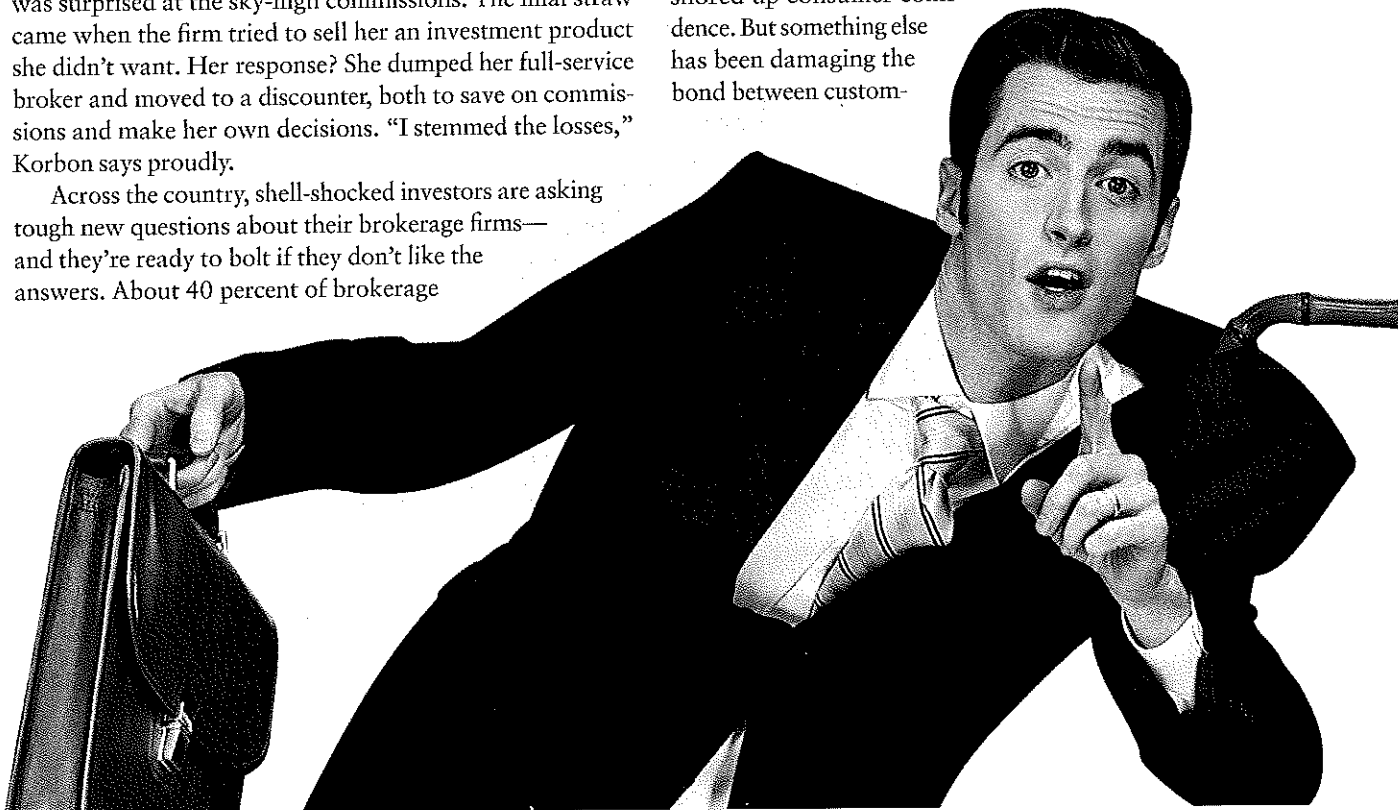
By Neil Parmar and Roya Wolverson

■ LIKE SO MANY OTHER INVESTORS, KATHRYN KORBON has been trying to ride out a rough and confusing stock market. Amid the turmoil, the 55-year-old psychotherapist says, her brokerage firm simply urged her to “hang in there,” without much explanation. When she went to sell some stocks, she was surprised at the sky-high commissions. The final straw came when the firm tried to sell her an investment product she didn’t want. Her response? She dumped her full-service broker and moved to a discounter, both to save on commissions and make her own decisions. “I stemmed the losses,” Korbion says proudly.

Across the country, shell-shocked investors are asking tough new questions about their brokerage firms—and they’re ready to bolt if they don’t like the answers. About 40 percent of brokerage

customers say they either switched brokerage firms last year or are considering it, according to a survey SMARTMONEY conducted with the help of research firm Synovate. News from the front lines of the financial crisis—from the collapse of Lehman Brothers to some messy broker mergers—hasn’t exactly shored up consumer confidence. But something else has been damaging the bond between custom-

Photograph by Evan Kafka for SmartMoney



ers and their brokers: a nagging feeling that both the pain of last fall's crash and a slow response to recent market swings have made things worse than they had to be. Many investors think full-service advisers "failed them in trying times," says researcher Matthew Bienfang of Tower Group. At the same time, discount brokers are waging their own battle to placate disgruntled customers. A recent survey from the University of Michigan shows discount brokers suffered the steepest decline in customer satisfaction among e-commerce businesses. "We're never happy when our portfolios are

dropping like a stone," says Larry Freed, CEO of research firm ForeSee Results, which worked on the survey.

Not everyone is firing his or her broker, of course. But the shift, along with the upheaval caused by the financial crisis, suggests that no matter where the market goes from here, a shake-up is at hand in the \$100 billion industry after years of relative calm. Consolidation has already started, with Bank of America's acquisition of Merrill Lynch and the planned joint venture of Morgan Stanley and Citigroup's Smith Barney. Now, says brokerage analyst Mark

Lane, of William Blair, big brokers will try to become more efficient by stepping up efforts to weed out underperforming advisers. Experts say that as more customers with smaller accounts are shunted aside, discount brokers will try to entice them with new technologies to put more research and advice tools at their fingertips.

