



Department of Commerce Division of Securities

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Choosing a Stockbroker

Choosing a Stockbroker

You need to consider whether you want a full-service or a discount broker. Discount brokerage employees are generally paid a straight salary, and they typically charge lower commissions than their full-service counterparts. Full-service brokers, on the other hand, receive commissions based on the number and size of transactions in your account. Generally, only full-service brokers will recommend specific stocks or investment strategies.

Brokerage services are highly personal, and the quality depends on both the firm and the individual you select. Ask for recommendations from friends who are successful investors, business colleagues, or your lawyer, accountant, banker or other professionals whom you trust. Still, someone else's broker might not be suitable for you, given differing financial situations, needs and philosophies.

When you first visit a brokerage firm, you may want to meet with the office manager. He or she may be able to steer you to a broker who's particularly knowledgeable in your areas of interest. When you meet with a broker, treat it as an interview. Don't be intimidated by an impressive office or a fast-paced, smooth, but superficial sales pitch. Ask questions and listen to the answers. No questions are dumb or silly when it comes to understanding how your hard-earned money would be invested.

You may be asked questions about your net worth, employment, annual income, investment objectives, risk tolerance, tax bracket and depth of investment experience. Don't mistake the line of questioning for an intrusion on your privacy; various stock exchanges and the National Association of Securities Dealers may require the broker to use "due diligence" when opening new accounts.

The broker must know his or her customer. You can help your broker help you by updating them whenever you experience a significant change in your financial situation or investment goals. The more your broker knows about you, the better recommendations they can make.

Take your time in selecting a broker and establishing a relationship of mutual trust, respect and understanding. Don't hesitate to ask a question or to say "no" to a recommendation that doesn't fit your investment strategy.

I am a knowledgeable investor. What should I look for?

I can do my own investment research and make my own decisions. A dealer can do trades for you quickly and at the lowest cost. A discount brokerage firm might be right for you.

I don't know how or where to invest. I need investment advice, recommendations on specific securities and someone to make trades.

A full service dealer can do all this. Or, you may want to find an independent investment adviser to provide the advice and a discount broker to do the trades.

I need someone to take control of my portfolio and manage it on my behalf but I want to stay informed.

A portfolio manager can help you with this. I know I only want to invest in mutual funds. A mutual fund dealer or full service dealer can help you.

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Other Steps to Take:

- 1) When interviewing brokers, ask for:
 - A brochure that describes the investment options offered by the firm.
 - A list of services provided. Copies of the firm's specific recommendations over the past year.
 - A copy of the firm's commission rates (active investors may be able to negotiate lower-than standard rates).
- 2) When a broker recommends a security, it should be based on sound reasoning rather than a hunch or a tip.
- 3) The kind of service and the amount of it depends on the rules that you and the broker establish when you open your account. The frequency with which your broker calls should be consistent with the size of your portfolio. For instance, if you own five stocks that are invested for long-term conservative growth, you probably won't need to speak with your broker more than one or two times each year. An account with 20 or 30 growth stocks might require several calls per week.
- 4) Make sure that the firm's products, services, recommendations and commissions are compatible with your goals and that the broker you choose will help you reach those goals.
- 5) Find out whether the brokerage is a member of any national stock exchanges, the Financial Industry Regulatory Authority (FINRA) or Securities Investors Protection Corporation (SIPC). The associations are self-regulating organizations; its members include most broker-dealers in the United States. SIPC was created by Congress to insure the cash and securities of its members' customers in case a member falls into bankruptcy.
- 6) Before you deal with any broker's office, you also may wish to contact the Ohio Division of Securities at 800-788-1194. The Division of Securities will verify whether the firm and broker are licensed to do business in Ohio or have been disciplined by any regulatory agency.

**If you think you have been a victim Securities Fraud,
telephone or write to the
Ohio Department of Commerce, Division of Securities.**

Call the Division at **1-800-788-1194**
or visit our website at
www.com.ohio.gov/secu
for a complaint form.

