



Technology Tools Increasingly Important To Online Brokerages

Online traders face a number of choices when deciding which brokerage firm to work with. And with so many options, potential users increasingly look to the annual rankings by *Barron's*, *Forbes*, *Smart Money*, *Kiplinger's Personal Finance*, J.D. Power & Associates and a plethora of others to help find the most dependable, helpful, and cost-efficient online brokerage. Competition for customers is keen, with only slight differentiation among the top firms. According to *BusinessWeek* magazine, only 12 firms handle 75 percent of all online trades.

The criteria these reviewing companies use to rank brokerages have also grown over the years. During the 2000-2002 bear market, when trading volumes plummeted, online brokerages were forced to cut their commissions to attract the then-shrinking number of traders. While some online brokerages went out of business, those that remained cut fees while increasing services and products in order to gain the competitive edge. The emphasis was no longer on price. In the past, brokerages differentiated themselves with unique product offerings but now, the leading companies offer comparable product lines of mutual funds and stocks. Brokerage firms now compete and differentiate themselves the most in the service and technology they provide for end customers.

The service and technology provided by brokerages are also increasingly important to those that conduct annual reviews of online brokerages. Reviewers evaluate a long list of criteria in their rankings. For instance *Barron's* ranks more than two dozen online brokers. Each January, the company distributes a 400-question survey that covers eight categories: trade execution, trading technology, usability, range of offerings, research amenities, portfolio analysis and reports, customer access and help and cost. The brokerages take the survey seriously, knowing that a high ranking will undoubtedly draw customers. Firms strive to be ranked in the top four on any given ranking list and once they make it, the brokerages aggressively tout the accolades. It's common to see "*Barron's* Best Online Broker" or "*Forbes* Best of the Web Favorite Site" in advertisements and on brokerage Web sites.

A brokerage's customer service is crucial to how well or poorly it is ranked. *Barron's*, for example, evaluates online help such as live-chat capability, educational features, user guides and frequently asked question fields. They further assess offline help by calling customer service and weighing the brokerages' ratings on the average time a customer spends on hold. The ability to reach a live broker, to place touch-tone trades, or to buy or sell over the telephone is also considered, according to *Barron's*.

Another key differentiating area for online brokerages is technological tools they provide their clients. For example, several brokerages offer the technology that provides tax lot accounting services, allowing retail customers to adopt tax-efficient trading strategies. One prominent magazine that performs brokerage rankings specifically asks brokerages if they offer a tax lot accounting capability for retail investors. In addition, these brokerages are asked if they provide it for free or if the client is charged for it. The brokerage gets additional points if they provide tax lot accounting and even more points if they provide it for free.

Many brokerages acknowledge that offering such technological tools is an advantage in the influential rankings and in gaining customers. Skip Shean, director of marketing and business development for optionsXpress, a leading online brokerage, said, "optionsXpress has quickly become a leader in the brokerage industry by providing innovative customer solutions that differentiate us from the competition." Indeed, optionsXpress has been ranked "Best Online

Broker” for four years running by *Barron’s*, most recently earning a 4.5 ranking. It was also named a “Forbes Best of the Web” and “*Kiplinger’s* Best Online Broker,” among others. “optionsXpress’ integration of GainsKeeper provides us with market-leading technology, which provides a valuable service to our clients,” Shean said.

The information provided to retail customers is a real boon during tax season. Using GainsKeeper tools, brokerage customers can automatically calculate their tax liabilities and produce a Schedule D tax return. In addition, users are alerted year-round to wash sales, corporate actions and other situations that can impact the taxes on their holdings. This helps users avoid Schedule D preparation errors and ensure compliance with Internal Revenue Service regulations regarding taxable investments, as well as minimizing overpayment of taxes on their investments.

Such information may become even more vital in the months and years ahead. A U.S. Senate bill to be introduced by Sen. Evan Bayh, D-Ind., will require broker-dealers and mutual-fund companies to report the adjusted cost basis of securities (purchase price minus commissions) as well as the sale price of individual accounts. This information will be sent to clients as well as the IRS when the shares are sold. The bill is intended to reduce the “tax gap,” or the difference between capital gains taxes that *should* be paid and those that *are* being paid. Those supporting the bill claim it makes the tax code more fair by ensuring that the IRS receives an independent verification of an individual’s investment value, as currently occurs with wages. In addition to helping brokerage firms become better business partners, these technological tools make it easier for the 32 million Americans who report capital gains and losses each year.

By Mary Scott for GainsKeeper