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FEATURE | MONDAY, MARCH 16, 2009

## Blue Chips

By THERESA W. CAREY | [MORE ARTICLES BY AUTHOR](#)

*It's easier than ever to have it your way when trading online, thanks to a host of new tools. We rate the 25 top brokers to help you find the one that suits your particular style.*

Article

Comments

**THE DOW JONES INDUSTRIAL AVERAGE DROPPED** a heart-stopping 34% in 2008. Investors pulled \$194 billion out of mutual funds. Venerable Wall Street brokers Bear Stearns and Lehman Brothers went belly-up, and Merrill Lynch lost its independence to Bank of America. So how did online specialist Interactive Brokers manage to pick up \$100 million in new customer assets in 2008 or its rival thinkorswim see its assets jump to \$3 billion from \$1.1 billion?

It turns out that some wealthy investors decided that their well-heeled, active money managers and fancy financial advisers didn't know much more than they did about making money in bear markets, and they switched from full-service brokerages to self-directed discount brokers -- where they are also less likely to run into the likes of Bernie Madoff.

### Table: The 25 Leading Online Brokers

The bear market happened to coincide with continued acceptance of dazzling technology in virtually every corner of our lives. A November 2008 survey of wealthy Americans -- with at least \$1 million in investable assets -- showed that over three-quarters use the Internet to gather financial-management information, while more than half use it for stock trading and/or banking transactions. The study, conducted on behalf of U.S. Trust, noted that 40% use online methods to communicate with their financial advisers.

This group is increasingly going mobile, too. Fifty-two percent of respondents to our survey who have more than \$10 million in investable assets report that they use a mobile device to view financial information. The top brokers this year in our survey also give their customers a variety of ways to stay connected using mobile devices.

That suggests just how rich and deep online offerings must be these days -- giving investors access to everything from U.S. large-cap stocks to momentum names to four-legged option plays to shares on the Mumbai bourse via every conceivable electronic medium. As a result, in addition to our main ranking of online brokers, we provide more focused rankings for particular styles of investing and trading.

We investigated the offerings, operations and pricing of 25 online brokers this year, looking for the characteristics that set each apart from its competitors.

Although *Barron's* names a No. 1 overall broker, this firm might not be the right one for your style of investing, so we also present the leaders in four other categories -- long-

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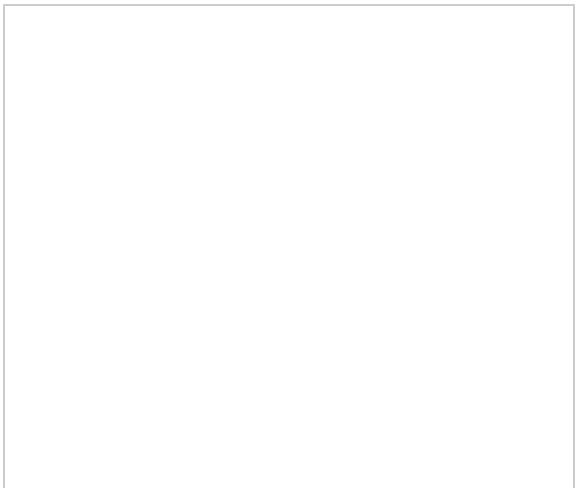
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**Risk Appetite  
Evaporates For  
Equities**

1:47

**Perk Up Your  
Portfolio With  
Starbucks**

1:45

**Fed Tries to Boost  
Risk Taking**

2:12

### Today's Most Popular

term investing, options trading, international investing and high-frequency trading -- that may better suit you.

We subjected these rivals to a rigorous evaluation across eight categories. These include the types of tradable investments and the quality and ease-of-use of screeners that help you choose stocks, options or funds, as well as the site's startup process, overall functionality and potential for customization.

## What Kind of Trader Are You?

Below, *Barron's* subdivides its overall rankings, breaking out the best online firms by speciality, ranging from long-term investing to options to frequent trading to international. Name your own winner.

