GUIDES TO INDEPENDENCE™

# How to evaluate a broker

Federal or state securities laws require brokers, advisers, and their firms to be licensed or registered--and to make important information public. But it's up to you as an investor to find that information and protect your investment dollars.

The good news is that it isn't hard to get, and one phone call or Web search may save you a lot of heartache from dealing with a con artist, a bad broker, or a disreputable firm.

The Central Registration Depository is a computerized database that contains information about most brokers, their representatives, and the firms they work for.

Research brokers by visiting:
nasd.com/InvestorInformation/index.htm

To size up a broker and to choose the best one for your needs, here are some things to consider

1. Trading commissions. Cheaper is not always better. The price per trade at a discount brokerage house also may indicate the level of service that comes with it.

2. Other fees. Beyond the trading commissions, you'll find that brokerages may charge other fees, including fees for transferring assets into the account, fees for closing an account, IRA (individual retirement account) custodian fees, wire transfer fees, account inactivity fees, annual fees, and fees for not maintaining a minimum balance. If you know your needs, you won't end up paying for services you don't need.

3. Minimum initial deposit. If you're just beginning to invest, consider what you'll be able to comfortably invest initially. Some brokers have account minimums, so find the one that best fits your budget.

4. Customer service. If nothing else, put some time into researching a broker's customer service before you sign on the dotted line. You're going to have an ongoing relationship with your broker, so you better like whom you're dealing with. In the case of discount brokers, customer service includes Web site performance and interface. Can you find what you're looking for without having to click 65 links? If talking to a human is important to you, test their phone services. Is there an office nearby, just in case you need or want to talk face to face?

5. Traditional financial services. Can your brokerage accommodate your other financial services needs, such as direct deposit and money market sweeps?

6. Research. Some brokerages market their research as a real plus. Do you have to pay extra for it? Keep in mind that there's plenty of research available for free on the Web. Some offerings include analyst reports, real-time quotes, and detailed financial data.

That's fine if you understand the information on the Internet; if you don't, it would be a good idea to talk to a broker face-to-face.

7. Mutual funds. No-load mutual funds can be purchased directly from mutual fund companies, so the availability of thousands of mutual funds in one location probably shouldn't affect which broker you choose. If there's a particular mutual fund family that you're set on using, make sure that the brokerage you select offers that family of funds.

8. Investment product selection. All brokerages offer stocks traded on the major exchanges, and most offer equity mutual funds. But, there probably are other investment vehicles you wish to use as well. Determine what you expect you'll need, and act accordingly.

9. Other methods of getting your trades executed. What if you aren't comfortable with the Internet or if you're experiencing technical difficulties? Check out whether the brokerages you're considering also have touch-tone phone trading, and how that works. Or, you might prefer to place an order through a real, live person.

10. Make customer service a priority. If you're not making tons of trades a year, the difference in what you pay per trade isn't that important. Make customer service a priority and don't sweat the small stuff.

Visit Charles Schwab at Schwab.com for a list of questions to ask and The Motley Fool at Motleyfool.com for information on comparing brokers.

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