



Best of the Online Brokers

Fidelity edges out Merrill Edge and Schwab for first place in our rankings of top discount brokerages.

BY DAREN FONDA

INVESTORS CAN POCKET A FEW HUNDRED BUCKS JUST BY OPENING an account with an online broker these days. But don't let a signing bonus sway you. Low commissions to trade stocks or exchange-traded funds can save you more money in the long run. Whether you're a stock jockey, a saver or a retiree, finding a firm that suits your needs is far more valuable than even a \$600 bonus (Merrill Edge's current inducement if you open an account with at least \$200,000). So what makes for a first-rate broker? It depends on what

you value. Low fees may be critical for active traders, but buy-and-hold types may want an array of no-transaction-fee mutual funds. Brokers with unbeatable prices may lack the retirement-planning tools or advisory services you need.

To help you choose, we rounded up data from seven of the biggest brokers in the business: E*Trade, Fidelity, Merrill Edge, Schwab, Scottrade, TD Ameritrade and Vanguard. Why these seven? A firm had to offer online trading of stocks, ETFs, funds and individual bonds to be included in the rankings. Discount brokers affiliated with Citigroup and Wells Fargo don't provide online bond trading. Capital One, T. Rowe Price and USAA all declined to participate. We also excluded some brokers that focus primarily on active traders and lack a full suite of investment choices and services.

Although the results are close in most categories, Fidelity slips past Merrill Edge and Schwab for first place in our survey, featuring the best overall mix of investment products, retirement-planning tools and services. Fidelity's commissions aren't the lowest, especially if you want a mutual fund for which you must pay a transaction fee. But its prices are close enough in other areas to be competitive with lower-cost brokers. Furthermore, Fidelity wins points for its full range of retirement and advisory services, along with top-notch investing tools and customer service.

Merrill and Schwab wind up in a dead heat for second place, though Merrill edges ahead by a whisker in the scoring. Merrill takes top honors in the research category, charges some of the lowest prices to trade stocks, exchange-traded funds and mutual

funds, and features a robust set of on-line tools. (For the complete rankings, see the table on page 6.)

Keep in mind that our survey results combine objective and subjective criteria. Not everyone will agree with how we weighted the categories. And the results are so close that a slight bump in one category would lift the rankings for some firms. To find the best broker for *you*, check out the box on page 4, where we list the top firms for different types of investors.



► **COMMISSIONS AND FEES**

Big online brokers last waged a price war back in 2010, when E*Trade, Fidelity and Schwab all shaved their stock commissions. Their prices have stayed flat since then. Today, Scottrade charges \$7 per trade, followed by Fidelity (\$7.95) and Schwab (\$8.95). E*Trade and TD Ameritrade aren't as competitive at \$9.99 per trade, although E*Trade cuts its commission to \$7.99 if you make at least 150 trades per calendar quarter (which would amount to nearly \$1,200 in commis-

sions). Vanguard isn't as trader-friendly. For clients with less than \$50,000 in Vanguard mutual funds or ETFs, the firm charges \$7 per online trade for the first 25 transactions in a calendar year; after that, the price jumps to \$20. Fees decline for bigger accounts.

Overall, Merrill earns the top spot in this category, charging \$6.95 per stock trade, the lowest flat rate per transaction. Investors with a bank account at Bank of America, Merrill's parent company, may qualify for up to 100 free trades per month, depending on their combined balances. Merrill also charges the lowest rate, \$19.95, to buy or sell mutual funds outside its no-transaction-fee fund network. That basically ties E*Trade (\$19.99). Fidelity hits you up for \$49.95 to trade transaction-fee funds, while Schwab socks you with a \$76 charge. Vanguard charges \$35 if your account holds less than \$50,000, and \$20 if you have \$50,000 to \$1 million in Vanguard funds.

Brokers also pad their wallets with fees and hidden charges. No firm levies a fee for a low account balance. But Vanguard collects an annual maintenance fee of \$20 on the brokerage accounts of clients with less than \$50,000 in Vanguard funds who do not sign up for electronic statements. Most brokers charge a steep \$25 to

send a bank wire. Plus, bond pricing is opaque at Merrill and TD. Both firms pack an undisclosed markup into market prices of corporate and municipal bonds. E*Trade, Fidelity and Schwab charge a flat commission of \$1 per bond, selling them at prevailing market prices that external dealers set.