BEST FOR LONG-TERM INVESTING	Stars	BEST FOR OPTIONS TRADERS	Stars
Fidelity	4.5	thinkorswim	4.5
optionsXpress	4.0	TradeStation Securities	4.5
Charles Schwab	4.0	Interactive Brokers	4.5
TradeKing	4.0	optionsXpress	4.5
Murle Siebert	3.5	MB Trading	4.5
E*Trade	3.5	OptionsHouse	4.5
		TradeKing	4.0
BEST FOR FREQUENT TRADERS	Stars	BEST FOR INTERNATIONAL TRADERS	Stars
thinkorswim	4.5	Interactive Brokers	4.0
MB Trading	4.5	TradeStation Securities	4.0
TradeStation Securities	4.5	Fidelity Investments	4.0
Interactive Brokers	4.5	MB Trading (forex)	3.5
ChoiceTrade	4.0	optionsXpress (futures)	3.5
Lightspeed Trading	4.0		

We also looked at the various ways that trades can be placed with each broker, such as whether an order can be submitted from a graph or a mobile device. The quality of education offerings and customer service were examined. In reviewing costs, we considered not only stock and option commissions, but the interest rate charged for margin debt. On the flip side, we compared the monthly income you can generate on your idle cash -- which is minimal this year.

## SO WHO IS ON TOP THIS YEAR?

**thinkorswim** ([www.thinkorswim.com](http://www.thinkorswim.com))

We gave it 4½ out of a possible five stars, and the highest overall score. The company continues its blistering pace of innovation while offering customers multiple points of access, accompanied by great education tools. Customer support is top-notch, and a wealth of trading information comes at you from a variety of media while you are logged in to the platform.

The company had zero downtime in 2008; quite a few other brokers hit bumps in the road during heavy trading days as the market plummeted. "Even with the market down 50%, our customer assets are at an all-time high," claims thinkorswim's president, Tom Sosnoff.

Thinkorswim's trading platform, which is easily customized, allows you to trade everything from stocks to complex options to futures to foreign exchange, all on the same screen. (The firm takes top honors for options and frequent traders, too.)

The platform is clean and easy to navigate, in spite of its complexity. Orders are filled very quickly, and customer support is staffed around the clock.

Analyzing trading possibilities from numerous angles is one of the key pieces of the thinkorswim technology. You can back-test an options-trading strategy using historical data back to 2000. The charts have a very cool artificial-intelligence algorithm built in that displays the expected future price of a particular security out 15 minutes, gradually expanding that to as much as two hours out as the trading day goes on. There is built-in streaming video and audio that you can tap into while the platform is running. "Retail customers want content," Sosnoff says. "We're pushing through live video, squawk boxes,

Viewed Emailed Commented

1. Fed's Baby Step Kicks Off Market Rout
2. Good News Brewing at Starbucks
3. Is Cisco a Buy?
4. Retailers Derailed on Friday the 13th
5. The Power of Coal Compels You

## Featured Comment

“The Fed can print money but it won't revive consumer spending and private sector hiring in a sustainable way. It's the demographics, stupid! With the Baby Boomers retiring we face a 20 year slow motion economic train wreck. Our effective tax rate will rise 50% by 2030.”

— RICHARD BLACKMON  
On [Time to Print](#), [Print](#), [Print](#)

## Blogs Updated throughout the day.

STOCKS TO WATCH | Tiernan Ray

**To Dip, or Not to Dip? That's the GDP Question** 5:43 pm

**For-Profit Trouble Ahead: DoE Letter to Sen. Harkin** 3:41 pm



TECH TRADER | Eric Savitz

**Chips: S&P Downgrades Altera, Xilinx On Weaker Chip Demand** 3:37 pm

**Garmin: S&P Downgrades To Sell; Chops Target Price To \$26** 3:25 pm



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trading education and a lot more."

There is a cloud in the sky, however, which is the recent acquisition of thinkorswim by TD Ameritrade, with its very different look and feel as well as pricing structure. The thinkorswim principals have committed to staying with the combined firm for at least three years following the close of the acquisition. We will scrutinize any changes closely.

