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SmartMoney

the perfect fit

The Key to Finding
The Right Broker
By Neil Parmar

Scottrade with more offices than Schwab?
Fidelity with discount commissions?
The different breeds of brokers are
merging. For our 16th annual survey, we
find the best—and worst—hybrids.

IT'S BEEN 20 MINUTES AND STILL THE "LIVE CHAT" option with online broker WallStreet*E has failed to respond. "Thanks for your patience," we are told often, before we give up. "An operator will be with you shortly." Still searching for strong service, we move on to OptionsXpress, which promises reliable phone reps to answer questions. But when we start asking questions, our representative is of little help. We are told to read more on the firm's Web site. Well, thanks.

You know the story. You love your broker; you hate your broker. You wonder if there's anyone better. And in the agonizing market of 2008, those feelings can swing as quickly as your portfolio, diving with each market swoon and stumbling back with each rebound. Indeed, by all accounts brokers are under more pressure this year—from the market,

from spooked customers and from each other as they work overtime to swipe customers from rivals. And while subprime woes at E*Trade's banking unit gave that firm an extra dose of bad publicity, the entire group is under the gun. The industry says service is getting better—and can point to some surveys for evidence—but don't tell that to an investor stuck on the phone trying to get help with his account. "I made three phone calls and had to deal with three different customer-support people before everything was fixed," says Robert Killen, a computer engineer for AT&T.

Each year we take an in-depth look at the industry's performance, and it wasn't long before we noticed something new: a blurring of the lines between key players. For years online brokers could be divided into two camps—discount

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brokers known for cheap trades but not much else, and “premium” discount brokers with higher prices but more products and services. Now that’s pretty much out the window. Scottrade may be a discount broker, but it’s also opening new branches at a furious pace, giving it more outposts than Charles Schwab. And some traditional “premium” discount brokers now rival discounters when it comes to price: The average commission charged by discounters like Firsttrade is about 15 percent less than that of premium players like Fidelity, down from nearly 50 percent just four years ago. “We’re all in this arms race,” says TradeKing CEO Don Montanaro.

This blurring of the brokers can give savvy investors more leverage. In San Diego Mark Kunding says he likes his Charles Schwab account for its free checking that comes with decent interest rates on cash deposits. But the 32-year-old banking-software expert thinks some of Schwab’s mutual fund selections are “mediocre” compared with those of another firm he uses—Schwab archrival Fidelity Investments. Meanwhile, he’s on the hunt for a broker who will give him free trades in ETFs. He’s not the only one with divided loyalties: Research firm TowerGroup has found a steady increase in the number of accounts per customer, to a current average of more than 2.5 for each investor. According to David Lo, director of investment services at J.D. Power, customers keep 62 percent of their assets with their primary online broker; the rest goes somewhere else.

For our 16th annual survey, we ditched previous groupings of discount and premium brokers and assembled one list of the best and worst online brokers. But since investors have specific needs, we came up with winners and losers in six categories, too. We didn’t change our usual rigorous analysis, using a combination of outside research and our own. That includes our usual paces: opening accounts, noting how long it took to find certain information, and evaluating Web sites for their research, navigation and trading tools. And as WallStreet*E and OptionsXpress discovered, we also put customer service through the wringer by calling and e-mailing questions to each firm. The rankings and commissions we report are based on a customer who trades up to 20 times a year with \$50,000 in a brokerage account.

FULL-SERVICE FREE AGENTS

As brokers switch teams faster than baseball players, our survey shows that many customers are tagging along.

Stockbrokers are supposed to take care of their customers, but Skip Weisman’s broker made a habit of going overboard. He

showed up at Weisman’s birthday parties, went to hockey games with him and sent gifts on holidays. Weisman, a Poughkeepsie, N.Y., consultant, was so spoiled that when he couldn’t reach his broker on his work line, he called his cell phone. So when his broker decided to switch firms last October, Weisman faced a choice: take a gamble with a new broker at his current firm, Smith Barney, or follow his friendly broker to Wachovia. Guess what? Weisman bolted with his broker.

If the full-service-brokerage industry didn’t have enough problems with shrinking profits, a credit crunch and chief executives getting the ax, it now has another: broker defections. The eight firms in our annual survey of full-service brokers employ nearly 85,000 brokers. With an estimated 6 percent of brokers switching firms each year, that’s more than 5,000 headed for greener pastures. It could get worse: The number of brokers and advisers who want to move to another firm nearly doubled last year, to 9 percent, according to a survey by National Financial, Fidelity’s trade clearinghouse. And the SEC recently proposed a rule that would make it easier for brokers to take customer information with them when they do switch.