► **INVESTMENT CHOICES**

You can find thousands of funds, stocks and bonds at every broker in our survey. But variety alone isn't enough to earn a top spot in this cate-

gory. We take into account the size of each firm's lineup of commission-free ETFs and no-load, no-transaction-fee mutual funds with investment minimums of \$50,000 or less, as well as the number of individual corporate and municipal bonds available to clients.

By these criteria, Fidelity muscles its way to the top of the category. With a roster of 3,737 no-transaction-fee funds, Fidelity beats every other broker. Using the same measure, Schwab comes in at second place, with 3,616 no-fee mutual funds, followed by TD (3,587). Ranked last is Vanguard, with just 1,818 no-fee funds. Although that looks meager, it includes all of Vanguard's 125 mutual funds, many of which have the lowest expense ratios in the business (potentially saving you quite a bit more in the long run).

Schwab takes the prize for offering the most commission-free ETFs, with 226, including funds from iShares, PowerShares, State Street and WisdomTree. No other broker has nearly as many commission-free ETFs; E*Trade (118), TD Ameritrade (101) and Fidelity (85) take the next three spots. Vanguard customers can buy any of its 70 ETFs commission-free—a good deal, considering that they also have ultralow expense ratios. Scottrade doesn't provide any commission-free ETFs.

Fidelity and Schwab narrowly beat the competition in some other areas. For example, both provide online access to more foreign stock exchanges than other brokers. Fidelity also doled out the most initial public offerings (311) from the start of 2014 through 2015, trouncing Merrill (115) and Schwab (73). But don't expect a piece of a hot new stock unless you're a big spender. Fidelity grants access to IPOs to customers with at least \$100,000 at the firm, or who make at least 36 trades in a 12-month period, and it allocates shares based on a variety of factors. E*Trade and Schwab say they allot IPO shares to customers who have lower account values or who have made a certain number of trades.

► TOOLS

Need help figuring out whether it pays to refinance a mortgage? What are the best ETFs for the buck? Most brokers earn high marks for their calculators, financial planning tools, and stock and bond screeners. Scottrade and Vanguard are notable laggards, furnishing fewer tools and screeners than their competitors.

Fidelity earns a slight edge in this arena for its broad selection of tools, most of which are intuitive and easy to find on the site, and some of which extend well beyond investing and retirement planning. For example, an "ETF Dashboard" makes it easy to compare funds. Fidelity's Full View feature aggregates external bank accounts so you can easily track your income, financial assets, liabilities and spending patterns. Clients can even import an estimate of their home's value from real estate site Zillow (or they can enter a figure manually). Merrill offers a similar tool. None of the other brokers has anything comparable.

For screening tools, TD and E*Trade score higher than Fidelity. TD's handy fund screener lets you see how ETFs, mutual funds and closed-end funds with similar holdings stack up against one another (E*Trade features a similar screening tool). We also give high marks to E*Trade's research tools, which include preset screens such as "Dogs of the Dow" and "Inexpensive Growth Stocks." Merrill scores well in this area, too, providing buy lists and screens based on research from parent company Bank of America Merrill Lynch, as well as from Morningstar and S&P Capital IQ.

► RESEARCH

On all sites, basic facts about stocks, bonds and funds abound. But only a few firms supplement the standard data with more information from major Wall Street investment banks. Schwab and TD Ameritrade provide comprehensive stock research from Credit Suisse to all brokerage clients. E*Trade customers can access Credit Suisse reports, too, but only if they

✦ The Right Match

Pick the Best Broker for You

■ Best for mutual fund investors:

Fidelity. With more than 3,700 no-transaction-fee, no-load funds, Fidelity prevails in this department. All but a few dozen of the funds on its roster require minimum investments of less than \$50,000.

■ Best for ETF investors: Schwab.

Paying to trade ETFs is becoming passé at Schwab, which provides more commission-free ETFs (226) than any other broker. Funds from iShares, PowerShares, State Street and WisdomTree are available without charge, along with Schwab's own lineup of low-fee ETFs.

■ Best for active stock traders:

Merrill Edge. The broker makes a strong case for stock jockeys, charging a flat \$6.95 per trade. Customers with an account at Merrill's parent, Bank of America, can qualify for up to 100 free trades per month.

■ Best for investors on the go:

E*Trade. Its smartphone app features some of the best trading tools we surveyed, including stock, ETF and fund screeners.

■ Best for managing cash: Fidelity.

Customers can pay bills and track spending on all their external accounts on Fidelity's site. Sign up for a Visa Rewards card and you'll get 2% back on all purchases—cash that is deposited right into a brokerage or savings account.