### **MB Trading ([www.mbtrading.com](http://www.mbtrading.com))**

Also earning 4½ stars (but a slightly lower numerical total) was MB Trading, which spent most of 2008 spiffing up its MBT Navigator software. It also launched a very full-featured Web application. The new Navigator overcomes one of our previous criticisms, as it includes integrated charts while continuing to supply very fast trade executions across multiple markets. The Advanced Options platform offers more than 90 preset strategies that let you quickly find opportunities and place trades.

MB Trading recently opened the virtual doors to MBT University, whose curriculum includes a forum, Webinars, and a trading "wiki" (an interactive ideas forum). The Webinar events teach customers about the trading platform, and also include discussions about the markets and third-party software products (such as eSignal and Ninja Trader) that plug into MBT's execution-management system.

The recently launched, Web-based Navigator lets customers trade from a browser, and the neat wireless BlackBerry application allows for on-the-go trading and account monitoring. MB Trading is a fairly small outfit -- with a tiny fraction of the customer base of Fidelity or Schwab -- that prides itself on customer service. The trading application plugs into quite a few third-party analytical and charting programs. Now MB Trading has added its own analysis and charting, built in for free for customers. It is worth checking out.

MB Trading doesn't have a large inventory of bonds to trade, nor does it offer CDs, so it isn't the best place for a one-stop shopper.

Below are our eight four-star firms and their various pluses and minuses.

### **TradeStation ([www.tradestation.com](http://www.tradestation.com))**

**Pros:** Last year's winner hasn't lost much ground. The firm's customers are very active traders -- placing an average of 1.5 transactions per day -- who use its deep historical database and technical tool kit to develop strategies, and test them against historical data before trading. Customers actively trade a variety of items, including equities, equity and index options, electronic futures contracts (such as e-minis), single-stock futures, forex, or any combination of these asset classes. The scanners allow customers to check out the entire TradeStation symbol universe using customizable criteria based on a database of more than 500 fundamental fields, as well as price and volume data. There is an active community that trades trading ideas and strategies, and suggests, then votes on updates to the platform.

**Cons:** It is a lot of technology for the average trader. The \$99.95 monthly platform-access fee (plus \$59.95 for the real-time screener) will deter those who trade infrequently.

### **Interactive Brokers ([www.interactivebrokers.com](http://www.interactivebrokers.com))**

**Pros:** IB is once again the low-cost leader and international star. It gears itself for professional and semiprofessional traders, investors, hedge funds, brokers and advisers. The contract-search feature, new this year, lets you search by symbol or company name, generating a list of products you can trade. For instance, if you type in "Ford," you will see everything available -- options, futures, stocks and bonds. Overseas markets appear, too. IB's charting application was significantly improved this year. For those who trade huge blocks of stock at once, IB's ScaleTrader lets you break the order into smaller components and send it through in smaller pieces.

Once your order is set up, you can watch it on the Scale Progress table. We also like IB's forex-trading screens, the ability to create your own index basket of stocks, the wide

range of international equities, futures and option, and the new options portfolio algorithm.

**Cons:** Nonprofessionals still complain that the Traders Workstation is difficult to handle, so if you aren't a very frequent, around-the-world trader, this isn't the broker for you. There is limited personal service at IB, but you aren't paying for it, either.

#### **Fidelity Investments ([www.fidelity.com](http://www.fidelity.com))**

**Pros:** This is the top-ranked (mostly) Web-based broker this year, although the asset-management giant scores a lot of points for features available in its Active Trader Pro downloadable application. (We rank it highest for long-term investors). Customers can choose from three platforms to access their accounts and place trades, but the firm is moving toward combining all of those tools. That would be a most welcome change. The firm is taking some of the advanced capabilities of its top-end platforms, such as OptionsTrader Pro and WealthLab-Pro, and migrating them to the broader audience that uses Fidelity.com. One of the top features available to Fidelity customers is research, which is closely tied to its education offerings. We also like the ability to automatically roll a mature CD to one with the same maturity. The Active Trader service team also receives high marks.