**T**HIS ISN'T THE FIRST TIME THE brokerage industry has been under pressure. When the stock market crashed in 1987, and again after the tech bubble burst earlier this de-

Photograph by Jeff Harris for SmartMoney; prop design by Michael Kirby Smith

## OUR 5-PART TEST

**The market's recent swings have many investors raising a crucial question: Does their broker have what it takes to help them get through perilous times, whether it's the quality of the advice or the clarity of their account statements? We asked analysts and consultants who follow the industry for the best ways to tell if your broker is right for you.**

### ■ Keeping in Touch

It's not enough that top executives at big brokerage firms have been reaching out to investors with "Dear Client" letters. Some customers are demanding to hear directly from their broker—with good news or bad—at least once a month and even weekly during painful periods like last fall. When your broker does call, says David Lo of J.D. Power, he or she should spend enough time



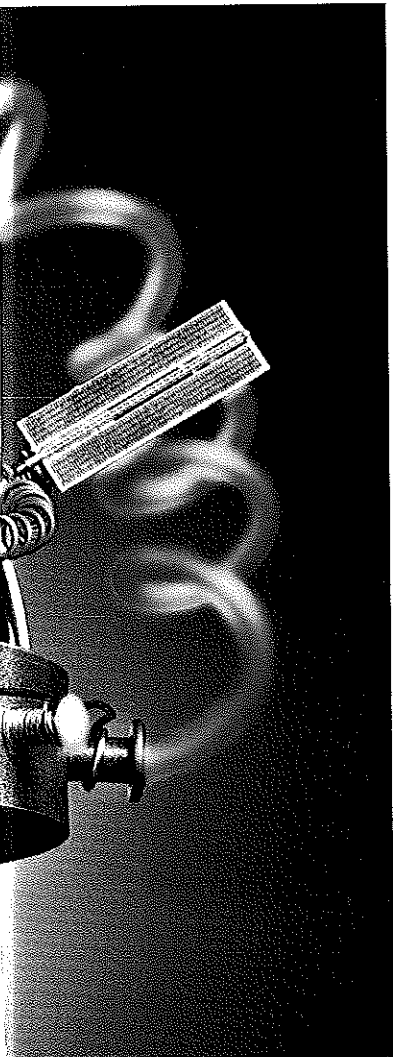
cade, nervous investors put the brakes on trading—and many brokerage firms saw commission revenue plummet. While investors still sought advice and guidance, it took years before they regained the confidence to trade at the same levels again. But analysts say that turmoil may be peanuts compared to the backlash the industry is starting to face now. To many investors it wasn't just that the market spiraled out of control and hammered their portfolios; their confidence plunged as some of the industry's giants collapsed, got swallowed up by other firms or wrestled with rumors that they might be the next to fall. Already, many have voted with their feet. For some full-service firms,

that meant a loss of billions of dollars in client assets in recent quarters.

Brokerage firms can hardly be blamed for the worst bear market since the Depression, or even for failing to predict that it was coming. But analysts say they made other mistakes, such as pushing complicated debt instruments like auction-rate securities as a safe alternative to money-market funds. Full-service and discount firms alike had egg on their face as the market for those securities froze up and angry customers couldn't get their money. Some promoted so-called target-date mutual funds as a "set it and forget it" retirement vehicle, only to see many of them crash with the market. And more than a dozen trading firms

agreed earlier this year to pay \$69 million to settle allegations that they cheated customers by unfairly making money by trading ahead of their customers' orders. Although the firms didn't admit guilt, the case contributed to a loss of confidence that experts say could take years for Wall Street to earn back. According to a study from Forrester Research, only 45 percent of investors believe their brokerage firm does what's best for its customers and not just its own bottom line—the lowest level in four years.

But for many clients the biggest disappointment has been how brokers simply haven't kept them in the loop, both when their accounts went into free fall last winter and when they ricocheted



addressing three crucial points: your portfolio's recent performance, its current asset allocation and a future investment strategy that works for you. For many investors, hearing from their broker during tough times is far more important than getting the easy call when everything is going right.

#### ■ **State of the Statement**

If you think your account statements are confusing, join the club. More than one-fifth of investors say their brokerage statements are difficult to understand—even more challenging than cell phone guides, according to a recent survey by consultants Siegel & Gale. Analysts say the best account statements include a simple summary with a snapshot of how the investor fared during the statement period, plus the total value of the account. The bigger and bolder the type, the better, according to Dalbar, a firm that analyzes brokerage statements. Raymond James added larger fonts and easier-to-read charts and graphs just over a year ago, and that helped the brokerage nail high

marks in two recent studies comparing account statements.

#### ■ **Sound Advice**

Some customers say that when they wanted to pare back their stock holdings amid last fall's market crash so they could move to less-risky investments, their brokers dragged their feet or even refused to shift strategies. While experts say a good broker is supposed to push back when he or she thinks a client is being rash, brokers ultimately need to know when to back down and follow directions from the person whose assets are at stake. Brokers may not like it, but these days many clients are more risk-averse than ever. If your broker seems keen on using a particular strategy, but you're on the fence, try asking what he's doing with his own investments.

#### ■ **Pushing Products**

When SMARTMONEY recently surveyed full-service clients to see what they valued most about their firm, they ranked professional guidance about investments at the top of their

list—even above reasonable commissions and fees. Of course, good brokers ensure that their investors know exactly how a product works by using plain language and clarifying without any jargon. But they should also be able to invest their clients' money in any number of products, "and not just the house brand," says Bill Doyle, an industry analyst at Forrester Research. Sometimes that house brand comes with hefty sales charges.

