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## Tools of the Trade

(the following has been excerpted:)

**by Theresa W. Carey** Volatile markets and the electronic tools to exploit them: What more can an online trader ask for? ● Today, it's possible to buy Swiss stocks or sell Japanese shares from your desktop; you can also go long oil, short a silver contract, trade a butterfly option on the S&P 500 or employ computer-generated algorithms to jump from stock to stock—all with the assurance of credible market prices and the confidence bred by customized research and analysis. And you can do it at a fraction of what it cost a few years ago. ● In recent months, banking behemoths like Bank of America and Wells Fargo have offered free online trading to any customer who meets their balance threshold, while newcomers like OptionsHouse and TradeKing continue to chip away at commissions. ● Deep, diverse product lines and declining prices highlight *Barron's* 12th annual survey of the Best Online Brokers. New services and tools catering to futures, options and international investors are proliferating. Meanwhile, the average commission on a 500-share stock trade at the 29 brokerage firms we reviewed this year was \$6.35, down more than 29% from the average of \$8.25 a year ago. Costs for trading options have declined similarly.

With so many interesting alternatives, how did *Barron's* choose? We divided up our brokers into two camps—14 firms that are accessible through their own proprietary software and another 15 that you reach through Web browsers akin to those used for online banking.

Software-based systems traditionally have aimed at attracting more frequent

traders seeking speed and an information edge, while the Web has a more mainstream appeal for the sometime trader.

Thinkorswim tops *Barron's* 2007 list of software-based brokers for the second year in a row, earning 4½ out of a possible five stars. And by the thinnest of margins, a new winner emerged in the Web-based broker category. **TD Ameritrade** (www.tdameritrade.com) nudged aside longtime champ optionsXpress (www.optionsXpress.com). Both won four stars, but TD Ameritrade had slightly higher points behind those stars.

What does it take to make it to the top? Eight-year-old thinkorswim launched 12 software revisions in the past year, adding new tools and making its platform stabler. "It's as close to bug-free as a program can be," says the firm's president Tom Sosnoff.

Much larger, publicly-held TD Ameritrade (ticker: AMTD) has risen via a very different business model. The firm is the result of a merger between Ameritrade and TD Waterhouse. A frequent acquirer since the Internet bust decimated the electronic-trading business, Ameritrade wisely adopted the best parts of its purchased platforms. Its newest hybrid utilizes the terrific research capabilities of TD Waterhouse and improves upon Ameritrade's previous platform.

*Barron's* doesn't think commissions are the only measure of a broker's worth, even if we're not ready to agree with Sosnoff, who says of pricing, "We don't care about that any more."

We rated thinkorswim, TD Ameritrade and their brethren in eight categories, including the types of investments that can be traded online, the quality of

### The Best Web Browser-Based Online Brokers

TD Ameritrade took top honors this year in a very tight race with longtime champ optionsXpress. *Barron's* evaluated the brokers on eight criteria, taking into account everything from trading processes to ease-of-use to costs to research.

Broker	Trade Experience	Trading Technology	Usability	Range of Offerings	Research Amenities	Portfolio Analysis & Reports	Customer Service & Access	Costs	Total	Stars
<b>TD AMERITRADE</b>	4.5	4.0	4.7	3.5	4.5	4.6	4.1	2.2	32.1	4.0
optionsXpress	4.3	3.3	4.0	4.4	4.6	4.4	3.8	3.2	32.0	4.0
Fidelity Investments	4.6	3.3	3.9	4.1	4.5	4.9	4.3	1.9	31.5	4.0
Muriel Siebert	4.4	2.9	3.8	4.3	4.6	4.9	4.3	2.1	31.3	4.0
TradeKing	4.2	3.0	4.1	3.8	4.1	3.4	3.5	4.1	30.2	4.0
E*TRADE	4.1	2.7	3.9	4.0	4.5	4.8	3.4	2.1	29.5	3.5
Charles Schwab	3.7	2.7	3.8	3.4	4.5	4.4	4.1	1.3	27.9	3.5
OptionsHouse	4.3	2.2	3.9	2.9	3.7	3.7	3.1	3.5	27.3	3.5
Scottrade	3.6	2.2	3.8	3.1	4.2	3.5	3.7	3.1	27.2	3.5
Firsttrade	3.3	0.8	3.5	3.5	3.7	3.3	3.7	3.2	25.0	3.0
WellsTrade	3.3	0.7	4.0	2.6	3.6	3.5	3.3	3.6	24.6	3.0
Sogoinvest.com	3.6	1.0	3.5	1.5	2.9	2.5	2.6	3.6	21.2	2.5
Bank of America	2.4	0.7	3.3	3.4	3.1	2.5	2.8	2.8	21.0	2.5
Just2Trade.com	1.8	1.7	2.0	1.6	1.8	2.3	2.1	4.6	17.9	2.0
Zecco	2.5	1.1	3.2	1.0	1.7	1.2	2.5	4.1	17.3	2.0