**Cons:** Certain pieces of the Fidelity.com Website still update overnight rather than in real time. The top-level offerings are split over three main platforms; we look forward to the integration we hope is coming.

#### **OptionsXpress ([www.optionsxpress.com](http://www.optionsxpress.com))**

**Pros:** The new customizable myOX portal lets customers create their own launch pad for the optionsXpress experience. There are 16 modules you can use and arrange in any configuration. You can create multiple views, and switch from one to the other using tabs at the top of the myOX screen.

Beyond the modules, you can bring in outside information using RSS feeds. Trading is a click away. Whenever you click on a Bid or Ask, it will take you to the trade screen. The newly reorganized Research hub offers a single access center for all kinds of market info. We also like the way all the trading tools were rearranged, and made much easier to find. This kind of functionality is standard with most of the software-based brokers, but is just starting to creep into the browser world. The Education center mixes together charts, video, real examples with screen shots of how to use the optionsXpress platform to perform specific tasks, and third-party content, all in an effort to walk through each topic in an interesting way.

**Con:** Commissions are high.

#### **TradeKing ([www.trading.com](http://www.trading.com))**

**Pros:** The TradeKing community is well-integrated into the trading platform, so customers can get ideas from one another, as well as from the research offered on the site. "Activity in our social-trader network has risen dramatically, indicating to us that when uncertainty rises, so does one's desire to connect with other investors and see what others are thinking about both near- and long-term opportunities," says Chief Executive Don Montanaro.

TradeKing is big on education as well, with a new series of Intelligence Reports available from a newly launched TradeKing Learning Center. TradeKing is also expanding its fixed-income offerings, including a bond-specific trading blog by Angelo Benedetto, TradeKing's director of fixed income. Maxit, which helps customers figure out the tax consequences of a trade, is free. All this, and costs are on the low side.

**Cons:** Limited mobile access. Cannot stage orders.

#### **OptionsHouse ([www.optionshouse.com](http://www.optionshouse.com))**

**Pros:** As its name suggests, Options House has a lot of great tools for the options trader. Backed by market maker Peak6, this broker lets its retail customers use quite a few professional-level tools. Building a spread is very intuitive on this system, as is rolling a

call or put from one strike to another. The site's motto is "Fast matters," and that goes for everything from finding possible trades to populating an order ticket to executing the trade itself.

Portfolio-analysis tools are top-notch here, too. The Risk Viewer includes a what-if calculator showing what could happen based on various market scenarios.

Options House also offers the Maxit tax-management tool for free. Although this is a Web-based platform, it has the flexibility and power of many of the software platforms.

**Cons:** No mobile access yet. However, the company says it is coming later this year. Limited fixed-income and mutual-fund offerings.

#### **ChoiceTrade ([www.choicetrade.com](http://www.choicetrade.com))**

**Pros:** ChoiceTrade's Direct Pro is a robust software platform that offers basket functions (like splitting, say \$25,000, among Dow industrial-member stocks), multiple routes, and has dark pools (off-exchange areas) embedded in the system. It is very flexible and customizable, and has terrific risk-management tools to keep you out of trouble. Everything streams in real time. You can route your order to any of the available electronic-communication networks (ECNs). Commissions are \$5 for stock trades of any size. Excellent customer service.

**Cons:** The current Web-based platform is relatively weak. We got a look at a beta version of the new platform that will launch in the next quarter, and it is much better. Fixed-income offerings are limited.

#### **E\*Trade ([www.etrade.com](http://www.etrade.com))**

**Pros:** E\*Trade updated many pieces of its Web-based platform over the last year, especially charting and options quotes. For options, it added charting and the ability to view pricing and open interest in a particular strike. You can overlay a stock chart or implied versus actual volatility levels as well.

For stock charting, you can do a lot more technical analysis, and compare an individual stock to an index, a sector, or a competitor. For long-term investors, E\*Trade added a Retirement Quickplan, which goes through a Q&A with you: what you have set aside already, how much you can continue to save, and what you think your retirement expenses will be. This tool creates an action plan.