#### ■ **Paying the Price**

Will your broker help you save a buck? When it comes to so-called managed accounts, it pays to negotiate. The difference between 1 percent and 1.25 percent may not seem like much, but cutting the annual fee by just a quarter of a percentage point can lead to big savings: \$12,500 over the course of a decade on a \$500,000 account. And while paying a set fee is typically a better choice in an account with frequent stock trading, buy-and-hold investors might save more money by paying a commission for each trade.

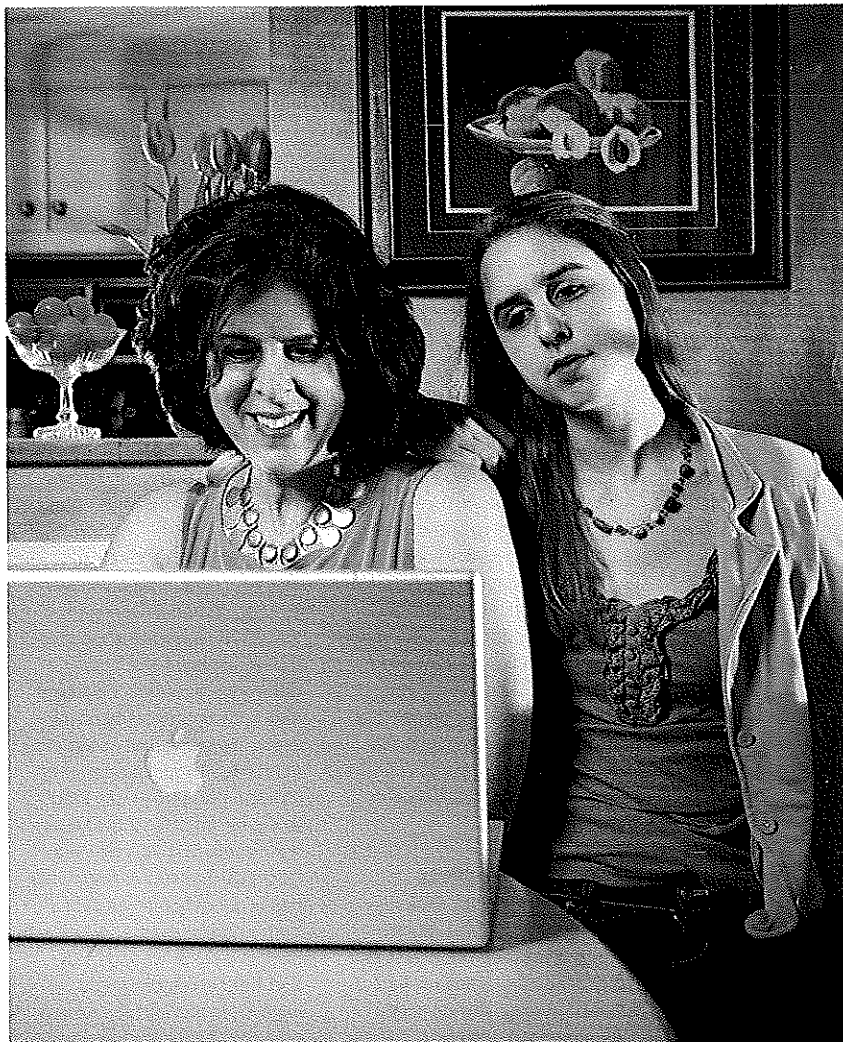
this year. William Lamberty, a water-supply technician in Romeoville, Ill., says he called and e-mailed his broker a number of times last fall. But the 52-year-old investor says it was only after increasingly frantic follow-up calls that his broker scheduled a face-to-face meeting after the initial crash. By then Lamberty had lost more than \$56,000 and decided to transfer his account to a discount firm, where he could manage his investments on his own. "I got disillusioned," he says. (His broker says he follows a schedule to contact clients once every quarter and that Lamberty "was pretty well covered in terms of

conversations back and forth.")

The discontent with expensive advice hasn't been lost on discount brokers, whose commissions are typically a small fraction of those of full-service brokers. Analysts say there's been a surprising jump in trading at discount brokers, as some investors try to make up for losses and take advantage of the market's volatility. Even amid the worst bear market since the Depression, the number of new online accounts jumped 14 percent last year, to 1.7 million, according to Tower Group. The research firm expects another 4.5 percent increase this year. TradeKing CEO Don Montanaro says

his firm has seen a "surge" of customers moving from the big full-service brokers, contributing to a 42 percent jump in new accounts in this year's first quarter.

But not all the movement is from full-service firms to discounters; restless customers are also switching from one discounter to another. At the same time, some full-service firms, particularly regional outfits, are picking up business. James Weddle, managing partner of Edward Jones, boasts that his regional firm has snatched accounts from the industry's biggest players—and that these new customers brought in more money than the firm lost from defections.



