

Cover Story

A bear market and dazzling technology have given online discount brokers a big boost. Which is the best for you?

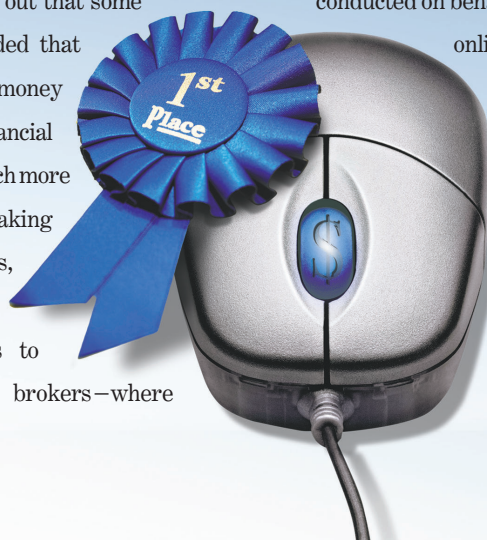
Blue Chips

by Theresa W. Carey 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. • 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 bro-



Barron's Graphics

(over please)

kers 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-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.

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. Finally, we suggest you visit our own online offering, Barrons.com, for a more complete evaluation of the brokers.

So who is on top this year?

thinkorswim (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.

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

Fidelity	4.5
optionsXpress	4.0
Charles Schwab	4.0
TradeKing	4.0
Muriel Siebert	3.5

E*Trade BEST FOR FREQUENT TRADERS

3.5 Stars

thinkorswim	4.5
MB Trading	4.5
TradeStation Securities	4.5
Interactive Brokers	4.5
ChoiceTrade	4.0

Lightspeed Trading BEST FOR OPTIONS TRADERS

4.0 Stars

--	--

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 backtest 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, 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)

Also earning 4½ stars (but a slightly lower numerical total) was MB Trading, which spent most of 2008 spiffing up its

thinkorswim	4.5
TradeStation Securities	4.5
Interactive Brokers	4.5
optionsXpress	4.5
MB Trading	4.5
OptionsHouse	4.5
TradeKing	4.0
BEST FOR INTERNATIONAL TRADERS	Stars
Interactive Brokers	4.0
TradeStation Securities	4.0
Fidelity Investments	4.0
MB Trading (forex)	3.5
optionsXpress (futures)	3.5

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)

How the 25 Leading Online Brokers Stack Up

Thinkorswim topped all comers this year, but just barely edged past MB Trading in a couple of categories. The two were pretty strong across all of our ranking criteria. Still, if you don't need all of their bells and whistles, you might be better served by another of the firms we vetted here.

Broker	Trade Experience	Trading Technology	Useability	Range Of Offerings	Research Amenities	Portfolio Analysis & Report	Customer Service & Access	Costs	Total	Stars
thinkorswim	4.6	4.7	4.3	4.0	4.7	4.3	4.8	3.0	34.4	4.5
MB Trading	4.7	4.7	4.5	3.6	4.6	3.9	4.6	3.5	34.1	4.5
TradeStation Securities	4.2	4.7	4.4	3.9	4.7	4.2	4.1	3.2	33.4	4.0
Interactive Brokers	4.5	4.6	4.2	3.8	4.6	3.4	3.5	4.5	33.1	4.0
Fidelity Investments	4.1	4.6	4.3	3.8	4.4	4.6	4.5	1.7	32.0	4.0
optionsXpress	4.5	4.0	4.6	4.1	4.5	4.0	3.8	2.3	31.8	4.0
TradeKing	4.4	3.4	4.3	3.4	4.7	4.5	3.7	3.4	31.8	4.0
OptionsHouse	4.7	3.4	4.5	2.2	4.3	4.5	3.9	3.9	31.4	4.0
ChoiceTrade	4.5	4.2	4.3	3.0	4.2	3.9	3.8	3.2	31.1	4.0
E*TRADE Securities	4.4	3.5	4	3.8	4.4	4.3	4.4	2.0	30.8	4.0
TD AMERITRADE	3.8	3.8	3.4	3.4	4.1	4.4	4.4	1.9	29.2	3.5
Muriel Siebert	3.6	3.4	4.1	3.8	4.3	4.4	4.5	0.9	29.0	3.5
Charles Schwab	4.2	2.3	4.1	3.6	4.5	4.2	4.1	1.8	28.8	3.5
tradeMONSTER	4.4	2.4	4.3	2.8	4.0	4.5	3.2	3.1	28.7	3.5
Lightspeed Trading	4.4	3.4	4.3	1.3	4.5	3.4	2.5	3.9	27.7	3.5
Scottrade	4.0	2.4	3.3	3.0	3.7	2.9	3.8	2.4	25.5	3.0
AB Watley	4.2	1.8	3.5	2.6	3.8	2.9	2.2	2.1	23.1	3.0
Zecco	3.4	0.8	2.7	2.7	3.5	2.0	2.5	4.2	21.8	3.0
SogoTrade	3.4	1.9	3.8	0.4	3.4	3.0	2.6	2.9	21.4	3.0
Just2Trade.com	3.0	1.9	2	1.5	3.2	3.3	1.3	4.4	20.6	2.5
Firstrade Securities	2.0	0.9	2.3	2.7	2.8	3.1	3.3	2.7	19.8	2.5
StockCross	3.4	1.7	3.5	2.3	2.5	2.6	2.5	1.1	19.6	2.5
WellsTrade	2.6	0.8	2.8	2.1	2.5	3.2	2.0	3.5	19.5	2.5
Banc of America Inv Svcs	2.2	0.4	2.7	1.9	3.2	2.4	2.6	2.4	17.8	2.0
ShareBuilder	3.0	0.5	2.6	0.4	1.9	2.4	2.6	1.5	14.9	2.0

All data regarding fees and costs based on an account with \$100,000 in assets. Data on customer-service-and-access internet as of Feb. 13, 2009. Stock commissions based on a block of 500 shares.

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 plat-

form-access fee (plus \$59.95 for the real-time screener) will deter those who trade infrequently.

Interactive Brokers (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)

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)

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.tradeking.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,

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*

LOWEST

Zecco	\$19.00
Interactive Brokers	29.00
Just2Trade.com	30.00

HIGHEST

Charles Schwab	\$110.60
Muriel Siebert	150.90
StockCross	213.80

AVERAGE (25 firms) \$77.68

*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

Frequent Trader's Monthly Broker Costs**

LOWEST

Interactive Brokers	\$993
Just2Trade.com	1,062
OptionsHouse	1,401

HIGHEST

Muriel Siebert	\$4,624
Banc of America	4,171-4,661
StockCross	5,405

AVERAGE (25 firms) \$2,338

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)

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)

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)

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. ■