E\*Trade has also updated its fixed-income center, and significantly changed bond pricing last summer. The firm has gone mobile in a big way, and reports that BlackBerry-based trading doubled between July and December of 2008. Next up: an iPhone application in April.

**Cons:** Like some of the other older Web-based brokers, the tools seem to be scattered across multiple platforms.

**THE GROUP THAT FOLLOWS EARNED** less than four stars, which doesn't make them a bad place to stash your investment account since some of the things we rate may not matter to you.

#### **TD Ameritrade ([www.tdameritrade.com](http://www.tdameritrade.com))**

**Pros:** Ongoing site enhancements including the launch of WealthRuler, a retirement calculator and Portfolio Planner, which helps you analyze your current portfolio, design an asset allocation strategy that fits your goals and manage that portfolio over time. Another new feature in the last year is the Bond Wizard, a tool that helps investors find CDs and bonds that best fit their strategy. The site has added quite a few nice features for the one-stop shopper, and just missed making the "Best for Long-Term Investing" list.

**Cons:** Costs are higher than average. This broker received a great deal of criticism for offering a money market fund that "broke the buck" last fall.

#### **SiebertNet ([www.siebertnet.com](http://www.siebertnet.com))**

**Pros:** A great place for putting together a top-notch fixed-income portfolio. We also like

the new Summary Positions page with imbedded quick links to pop-up tax lot detail to complement the Positions Detail (Unrealized Gains/Losses). The site added an "Analysts Insights and Ideas" page with research content from Standard & Poor's and Thomas Weisel in addition to Argus, Decision Economics and Barclays Capital, making its already deep research offerings even more so. You can trade internationally via live broker; we expect to see online international trading soon. SiebertNet is ranked on our "Best for Long-Term Investing" list.

**Cons:** The commission structure for options trading is expensive and outdated. If they switched to straight per-contract pricing, like every other broker in the survey, Siebert would be back in the four-star category.

**Charles Schwab & Co ([www.schwab.com](http://www.schwab.com))**

**Pros:** Most welcome in the last year is the overhaul of the site that launched in October. Schwab's Real Life Retirement Services provides a complimentary personal portfolio consultation, income solutions and an online retirement center with additional tools, advice and guidance. StreetSmart.com, Schwab's active trader web-based offering, features new tools to help profit from volatility in the markets, along with bracket order technology, customizable trading alerts, advanced charting tools, intra-day realized gain/loss tracking, direct access shorting and good-until-cancelled capabilities on complex options trades. We also like Schwab's ETF screener.

**Cons:** The package of features is spread across two Websites and a downloadable platform, making it unnecessarily complex to use them. Costs are high.

### Where You Can Save Some Cash

If you don't trade that often, Zecco is the low-cost alternative, while Charles Schwab should probably be avoided. If you trade a lot, Interactive Brokers is the best deal, and Muriel Siebert probably isn't.

Occasional Trader's Monthly Broker Costs*		Frequent Trader's Monthly Broker Costs**	
<b>LOWEST</b>		<b>LOWEST</b>	
Zecco	\$19.00	Interactive Brokers	\$993
Interactive Brokers	29.00	Just2Trade.com	1,062
Just2Trade.com	30.00	OptionsHouse	1,401
<b>HIGHEST</b>		<b>HIGHEST</b>	
Charles Schwab	\$110.60	Muriel Siebert	\$4,624
Muriel Siebert	150.90	Banc of America	4,171-4,661
StockCross	213.80	StockCross	5,405
<b>AVERAGE (25 firms)</b>	<b>\$77.68</b>	<b>AVERAGE (25 firms)</b>	<b>\$2,338</b>

\*Occasional trader: 6 stock trades and 2 options trades per month. \*\*Frequent trader: 100 stock trades, 100 options trades plus \$30,000 margin debt. Source: Barron's Online broker survey, data effective 2/13/09

**tradeMONSTER ([www.trademonster.com](http://www.trademonster.com))**

**Pros:** New kid on the block, having launched in November, supplies a dazzling array of tools on its very easy-to-use website. You can access all of the tools and trading tickets with one or two mouse clicks. There are a lot of terrific features for options traders, including and implied volatility (IV) constellation that shows IV for future strikes. This tool gives you a clue about changes in IV based on open interest in a particular option. We also like how tradeMonster's trade tickets encourage you to set up an exit strategy when you enter a new position. We expect great things from this site over the next year.