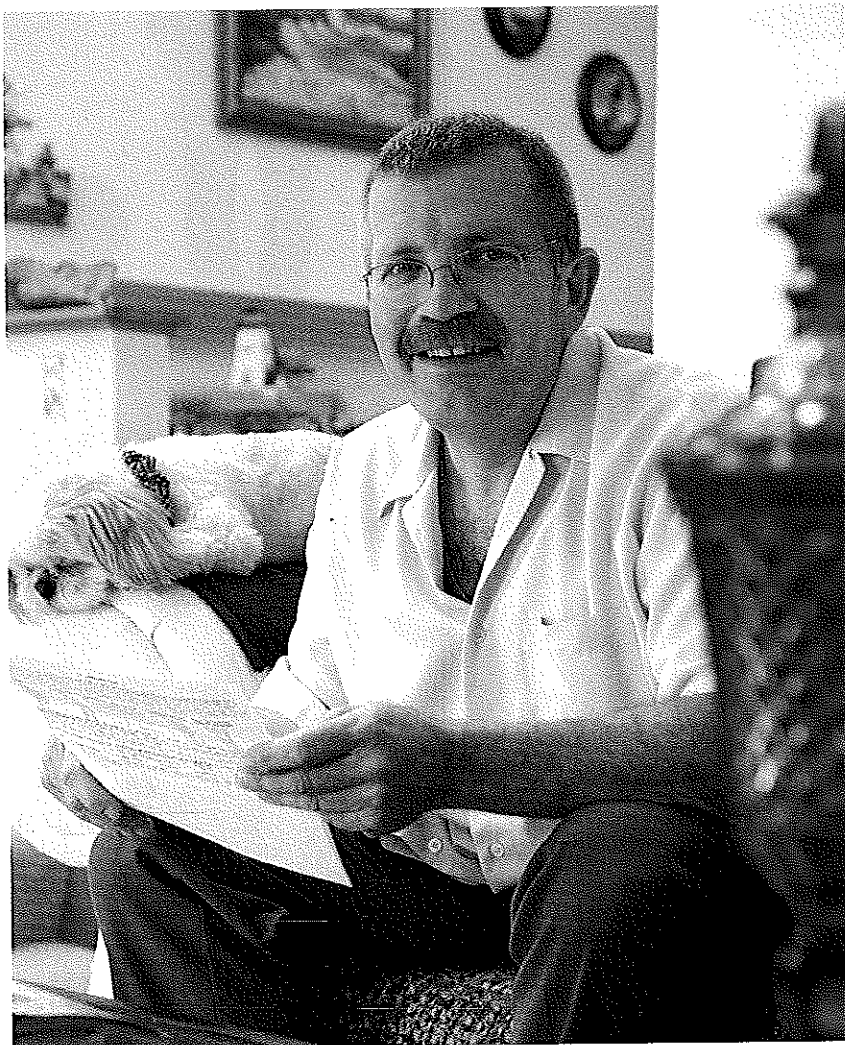
## THE SWEEPING CHANGES

could spell new opportunities for savvy investors. Indeed, as firms of all types try to drum up new business, consumers are discovering that there's never been a better time to ask, "What can you do for me?" When Korbon, of Charlottesville, Va., opened an account at discounter E\*Trade, she was awarded up to 100 free trades. Other investors shopping around for the right fit have been inundated with all sorts of free offers, including airline miles, an iPod Nano and even a new BlackBerry smartphone.

But once you get past the freebies, going solo isn't as easy as it looks. For Korbon, switching her accounts to a discount broker required a whole new level of attention to detail. With the stock market going haywire, she soon found herself doing everything she could to keep up: reading financial blogs, listening to online seminars on investment

**RORY COHEN  
AND DAUGHTER SHANE CLARK**  
The business coach from Wyncote, Pa., decided to move some assets to a discount broker, but kept college savings with a full-service broker.

Photographs (from left) by Nathaniel Weich/Redux for SmartMoney; Chris Lake for SmartMoney




## WILLIAM LAMBERTY

Now that he's managing his own money, the Illinois investor spends up to six hours a week on research. "I'm trying to catch up on everything, because I'm a little rusty."

than \$1 million in assets.

Full-service brokers argue that means clients want more hand-holding, not less, in these turbulent times. At UBS, clients can dial in to a weekly conference call to hear the firm's research team discuss the current market and investment opportunities. Smith Barney says it has gone into "communication overload"—doubling contact with its clients and offering more educational seminars. As clients grow more comfortable with online tools, full-service brokers are also beefing up their Web sites—traditionally an area of strength for discounters. Raymond James, whose site earns top marks from research firm Corporate Insight, has been adding more online videos so clients can hear the firm's analysts discuss the latest market moves. "There's an unprecedented thirst for advice," says Chet Helck, chief operating officer of Raymond James.

Still, in Wyncote, Pa., Rory Cohen is hedging her bets. Just before her portfolio started to head south with the market last year, the 53-year-old business coach for entrepreneurs cut the cord with a longtime broker and moved to a discounter. But she didn't give up on advice altogether, preferring to keep her children's college savings with another full-service broker. After all, she says, "when things are good, your adviser looks like a genius." 

**SmartMoney.com**

What are brokerage and fund firms telling clients about the markets? Check out our Broker Talk column at [www.smartmoney.com/brokertalk](http://www.smartmoney.com/brokertalk).

subjects like options trading and checking her portfolio three times a day. "This is not supposed to be my day job," she said on one of the many days the market was in free fall. In Illinois, Lamberty used to spend an hour or so each month looking over his full-service account. Now that he's on his own, he says he spends up to six hours a week researching his stock picks. Sometimes he goofs: Earlier this year he bought shares of General Electric, only to see the company cut its dividend for the first time since the Great Depression. "I'm trying to catch up on everything, because I'm a little rusty," he says. "Okay, I'm a lot rusty."