Like other problems at big brokerages, much of the pain is self-inflicted. Some brokers are fed up with their employers cutting research departments and paring back other resources. They hope moving will lead to better service for both them and their clients. Of course, the big attraction is the chance to make big money, and firms are inundating top-performing brokers with lucrative offers—some reaching into seven figures. Rick Peterson, president of recruiting firm Rick Peterson and Associates, says that in 2007 Wachovia boosted the maximum total recruitment incentives to brokers by 17 percent and that Merrill Lynch and Morgan Stanley also boosted their offers. “Our phone rings off the wall with ‘Bring me people, bring me people,’” says Peterson.

Turnover of top producers is costly. Moving a client to a new broker after his previous broker leaves can lead to mistakes, such as the new broker getting the wrong instructions, says David Carroll, president of Wachovia’s Capital Management Group. “And it can be expensive to keep training people,” he adds. Keeping brokers on board is especially important now for Wachovia, as it takes on nearly 6,400 brokers from last year’s merger with A.G. Edwards.

Many customers follow their brokers out of pure loyalty. Katherine Roepke’s longtime broker, Joe Lambrecht, set up a 401(k) plan for her fledgling Minneapolis public-relations company, met with her accountants and didn’t think twice about walking over to her office so she could sign paperwork. So when Roepke followed Lambrecht from Piper Jaffray to RBC Dain Rauscher, she moved all her accounts to the new firm—even though his new office was 10 miles outside the city and Piper



Jaffray charged a \$125 termination fee. More than one-fourth of clients who switched last year did so because their brokers moved, according to research firm J.D. Power.

At the same time, many people think their brokerage firm is doing just fine. A recent SMARTMONEY survey of online readers found that 55 percent were either somewhat satisfied or completely satisfied with their full-service firm. But for those who do move—some 40 percent said they had switched full-service firms in the past five years—blindly following a broker

can be a mistake. Indeed, savvy customers caught between dueling brokerage firms can often use the leverage to negotiate extras, like lower fees or higher interest rates on cash.

In the end, of course, both the broker and the brokerage firm matter. We can't tell you anything about your individual broker, but our annual ranking of full-service brokers can be a starting point in the search for the right firm.

—Roya Wolverson

FULL-SERVICE BROKERS

| RANK* | BROKER | COMMENTS | SCORES | | | | NUMBER OF BROKERS | NUMBER OF BRANCHES |
|-------|--|--|---------------|-----------------------|-------|--------------------|-------------------|--------------------|
| | | | STOCK PICKING | CUSTOMER SATISFACTION | TRUST | ACCOUNT STATEMENTS | | |
| 1 | Raymond James www.raymondjames.com | New to survey; hits No.1 spot with top ratings for customer satisfaction and statements. | ★★★ | ★★★★★ | NA | ★★★★★ | 4,800 | 2,200 |
| 2 | Edward Jones www.edwardjones.com | Last year's top firm adds 900 financial advisers and introduces simplified statements. | ★★★★ | ★★★★ | ★★★★ | ★★★★★ | 11,300 | 10,190 |
| 3 | Merrill Lynch www.merrillynch.com | Gets new CEO amid mortgage-related losses, but customer satisfaction inches up. | ★★★ | ★★★★ | ★★★ | ★★★★★ | 16,700 | 700 |
| 4 | A.G. Edwards www.agedwards.com | On target to complete integration with acquirer Wachovia in 2009. | ★★★★★ | ★★★ | ★★★★★ | ★ | 6,400 | 740 |
| 5 | Wachovia www.wachoviasec.com | Becomes second-largest U.S. brokerage firm with last year's acquisition of A.G. Edwards. | ★★★ | ★★ | ★★★ | ★★ | 8,300 | 2,200 |
| 6 | UBS www.ubs.com | Global investment firm expands number of offices in U.S. serving high-net-worth clients. | ★★★ | ★ | NA | ★★★ | 14,000 | 660 |
| 7 | Morgan Stanley www.morganstanley.com | Up from last place; increases the number of mutual fund and ETF offerings. | ★★★★ | ★ | ★★ | ★★ | 8,400 | 500 |
| 8 | Smith Barney www.smithbarney.com | Citigroup unit falls to last place, with lower marks on customer satisfaction and stock picking. | ★ | ★★ | ★★★ | ★★★ | 14,900 | 620 |

*Criteria are not equally weighted. NA=Not available.

SOURCES: ZACK'S INVESTMENT RESEARCH; J.D. POWER; AITE GROUP; DALBAR; FORRESTER RESEARCH; SMARTMONEY RESEARCH

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**Couples who inherited
a lakeside lodge:**

68,465

**That they will
leave in a trust:**

5,921

**For their four
granddaughters:**

17

**Who are cannonball
champions:**

1



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