**Cons:** It's tough to be a new broker in this market. The company is backed by venture capital; we hope they make it through.

**Lightspeed Trading ([www.lightspeed.com](http://www.lightspeed.com))**

**Pros:** A broker to consider for small hedge funds, very active traders and trading groups who primarily trade stocks. The trading infrastructure and risk management tools are very good on the Lightspeed Trader platform and Lightspeed Risk real-time risk management application. All executions are customer-routed. The new quote server, rolled out over the summer, provides extremely fast quotes and Level II depth of market data. Another new feature is the firm's algorithmic trading solution, Lightspeed Gateway. The Block Trade alert lets you know when an order of 10,000 shares or more has been

executed.

**Cons:** Complex options have to be entered one leg at a time. Limited range of offerings, but that shouldn't bother those who are primarily interested in stock trading.

#### **Scottrade** ([www.scottrade.com](http://www.scottrade.com))

**Pros:** Highly unlikely participant in any form of industry consolidation as management has repeatedly said that the firm is not for sale. Over the last year, Scottrade focused heavily on increasing options-trading capabilities, enhancing customer education, and growing the branch network. The new options platform, OptionsFirst ([www.optionsfirst.com](http://www.optionsfirst.com)), is licensed from OptionsHouse so it has the same advanced options screening and trading functionality. Lots of investor education possibilities, from live events held at one of Scottrade's branch offices to the new Knowledge Center on the firm's Website. Reasonably priced.

**Cons:** Separate Website to access OptionsFirst platform. Scottrade also has its various key functions spread across multiple platforms.

#### **AB Watley** ([www.abwatley.com](http://www.abwatley.com))

**Pros:** Customers can use either the Ultimate Trader, a downloadable application, or the web-based Watley Trader. Good data feeds keep the real-time charts and quotes accurate. The firm does not pursue routing destinations that bring in payment for order flow.

**Cons:** Ultimate Trader hasn't had an overhaul in a while, so it is starting to look dated compared to its more innovative competitors. Customers have to log into the website to view account activity.

#### **Zecco** ([www.zecco.com](http://www.zecco.com))

**Pros:** Zecco has scaled back its "free trade" offer, but under the assumptions we make when putting together our survey, our theoretical customer still qualifies. You get 10 free trades per month when you have \$25,000 or more in your account now. The site's online account opening task was made much simpler this year, plus the firm added a new quotes and research center. There are also now options analytics available and automated spread trading.

**Cons:** You have to sign up for Gainskeeper (at an additional charge) to get any performance reporting or tax planning. The site is covered with ads, which gets annoying.

#### **SogoTrade** ([www.sogotrade.com](http://www.sogotrade.com))

**Pros:** The firm moved away from its former Sharebuilder-like model and is now pursuing active traders more aggressively. Among the updates to the Website is the Trading Center, which is a single page that offers order entry, quotes and fundamental data, charting, links to research and news, a full position listing, and order status. Pricing was simplified considerably; stock trades are \$3.

**Cons:** Cannot trade anything except stocks on SogoTrade, though they plan to add options trading in 2009.

#### **Just2Trade** ([www.just2trade.com](http://www.just2trade.com))

**Pros:** Cheap. J2Trader, a Java-based applet, supplies streaming real-time market data and has a built-in order ticket. Stock screener, supplied by Recognia, allows you to search for stocks that have triggered a technical alert, such as a head-and-shoulders bottom or a bullish continuation wedge.

**Cons:** Cannot trade complex options, though the firm expects to add this capability later in the year. Many portfolio reports on the Website are delayed overnight rather than real-time. Website navigation is clumsy and it spawns a lot of new windows.