Moving to help fill the knowledge gap, some discount brokers are rolling out new programs to guide investors through the market's ups and downs—and skating closer to the turf of the full-service giants. TD Ameritrade offers

a program that includes eight weeks of training on investment topics, followed by four weeks of coaching by a TD Ameritrade adviser. At \$2,400 for a three-month membership, the extra help doesn't come cheap, though it can still be less expensive than shelling out \$150 to \$300 an hour for a fee-only financial planner. Discount brokers have been racing to outdo each other on a litany of services, in fact—24-hour phone access, customer-service chats and freshly minted podcasts, to name just a few. When Schwab CEO Chuck Schwab and Chief Investment Strategist Liz Ann Sonders conducted an online town hall meeting to discuss the markets, nearly 10,000 people watched it live. And it's not just the small fry they're after: Schwab recently doubled, to nearly 140, the number of customer-service reps serving investors with more

# FINDING THE BEST FIT

■ IF YOU'RE LUCKY, YOU SEE YOUR BROKER ONCE OR TWICE A YEAR. IF you're sharp, you may even understand what he's saying. (TIPS? Auction-rate securities?) The monthly account statement is often a jumble of numbers and pie charts you barely comprehend. And yet All Stocks is willing to endure all those hassles, so long as her broker follows one mandate: Call her regularly. The Slate Hill, N.Y., office manager says she switched brokers earlier this year just for that reason. "That's one of the demands, and I mean demands, that I made when we moved everything over to him," Stocks says.

Fed up with decimated portfolios, Americans are on a mission to evaluate the firms and people managing their money but are hobbled by an obvious problem: How do you do that? Each year dozens of research firms and news organizations conduct surveys to evaluate brokers big and small. And each year different names tend to rise to the top—or sink to the bottom. But experts say many of the surveys may be missing the mark, focusing on one or two areas at the expense of others. "It's not just the broker's performance that matters," says Larry Freed, CEO of research firm ForeSee Results. These days, he says, brokers need to find ways "to put customers at ease."

## WINNERS & LOSERS

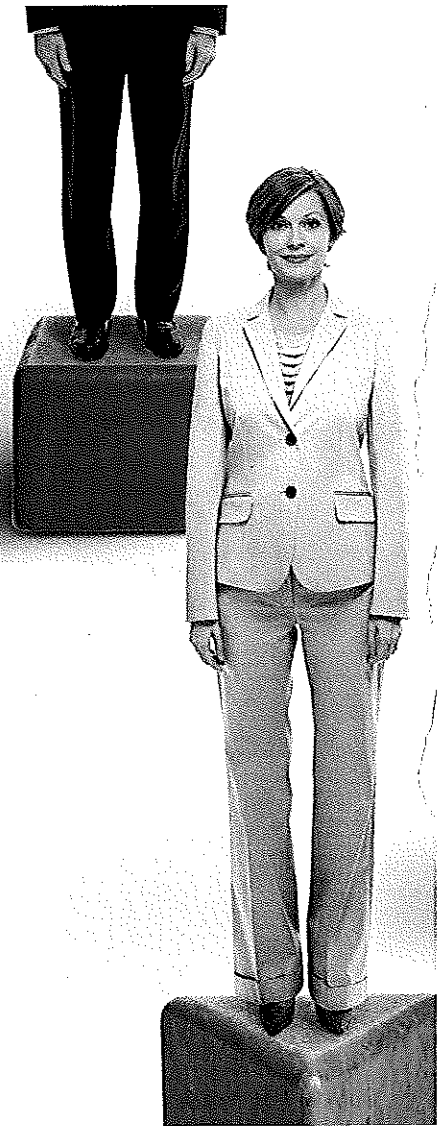
In the postcrash era, the names of the best—and the worst—brokerage firms are changing. Our 17th annual survey digs deep into the full-service and discount industries.

By Roy Wolverson and Neil Parmar

to close a retirement account—a service provided for free by some of their competitors. OptionsXpress left us on hold for nearly four minutes when we requested its interest rate on cash balances. (The company later said it shouldn't have taken that long.) But when we contacted Fidelity with a query on interest rates, the rep gave us a quick answer and even a compliment: "Good question."

The final results are based on categories that matter most to investors, like trading tools and customer service for discount brokers, and stock picking and account statements for full-service firms. Our efforts haven't gone unnoticed. For two years now, the Web site ConsumerSearch has said SMARTMONEY has the best broker survey among magazines and newspapers. Our findings:

For three months, while the financial crisis was continuing to ricochet, we were busy digging up details on the most prominent discount and full-service brokers in the U.S. As we have for 17 years now, we relied on our own tests, consulting-firm analysis and surveys of the brokerages themselves. We noticed that WellsTrade and Banc of America charge \$75



## DISCOUNT BROKERS

### COMMISSIONS & FEES

**BEST: JUST2TRADE**

**WORST: WELLSTRADE**

WHAT A DIFFERENCE a bear market makes. Last year, when we pressed customer-service reps to see what they could do to save us money on commissions, only a few muttered our favorite word: *negotiate*. This year nearly half the firms we contacted said they would try to strike a deal of some kind. No wonder. Tower Group estimates a record 3.1 million online customers switched from one firm to another last year. And in our own survey, conducted with research firm Synovate, we found that discount customers who are think-

Photo-illustrations by Jeff Harris for SmartMoney



ing of switching firms are mainly interested in getting a break on commissions and account fees.

The winner in this category, Just2Trade, is new to our survey this year. Launched in 2007 and geared toward experienced investors, the firm took top honors with the price of \$.50 for both equity and mutual fund trades. It also boasted bargain-basement rates on margin interest: 2.75 percent, compared with up to 8.75 percent at its competitors. Just2Trade edged out Zecco, which got its start just a few years ago by pitching 40 free trades each month to any customer holding a \$2,500 balance. Zecco has angered some customers by lowering the number of free trades to 10 and increasing the required balance

to \$25,000. Fall short and the cost is \$4.50 a trade. "If this new policy isn't reversed, I'm gone," wrote one customer in an online forum. Others weren't happy to see new fees for paper statements and trade confirmations. "It's a recession," says Gabriel Dalporto, Zecco's chief strategy officer. "Our margins are down."

WellsTrade, the discount-brokerage unit of Wells Fargo, doles out up to 100 free trades a year. But it rounds out the bottom of this category because customers qualify only if they link their brokerage account to a Wells Fargo bank account. Without that link and \$25,000 in combined assets, commissions start at a pricey \$19.95 and run as high as \$60 for some broker-assisted trades.