■ **Best for retirees: Vanguard.** The fund giant's low-fee model can help you keep more of your savings. Vanguard charges 0.3% to manage an account, well below the rates of other big brokers. Clients also get access to ultralow-fee Admiral class funds.

❖ Computerized Advice

Ranking the Brokers' Robos

E*TRADE AND FIDELITY ARE NOW rolling out “robo” services, joining Schwab in selling managed ETF accounts that are automatically adjusted to maintain a steady asset mix. Which one is best?

On the surface, Schwab's Intelligent Portfolios look unbeatable for one big reason: The firm doesn't charge a management fee. Customers pay only the low fees of the underlying ETFs. But Schwab doesn't let customers stay fully invested in stock and bond funds, requiring at least 6% in cash for aggressive investors—climbing to 29.4% for the most conservative portfolios. Held at Schwab Bank, that cash earns just 0.08% in interest, and it can weaken long-term returns.

E*Trade says cash in its new Adaptive Portfolios won't top 1%. But all-in annual costs are 0.50% for ETF portfolios and 0.75% for accounts with both ETFs and mutual funds. Conversely, Betterment (one of the first robo advisers) charges a management fee of 0.25% a year for portfolios between \$10,000 and \$100,000 and 0.15% above that. Betterment holds only low-cost Vanguard and iShares ETFs, while E*Trade includes some pricier mutual funds and ETFs.

Fidelity was slated to launch its robo service, Fidelity Go, in July. The firm says all-in fees will be 0.35% to 0.39%, which would beat E*Trade's. And Fidelity says Go portfolios will hold 0.5% in cash, much less than Schwab. That could give Fidelity portfolios a performance edge over the long term. Ultimately, though, your results will depend on whether the robots do a better job of managing your money than a human.

maintain at least \$100,000 in assets with the company. Fidelity doesn't supply any comparable stock research, although it does offer reports from some small research firms, along with S&P Capital IQ. Scottrade and Vanguard provide minimal stock and fund research.

That leaves Merrill as the runaway winner in this category. Customers can see Bank of America Merrill Lynch stock reports on more than 1,400 companies, along with stock research from Morningstar and S&P Capital IQ. Merrill's big economic reports and thematic pieces, such as a recent report on stock picks for an aging global population, are also available. And customers get access to Merrill's lists of recommended stocks.

If you want bond research, though, you'll have to look elsewhere. Ratings reports on individual companies aren't accessible on Merrill's site. By contrast, E*Trade, Schwab, Scottrade and TD Ameritrade furnish company reports from credit-ratings agency Moody's. One hot new tidbit: social-media signals. E*Trade shows bloggers' sentiments on individual stocks. On Fidelity and TD, customers can see how a stock is trending on sites such as Twitter.

► EASE OF USE

Brokers aim to make their sites user-friendly. But some are so convoluted—packed with news, charts and data—that they can strain your eyes. For overall ease of use, Fidelity racks up the highest marks. A horizontal task bar at the bottom of the site's accounts page lets you place a trade with a few clicks, streamlining the process compared with other sites. Paying bills, researching funds and analyzing a portfolio are all relatively simple on Fidelity's site. Investors can also personalize the site in a number of ways, such as tracking their portfolio's performance against a custom set of market benchmarks (something Schwab doesn't allow).

Fidelity does trail the competition in some areas. Merrill Edge customers

can use Morningstar's X-Ray tool to compare their portfolio's asset mix against more market benchmarks than Fidelity's analytical tool allows. Merrill customers can also see how closely stocks, bonds and funds in their portfolio move in sync with one another, and they can track their portfolio's hypothetical growth against a wide variety of market benchmarks—features that Fidelity doesn't offer.

One useful tool on E*Trade is a roundup of Wall Street analysts' opinions and price targets for individual stocks, showing how the analysts' recommendations rank (a feature unavailable on other sites). E*Trade also shows more details about stocks, such as how many shares are being purchased or sold by company insiders. Vanguard's site looks sparse in comparison, with fewer trading and research tools. For its part, Scottrade packs scads of charts and data on its site, but it doesn't offer as many planning tools or screeners.

One other element that's part of this score: customer service and branch availability. Schwab and Merrill both report hold times for phone service averaging 31 seconds or less, beating Scottrade (42), Fidelity (58) and Vanguard (60). Scottrade scores well with 495 offices, more than every firm except Merrill, which provides brokerage services through 2,000 Bank of America branches. (Vanguard doesn't have any branches.)