#### **Firsttrade** ([www.firsttrade.com](http://www.firsttrade.com))

**Pros:** Thanks to an agreement with a new data vendor, Firsttrade now has enhanced

charting, a comprehensive events calendar, SEC filings, and insider holdings. The site has improved its alert functions, provides better quotes, and has much better stock and options screeners. Most fees are reasonable. Good support for Chinese-speaking customers.

**Cons:** Website navigation is very clumsy. High margin rates.

#### **StockCross ([www.stockcross.com](http://www.stockcross.com))**

**Pros:** Strategy Builder explains and helps clients build complex options strategies. The customizable web trading platform features a dashboard, streaming data, advanced order capabilities, complex option trading with a fluid option strategy builder, and a real time cost basis tool.

**Cons:** Fees are very high. Everything except stocks and options must be traded via live broker. No real-time quote during order entry; you have to get to the Preview screen for a quote. No wireless access.

#### **WellsTrade ([www.wellsfargo.com](http://www.wellsfargo.com))**

**Pros:** Easy to manage all your Wells Fargo accounts in one place. One-hundred free trades per year offered to customers who have \$25,000 or more in a particular type of account at the bank (PMA Package). The site allows for tax-lot trading capabilities, as well as the ability for clients to choose customized views for their account positions and group their accounts.

**Cons:** All data are delayed except for clients of Wells Fargo Private Bank. No streaming data, no wireless access, limited options functionality.

#### **Banc of America ([www.bankofamerica.com/investments](http://www.bankofamerica.com/investments))**

**Pros:** Like Wells Fargo, this site makes it easy to manage all your banking accounts in one place. Transfers between accounts are very simple. When opening an IRA, an interactive sales experience bundles an initial mutual fund purchase within the IRA account opening process.

**Cons:** Complex options must be traded through a live broker. Limited fixed-income investments.

#### **ShareBuilder ([www.sharebuilder.com](http://www.sharebuilder.com))**

**Pros:** A good place to set up if you want to make regular stock purchases on a monthly or weekly basis. Customers tend to be less financially savvy, but like the simplified, long-term, more conservative and automatic approach to saving through investing.

**Cons:** Very limited options functionality. The site is all about a long-term strategy of making scheduled investments, so there is very little real-time data. Positions reports update overnight.

#### **What's next?**

On our wish list for the next year is improved cost basis reporting, which will soon be required by the IRS. Too many brokers have inadequate portfolio performance reporting, and weak tax reporting. We would also like to see the brokers that offer multiple platforms come up with a way to make all their tools available to their customers in a single platform. We're looking at you, Schwab, E\*Trade, Fidelity and Scottrade.

Investors may have noticed that the return on their cash balances has dropped close to zero as the prime rate has dwindled. Interest on bonds and CDs is in the tank as well. Investors may have to turn to other means of making money on their cash, perhaps by selling calls against their long stock positions (covered calls). Brokers that make it easy to spot covered call opportunities should make an effort to reach out to those customers who are not using this strategy and help them figure out if it works for them.

We also expect to see more software-like tools offered by Web-based brokers, and a major move towards mobile trading. Given the volatility in the markets, investors want access to their accounts even when they're away from their computers.

2009 opened with the news that TD Ameritrade was purchasing thinkorswim, and just about everybody in the industry believes that is the first of many consolidations to come in the next year. Muriel Siebert, president of SiebertNet says, "The re-emerging trend of consolidation among all kinds of financial-services firms resulting from the financial crisis will further focus consumer attention in this direction." Expect to see some of the smaller brokers absorbed by the larger players this year.

Several brokers believe that the ongoing consolidation can only help them as customers of firms that get taken over move their assets to a broker they feel will serve them better. The president of one of the larger brokers told me, "It is safe to say that we receive more new account inquiries as a result of industry consolidation than for any other reason."