## INVESTMENT PRODUCTS & MUTUAL FUNDS

**BEST: FIDELITY**

**WORST: SOGOTRADE**

WE GIVE HIGH marks to brokers with a wide array of investment products, but sometimes those products can backfire. E\*Trade customer Bill Reid Jr. says that when he was told that debt instruments known as auction-rate securities were as safe as a money-market fund, he took the leap. But more than a year after the market for those exotic products froze up, Reid, a 64-year-old retiree from Greenville, S.C., says that he still has tens of thousands of dollars locked up in the securities. "It's destroying my trust in brokers," he says. A spokesperson for E\*Trade declined to comment on Reid's situation.

Like thousands of investors at other firms with money tied up in auction-rate securities, Reid learned the hard way to be skeptical of hard-to-understand products. That's one reason we rank firms on products we think are more useful—and comprehensible. This year's race came down to Fidelity, Charles Schwab and TD Ameritrade. Together the trio has more than double the number of customers of the remaining firms in our survey combined, and each has a smorgasbord of offerings, including municipal bonds, certificates of deposit and access to initial public offerings. In the end, Fidelity led the pack with its impressive mix of more than 16,000 mu-

tual funds, many of which don't carry transaction fees.

The firms with the fewest mutual funds generally had the slimmest pickings when it came to the other investment products. Just2Trade and ShareBuilder, for example, offered fewer mutual funds than the competition, and both lacked corporate, municipal and U.S. Treasury bonds. Zecco and SogoTrade carried exchange-traded funds but not much else on our wish list. SogoTrade scored the lowest overall because it was the only firm without a single mutual fund offering. The company says it's focused on active traders who come to the firm for its low commissions on stock trades.

## CUSTOMER SERVICE

**BEST: MURIEL SIEBERT**

**WORST: WALLSTREET\*E**

DISCOUNT-BROKERAGE customers don't typically count on their firm for extra hand-holding. But in today's turbulent market, they want to know that their brokerage will be there to answer questions, whether it's in a phone call, e-mail or online chat. After months of market swings, financial crises and industry scandals, experts say quality customer service is more important than ever. That's why we were surprised when WallStreet\*E, for the second year in a row, didn't reply to our e-mail as a prospective customer, while Banc of

# FULL-SERVICE WARS

**It's do or die time on Wall Street. Whether they're getting help from the government, linking up with longtime rivals or fighting over account executives, full-service brokerage firms are battling for survival. But what they may need most is loyal clients, and to entice customers, they're paying special attention to the basics, from spiffed-up account statements and flashy Web sites to good stock picking in a lousy market. Our annual look at the best and worst full-service brokers have to offer.** —R.W.

## 1. Raymond James

WWW.RAYMONDJAMES.COM

NUMBER OF BROKERS: 5,000  
NUMBER OF BRANCHES: 2,280  
HIGH MARKS: CUSTOMER SATISFACTION  
LOW MARKS: STOCK PICKING

■ A repeat winner from last year, Raymond James knocks out the competition in two categories: customer satisfaction and brokerage statements. The St. Petersburg, Fla.-based firm also earns the highest marks in our new Web site evaluation, edging out competitor Smith Barney. The 47-year-old Raymond James, which took on more than 300 new brokers last year, says it's also scooping up new customers from full-service outfits with riskier balance sheets and uncertain futures. "There are just fewer firms to compete with," says Chet Helck, the firm's chief operating officer. One weak spot: Stock picking ranked third-to-last. "I'd attribute that to a tough market," says Helck.

## 2. Edward Jones

WWW.EDWARDJONES.COM

NUMBER OF BROKERS: 12,100  
NUMBER OF BRANCHES: 10,880  
HIGH MARKS: STOCK PICKING  
LOW MARKS: WEB SITE

■ Call it a bear-market bounce. Edward Jones hired more than 900 new brokers last year, making it one of many regional brokers capitalizing on the misfortunes of Wall Street giants like Merrill Lynch. The St. Louis-based firm, with a reputation for at-your-doorstep service, also managed to lead the pack in stock picking. Its picks were down, of course, but not nearly as much as the competition's. "We don't pick exciting names," says James Weddle, managing partner. "We're just looking for solid companies that increase their dividends." On the down side, Corporate Insight found the firm's Web site hard to navigate. The company says its goal is to educate site visitors in clear language and connect them with a financial adviser.

## 3. UBS

WWW.UBS.COM

NUMBER OF BROKERS: 13,900  
NUMBER OF BRANCHES: 720  
HIGH MARKS: CUSTOMER SATISFACTION  
LOW MARKS: WEB SITE

■ What else can go wrong? The brokerage firm's parent bank has been hit by the largest annual loss ever for a Swiss company, thousands of layoffs, and a U.S. government probe into how it helped wealthy clients cheat on taxes. UBS is suffering from "concerns about financial strength," says William Blair analyst Mark Lane. Still, the brokerage firm got a boost in our survey from high scores in customer satisfaction and account statements. The firm's Web site didn't fare as well. Research firm Corporate Insight found its pages hard to navigate and the search tool inefficient. A UBS spokesperson says clients have found the site easy to use and that more improvements are on the way.