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screeners provided to help sort through stocks, options or funds, the consumer-friendliness of trading screens, overall ease-of-use and ability to be customized.

We then took a hard look at the types of orders a trader can enter, and, for software-based brokers, delved further into trade automation, strategy creation, and formulations for commissions. We also compared the rates brokers pay for customers' idle cash—an important consideration, now that short-term rates have risen. We assigned a point value ranging from zero to five for the eight criteria.

We then toted up the points for each of the browser-supported brokers.

*Barron's* treated the software-based firms a little differently. For them, we created a weighted total by assigning varying degrees of importance to each measure, based on suggestions from more than 400 readers.

**In the case of thinkorswim**, many of the dozen upgrades were designed to allow its relatively sophisticated clientele to wring more out of their systems. "Our commitment [is] to apply cutting-edge technology to our trading platform and to raise our customers' understanding of complex strategies with strong customer support and educational services," says Sosnoff. In part, this has meant better order routing to market centers offering speedier execution and more price improvement. Thinkorswim has several ways to place trades. If you click on the offer in any quote display, an order-entry ticket pops up that will let you place a Buy order, while a Sell order comes up if you click on the bid. Either way, the ticket is filled in automatically with the stock symbol and your default transaction size.

For tech support, thinkorswim customers can use a built-in screen-capture program that takes a picture of the part of the program causing a problem, and

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## What's Your Specialty?

Some online brokers focus on specific investment niches that may match your own interests. Interactive Brokers, for instance, is rated tops for those looking to put money to work abroad.

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### Best for Options Traders

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thinkorswim

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optionsXpress

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Fidelity Active Trader Pro (w/OptionPro)

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OptionsHouse

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MB Trading

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### Best for International Traders

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Interactive Brokers

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Fidelity

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TradeStation

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Terra Nova

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E\*Trade Global Trading

sends it to the customer-support staff via live chat.

The software program also offers tax-accounting tools that match trades and send the output to any file format, and its platform is flexible enough to allow easy customization. What's more, the broker has joined some of its competitors in offering a Web-based platform, with almost all of the bells and whistles of the software offering.

Despite Sosnoff's comments about pricing, thinkorswim's commission schedule is reasonable—an order for 500 shares of stock is \$7.50, and 10 options contracts are \$12.95. Clients can also make three free mutual-fund trades per month—including those that other brokers charge for. Thinkorswim's interest rates on cash are on the high side, and its margin fees are on the low side. Customer service is excellent.

Repeat-winner thinkorswim continued to reign supreme. However, Interactive Brokers and MB Trading both earned the same number of stars—4.5—from Barron's this year. And there are lots of other candidates worthy of your consideration.

**Ameritrade's Web-browser** system is tackling some of the same issues. Its proprietary order-routing technology can discern whether you're entering a Buy or Sell, the size, and whether it's a limit or market order, among other things—and compares the order to the prevailing market price. If the order is marketable, it goes through a host of market centers to fine-tune how the trade will be executed. This super-smart router tries to get the best available price in the market. A few bucks on 1,000 shares might not sound like much, but the savings add up quickly if you trade frequently.

For more active traders, TD Ameritrade's Streamer Suite Console offers numerous customizable real-time data and charts. You can set up 50 watch lists, with as many as 35 symbols per list, and switch between them quickly using a drop-down menu. You can add technical studies to charts, and even trade from the quote or chart pages. The site offers excellent screeners, and recently added contingent orders (allowing you to make multiple automatic moves, based on various price changes or relationships) to its entry screens. We were impressed by the ETF [exchange-traded fund] center, powered by Wall Street on Demand.

TD Ameritrade's commissions and other costs are middle-of-the-pack, but easy to understand. The firm charges \$9.99 for any stock order, and its options commissions are \$17.49 for 10 contracts. Margin rates are on the high side, but it's possible to move cash into a sweep account that pays close to 4.5%.