► MOBILE APPS

The brokers in our survey all offer apps to allow customers to trade and conduct other business on a mobile device. All except Vanguard let you log in with a fingerprint. And the apps can be handy for banking: Investors can pay bills, transfer funds and scan checks for deposit (though Vanguard enables mobile check deposit only for clients who hold exclusively Vanguard funds or ETFs).

E*Trade's smartphone app scores best in this category. Along with standard trading and account tools, it's the only one with a screening feature for

stocks, funds and ETFs. The app also shows E*Trade's "all star" roster of funds. And investors can scan a product barcode to pull up stock information (a feature TD provides, too).

Of course, smartphone apps can't handle everything. None shows a detailed analysis of your portfolio or lets you trade bonds. Stock and fund research remains sparse on phone apps, too, although E*Trade and Merrill make some stock reports available.

► INVESTMENT ADVICE

The larger your account, the more customized and personal investing advice you'll get. But aside from Scottrade, which doesn't offer advice, every broker will help you figure out an investment mix, set up a retirement plan and steer you to a professionally managed account (functions that Scottrade farms out to external advisers). Fees for managed accounts typically start at 1% of assets annually, though they may be negotiable. Without prompting, a phone rep from E*Trade offered to knock 0.1 percentage point off the firm's standard 1.25% fee for

managed accounts when we called to inquire about them.

Fidelity and Vanguard earn the top spots in this category, trailed closely by Schwab. Fidelity racks up points for its menu of managed accounts, including one that focuses on muni bonds and another on income-oriented ETFs. Minimum investments start at \$200,000 for most types of accounts, and management fees range from 1.7% to less than 0.6% for diversified portfolios with higher balances. Fidelity is also rolling out an automated (or "robo") managed-account service that invests in ETFs; it requires a minimum investment of \$5,000 and charges annual fees of 0.35% to 0.39%, including underlying fund fees.

E*Trade and Schwab offer robo services, too. But E*Trade's isn't priced as competitively, and Schwab requires clients to hold sizable cash balances, which can drag down long-term returns (see the box on the previous page for more information about the brokers' automated-account offerings).

At Schwab, customers need just \$25,000 to get into a managed port-

folio of mutual funds or ETFs—one of the lowest bars in the business. Schwab also offers robo ETF accounts, free of charge, with only a \$5,000 minimum. Merrill and TD lack robo services and steer clients into managed accounts that charge at least 1% annually, depending on portfolio size (plus the fees of underlying funds in fund-based accounts).

For its part, Vanguard doesn't provide a robo service or managed accounts holding individual stocks or bonds. But customers with at least \$50,000 in assets can tap into the firm's Personal Advisor Services, which let you slide into a managed account that charges just 0.3% in annual fees. The accounts hold only Vanguard funds that mainly track market indexes. But that's not a bad thing; clients can get Admiral share class funds, with expense ratios of less than 0.07% for U.S. stock and bond funds. With most active managers failing to beat their benchmarks, sticking with broad-market index funds can be a good way to pocket more money in the long run. ■

Category Ratings

HOW 7 LEADING ONLINE BROKERS STACK UP

In a rating of this sort, overall scores depend on how much weight is assigned to each category. We based our weightings on what our readers considered important and our own judgment: commissions

and fees, 15%; investment choices, 15%; tools, 15%; research, 20%; ease of use, 15%; mobile, 10%; advisory, 10%. You should decide what you consider most important and choose a broker accordingly.

Broker	Minimum to open an account	Cost of a stock trade	Commissions and fees	Breadth of investment choices	Tools	Research	Ease of use	Mobile	Advisory	Overall score
Fidelity fidelity.com	\$2,500	\$7.95	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Merrill Edge merrilledge.com	0	6.95	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Charles Schwab schwab.com	0*	8.95	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
E*Trade etrade.com	500	9.99†	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
TD Ameritrade tdameritrade.com	0	9.99	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Scottrade scottrade.com	2,500	7.00	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Vanguard vanguard.com	0	7.00#	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★

*No minimum account opening balance if clients open a no-minimum Schwab checking account linked to a brokerage account. Without the link there is a \$1,000 minimum for a Schwab One brokerage account. †E*Trade charges \$7.99 per trade after the first 150 trades per quarter. #Vanguard charges \$20 per trade after the first 25 trades in a calendar year for clients with less than \$50,000 in Vanguard funds.

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