### **We Ranked Our 25 Brokers Using the Following Measures**

**Trade Experience:** Working with a live account, we looked for a real-time quote and executed equity trades during market hours, making market buys and limit sales of a stock or exchange-traded fund. A real-time quote that is displayed without any additional user input (such as typing the symbol into a separate box or hitting a "Quote" button) receives credit here; if the trader has to make a duplicate entry of the ticker symbol to get a quote, the broker got zero. Following the market buy, we tracked the execution and portfolio reports. We looked for pre-filled order tickets when selling a position, which eliminates possible errors during the closing process. After entering a limit-sale order, we examined the open-order reports and looked at ways to check the progress of the order, as well as ways to adjust the limit price or cancel the order. We also placed options orders, using options' order-entry screens when available. We examined mutual-fund, bond, and (when available) futures, commodities and foreign-exchange order-entry screens.

An overall score of 5 in Trade Experience means the order entry-and-execution process flowed easily from one step to the next, with real-time information (including buying power and margin balance) available when needed.

**Trading Technology:** The availability of price-improvement strategies and smart-order routing technology (which finds the best bid or offer) were necessary to earn a 5 in this category. Brokers offering price improvement -- a sale above the bid price, a buy below the offer -- received a fraction of a point depending on the portion of their transactions that benefited. Top marks were earned by brokers who offered a wide array of order types, including conditional orders. The ability to place a trade from a graph earned a fraction of a point. In addition, we looked for ways to customize the trading experience, such as setting a default number of shares or contracts, to speed order entry.

**Usability:** A 5 here means the site or program was easy to use and well-designed, didn't bog down when moving from screen to screen, and can be tailored to the user's needs. Constant availability of a trading ticket, and easy access to research and account status data is key. This year, we also looked at the account setup process and assigned up to a point for brokers that made it easy to open an account online and start trading.

**Range of Offerings:** We awarded points for the diversity of investments that can be traded online, with partial points given for those that can only be traded offline. Since all the brokers allow long and short stock-trading, as well as single-leg options orders online, we don't award points for those transactions. We asked brokers how many stocks, on average, their customers can sell short, and awarded up to a half-point based on their answer. Complex options trading, and the availability of mutual funds, bonds, futures, commodities and international trading were also considered. A 5 in this category means you can execute all of these transactions online.

**Research Amenities:** This category measures the quality and accessibility of research, quotes and charting. We looked for research, news and charting linked to a customer's portfolio and watch lists; the quality of third-party research and its integration with the rest of the site; and the availability of screeners, with special emphasis on options-strategy screeners. Brokers also won points for offering real-time streaming quotes at no additional cost, powerful charting capabilities, and Level II quotes. Partial credit was awarded for features that generated an extra fee.

**Portfolio Analysis and Reports:** The emphasis here is on clearly laid-out reports, updated in real time, showing current balances, positions and margin status. Portfolio-analysis reports, with links to news and research, as well as extensive transaction history, are most desirable. Tax reporting also falls in this category. Full credit is given for reports that can be created on the broker's website, with no additional fees or data entry required. Partial credit is awarded to brokers that populate services such as GainsKeeper and Maxit (tax analysis and reporting programs) for an additional fee.

**Help and Customer Access:** We sized up online help such as live-chat capability, user guides and frequently-asked-question files. Offline help was assessed by making calls to customer service, and weighing the brokers' reports of the average time spent on hold when a customer calls in. We took a look at the education offerings, both online and live. The ability to visit a broker in person, and to access the account via a mobile device, is taken into account here. This category also considers the rate a broker pays for a customer's cash.

**Costs:** We looked at commissions for stock and options trades and margin interest rates, giving more points for lower costs. We scaled the points awarded so that the lowest costs in the group earned the maximum number of points, with fractions (and occasional zeros) given to the more expensive brokers. Stock commissions are the biggest factor here, but options and mutual-fund transaction fees are also considered. A 5 could be earned here by very low stock and mutual-fund commissions, less than \$7.50 for 10 options contracts, margin interest rates below 3%, and no account-maintenance fees. This year, we weighted the options transaction fees higher than in the past, and reduced the points awarded for low margin rates due to the lower use of trading on margin.

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