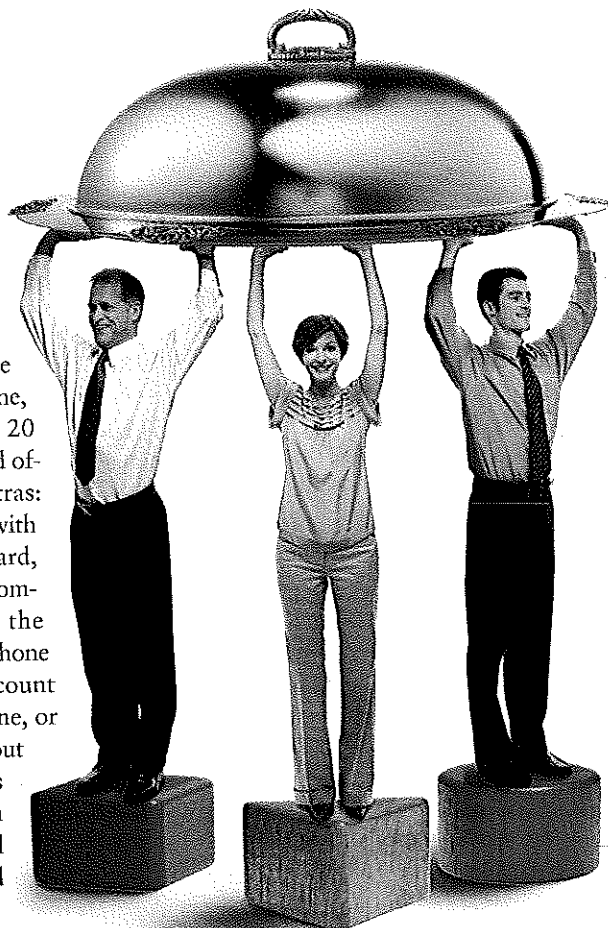
SOURCES: ZACKS INVESTMENT RESEARCH (STOCK PICKING); I.D. POWER (CUSTOMER SERVICE AND STATEMENTS); FORRESTER RESEARCH (TRUST); DALBAR (STATEMENTS); CORPORATE INSIGHT (WEB SITES); SMARTMONEY RESEARCH

America and WellsTrade had no e-mail address at all for prospective customers to get in touch. (WallStreet\*E says it mistakenly thought it had answered our e-mail.)

At the other end of the service spectrum, E\*Trade responded to growing investor nervousness by boosting its phone-support time from 17 hours a day to 24 hours a day and adding live chat to its Web site. TradeKing CEO Don Montanaro stepped up his efforts to keep in touch with customers, blogging four to five times a week and e-mailing clients several times a day. And Zecco, which last year told us it was investing "serious money" to improve customer service, boosted the number of customer-service reps by 68 percent and added live chat to its site. The extra staff made a dif-

ference: Zecco earned three stars, up from last year's single star.

WallStreet\*E was one of the fastest to the phone, answering our calls in 20 seconds on average and offering bucketfuls of extras: a free "valet account" with access to a Visa debit card, check writing and customized statements. But the firm didn't offer 24/7 phone help, access to our account through a mobile phone, or an online summary about our tax gains or losses (it says it's working on the latter two). Muriel Siebert, which inched



#### 4. Smith Barney

WWW.SMITHBARNEY.COM

NUMBER OF BROKERS: 13,000  
NUMBER OF BRANCHES: 800  
HIGH MARKS: WEB SITE  
LOW MARKS: CUSTOMER SATISFACTION

■ This Citigroup unit—soon to be Morgan Stanley Smith Barney, after its combination with Morgan Stanley—climbs in our rankings from last place last year. The firm earns high marks for trust, according to Forrester Research. James Tracy, Smith Barney's director of business development, says that amid the financial crisis, the firm boosted its contact with clients by adding educational seminars, research papers on its Web site and more-frequent phone calls from brokers. As for the merger, the firm says it doesn't plan to shed brokers, despite losing billions of dollars more in client assets in the fourth quarter than it brought in. Departing investors are "looking for second opinions," says Tracy.

#### 5. Wachovia

WWW.WACHOVIA.COM

NUMBER OF BROKERS: 14,400  
NUMBER OF BRANCHES: 1,460  
HIGH MARKS: STOCK PICKING  
LOW MARKS: WEB SITE

■ Clients of this firm might be developing a case of whiplash. Wachovia had only just begun merging its back offices with recently acquired A.G. Edwards when Wells Fargo snapped up Wachovia late last year. All those changes make some investors nervous, but Jim Hays, president of Wachovia's retail brokerage unit, says brokers like the new link-up with the San Francisco-based Wells. The firm is "attracting brokers in droves," he says. Wachovia (soon to be renamed Wells Fargo Advisors) improved in two categories this year: statements, which Wachovia revamped last year, and stock picking. Its Web site, on the other hand, ranked the lowest in the group, with a clunky search tool and dowdy layout. A redesign is in the works.

#### 6. Merrill Lynch

WWW.ML.COM

NUMBER OF BROKERS: 15,700  
NUMBER OF BRANCHES: 790  
HIGH MARKS: STATEMENTS  
LOW MARKS: TRUST

■ Analysts are still pondering the fate of Merrill Lynch and its "thundering herd" of brokers, following the firm's rescue by Bank of America and the departure of top Merrill execs. The turmoil certainly didn't help the firm's overall ranking in this year's survey; it fell three notches, from third place last year. Only 34 percent of Merrill's clients surveyed by Forrester Research think the firm did what was best for them, down from 47 percent in the previous survey. A Merrill spokesperson says the company's own surveys show that clients are "very happy" with their brokers. The firm earns kudos from the researchers at Dalbar for account statements, including an "easy-to-understand" chart showing how clients' portfolios are faring.

#### 7. Morgan Stanley

WWW.MORGANSTANLEY.COM

NUMBER OF BROKERS: 8,400  
NUMBER OF BRANCHES: 500  
HIGH MARKS: WEB SITE  
LOW MARKS: TRUST

■ Is bigger better? Linking up with Citigroup's Smith Barney would give the joint venture more brokers than any competitor, even Merrill Lynch. But combining brokerage teams comes as Morgan Stanley confronts other big challenges. The firm posted its second straight quarterly loss in the first quarter and slashed its dividend to preserve cash. What's more, Morgan Stanley ranks near the bottom in most categories in our survey. Clients are "disappointed that their wealth is declining," says head of national sales Andy Saperstein, adding that the company is doing its best to help clients navigate the turmoil. The Web site earned better marks, helped by a top-notch design.



RANK*	BROKER	COMMENT	COMMISSION (\$)**	HIGHEST INTEREST RATE ON CASH (%)	SCORES				
					MUTUAL FUNDS & INVESTMENT PRODUCTS	BANKING SERVICES	TRADING TOOLS†	RESEARCH	CUSTOMER SERVICE
1	<b>E*Trade</b> www.etrade.com	Strength across the board notches top ranking for third straight year.	9.99	1.45	★★★★	★★★★★	★★★★★	★★★★★	★★★★★
2	<b>Fidelity</b> www.fidelity.com	Keeps No. 2 spot with robust product offerings and biggest mix of funds.	10.95	0.89	★★★★★	★★★★★	★★★★★	★★★★★	★★★★
3	<b>Charles Schwab</b> www.schwab.com	New, easy-to-use Web site, but takes time to prepare an online trade order.	12.95	2.00	★★★★★	★★★★	★★★	★★★★★	★★★★★
4	<b>TradeKing</b> www.tradeking.com	Short on some product offerings; strong on customer service.	4.95	0.28	★★★	★★	★★★★★	★★★	★★★★★
5	<b>TD Ameritrade</b> www.tdameritrade.com	Large selection of trading tools. Missing some banking services.	9.99	0.05	★★★★★	★★	★★★★★	★★★★	★★★
6	<b>Muriel Siebert</b> www.siebertnet.com	Top-ranked in customer service, though lacks robust research.	14.95	0.89	★★★	★★★	★★★★★	★★★	★★★★★
7	<b>Scottrade</b> www.scottrade.com	Limited banking services. But filling a trade is fast and easy.	7.00	0.20	★★★★	★	★★★★	★★★	★★★★
8	<b>Firstrade</b> www.firstrade.com	Large selection of products; small mix of research and trading tools.	6.95	0.25	★★★★	★★★	★★★	★★	★★★
9	<b>OptionsXpress</b> www.optionsxpress.com	High marks for trading tools. Limited hours for phone-based customer service.	9.95	0.72	★★★	★★	★★★★★	★★★	★★
10	<b>Banc of America</b> www.baisdirect.com	\$25,000 in bank linked to a brokerage account earns 360 free trades a year.	14.00	0.25	★★★★	★★★★	★★★★	★★★	★★
11	<b>Just2Trade</b> www.just2trade.com	Newcomer to survey offers cheap trades but caters to experienced investors.	2.50	0.05	★★	★★	★★★★	★★★	★★
12	<b>WellsTrade</b> www.wellstrade.com	Combined \$25,000 in bank and brokerage earns 100 free trades a year.	19.95	0.50	★★★	★★★★★	★	★★★★	★★★
13	<b>ShareBuilder</b> www.sharebuilder.com	Jumps three spots, after adding 300 mutual funds. Extra fees for research.	9.95	0.34	★★	★★★	★	★	★★★
14	<b>WallStreet*E</b> www.wallstreete.com	Still bare-bones on research; poor performance in customer service.	9.99	0.49	★★★★	★★★	★★★	★	★
15	<b>Zecco Trading</b> www.zecco.com	Faster customer service, but free trades now require \$25,000 minimum balance.	0.00	0.03	★★	★	★★	★	★★★
16	<b>SogoTrade</b> www.sogotrade.com	Lacking in mutual funds, bonds and research. But filling a trade is faster.	3.00	0.00	★	★	★★	★	★★

\*Criteria are not equally weighted. \*\*For clients with a brokerage balance of \$50,000 making up to 20 trades per year. †Includes data from Gomez Inc.

SOURCE: SMARTMONEY RESEARCH

## RESEARCH

**BEST: CHARLES SCHWAB and E\*TRADE**  
**WORST: ZECCO and WALLSTREET\*E**

AS INVESTORS increasingly worry about the safety and appropriateness of the financial products they buy, they're looking for much more than standard research reports from Wall Street analysts. That might explain why Scottrade's investor education podcasts have ranked in the 20 most-popular investment-related podcasts on iTunes. The St. Louis-based firm, which jumped up a notch in this category, doubled its video podcasts last year to meet the "tremendous demand for investor education," says Kevin Dod-

son, director of online financial services. Fidelity, another iTunes regular, bulked up its research with ratings of how companies perform on environmental, social and governance issues. "More customers want help on how to do it themselves," says Jim Burton, president of Fidelity's retail brokerage.

Charles Schwab and E\*Trade tied for first by adding their own new offerings. Schwab introduced a new, easier to navigate Web site, while E\*Trade upped its menu of Web-based seminars by 50 percent. The Web sites of Zecco and WallStreet\*E took the longest to navigate, and the firms earned some of the lowest marks on research. WallStreet\*E says the firm is hoping to correct its "re-

search problem" with a planned partnership with Zacks Investment Research. Zecco says it has beefed up in this area by adding Standard & Poor's research reports and a mutual fund center.

Of course, not every firm aims to be the best in each category. SogoTrade, for example, wants to be known as a great place for active traders seeking low commissions, and ShareBuilder touts its system for automatic investments in stocks and mutual funds. ShareBuilder says its customers don't really want a lot of bells and whistles, and if they did, it would add to the cost of the product. When it comes to investing, says ShareBuilder President Greenshields, "there's no free lunch." ☹

