How to Open a Brokerage Account

Before opening an account with any broker, you should always remember to check the broker's background and disciplinary history.

Information You Will Need to Provide

Brokers generally request personal information from their customers, including financial and tax identification information. Brokers need this information to comply with laws and other regulations. Some of the information a broker will likely ask you to provide includes:

- Your name
- Social security number (or taxpayer identification number)
- Address
- Telephone number
- E-Mail address
- Date of birth
- Driver's license, passport information, or information from other government-issued identification
- Employment status and occupation
- Whether you are employed by a brokerage firm
- Annual income
- Net Worth
- Investment objectives and risk tolerance

Decisions You Will Need to Make

- *Would you like to open a cash or margin account?*
  Brokerage firms generally offer at least two types of brokerage accounts - a cash account and a margin account:
- In a *cash account*, you must pay the full amount for securities purchased. You may not borrow funds from your brokerage firm in order to pay for transactions in the account.
- In a *margin account*, you can borrow funds from your brokerage firm to purchase securities (this is called buying securities "on margin"). The brokerage firm uses the securities in your margin account as collateral for the money it lends to you to purchase these securities and you pay interest on the money you borrow. Margin accounts can offer you greater purchasing power, but also expose you to the potential for larger losses.

- *Who will make decisions for your account? Are you comfortable giving discretionary authority to another person?*
  You will make your own investment decisions for your account, unless you grant "discretionary authority" to someone else to make decisions for you on your account. If you want someone else to have discretionary trading authority on your account, you will need to provide him or her with written legal authorization. Ask your broker for the correct form to fill out. Before granting anyone discretionary authority over any brokerage account, you should seriously consider the risks involved in allowing someone else to make decisions about your money.
- *What are your investment goals and how much risk are you comfortable taking?*
  When you open a new brokerage account, you may be asked to specify your overall investment goals (or "objectives") and how much risk you are willing to tolerate. Different firms use different terms to describe investment objectives or risk tolerance levels. Some common terms are: "capital preservation," "income," "growth," "moderately aggressive," "aggressive growth," and "speculation." Make sure you understand what these terms mean and how much risk is involved with each objective. In selecting an objective/risk category, you should also consider when you expect to need fast access to the funds in your account. If you have questions, ask your broker.
- *How do you want to manage cash in the account?*
  Sometimes you may have cash in your brokerage account that has not been invested. When you open a brokerage account, your broker may ask you to choose a cash management program for this uninvested cash. Brokerage firms may offer several cash management programs to their customers:
- A "bank sweep program" involves the automatic transfer of any uninvested cash in the brokerage account into a deposit account at a bank or banks that may or may not be affiliated with the broker-dealer;
- Some programs allow you to "sweep" funds to one or more money market mutual funds; or
- You may simply leave uninvested funds in the brokerage account.
  Your brokerage firm may not offer all of these options for your uninvested cash. For example, some brokerage firms require a bank sweep program for uninvested cash. Each of these cash management programs offer different benefits and risks, including different interest rates and insurance coverage. The terms and conditions of these cash management programs vary between brokerage firms. Make sure you understand and carefully consider the available options, benefits and risks associated with each cash management program before selecting one for your uninvested cash.
- *How do you want to receive your account statements and confirmations?*
  Brokers generally are required to provide you with account statements and confirmations. Your broker may give you the choice of whether to receive account statements and transaction confirmations on paper or electronically. Others may not offer a choice. For example, some online-only firms may limit their customer communications to online or electronic means, and charge customers a fee to receive account statements and confirmations on paper. Account statements and confirmations help to protect you. You may also want to consider whether you want a person whom you trust to receive duplicate account statements and transaction confirmations.

Understand Your Fees

You will pay a variety of fees in connection with your brokerage account. These fees and their amounts will vary among broker-dealers. Before opening your brokerage account, make sure you understand what fees will apply to your account. Some examples of common fees include:

- Transaction Costs - These are the costs you will pay when buying or selling securities. Some examples of transaction costs include:
  - Commissions - a fee you pay to the broker-dealer for executing a trade often based on the number of shares traded or the dollar amount of the trade.
  - Markups/Markdowns - an amount to compensate a broker-dealer for sales from/purchases into the broker-dealer's inventory. When buying or selling from its own inventory, the broker-dealer generally will be compensated by selling the security to you at a price that is higher than the market price (the difference is called a *markup*), or by buying the security from you at a price that is lower than the market price (the difference is called a *markdown*).
  - Loads - a sales charge you pay when buying or redeeming shares in a mutual fund or variable annuity.
  - Account Maintenance Fees - a monthly, quarterly, or annual fee that a broker-dealer may charge you for certain brokerage accounts
    below a certain dollar threshold to keep these accounts open at the brokerage. Account maintenance fees vary among broker-dealers and they do not necessarily apply to all brokerage accounts at a broker-dealer.
  - Inactivity Fees - a fee that a broker-dealer may assess on your brokerage account if you have made few or no transactions for a period of time.
  - Account Closing Fee - a fee that a broker-dealer may charge you when you close your account.
  - Margin Interest - the interest that a broker-dealer may charge you for loans from your margin account.
  - Wire or Transfer Fees - fees a broker-dealer may charge you to wire money from your brokerage account or to transfer assets or cash to another broker-dealer.

- In addition to fees associated with your account, you will likely have additional fees in connection with certain investments, such as mutual funds, ETFs and variable annuities.

A Note About Transferring Securities to a New Account

When you move an existing account, in addition to paying fees, you may also find that you cannot transfer certain securities. For example, your new broker-dealer may not accept all of the securities in your old brokerage account. In these circumstances, you may consider leaving these securities with the broker-dealer or selling these securities and transferring cash to your new broker-dealer. You probably will pay a commission or other fees in connection with any securities you sell. Depending on the type of account you held with your former broker-dealer, you may find that there are taxes, penalties or restrictions for selling or moving your securities.

Securities Investor Protection Corporation (SIPC)

If your brokerage firm goes out of business and is a member of the Securities Investor Protection Corporation (SIPC), then your cash and securities held by the brokerage firm may be protected by SIPC coverage up to $500,000, including a $250,000 limit for cash. If a SIPC member becomes insolvent, SIPC will ask a court to appoint a trustee to supervise the firm's liquidation and to process investors' claims. SIPC protection applies to most types of securities, such as stocks, bonds, and mutual funds. However, SIPC does **not** protect you against losses caused by a decline in the market value of your securities, and it does **not** provide protection for investment contracts not registered with the SEC

Additional Information

Key Questions You Should Ask Before Opening a Brokerage Account

- What services will I receive with this brokerage account?
- What are the fees associated with this account? Is there a complete schedule or list of fees?
- Who will make investment decisions for my account (if this is a discretionary account)?
- I am moving my account from another broker-dealer. Will all my securities transfer from my old broker-dealer? If not, which securities will not transfer? Do you charge a fee for moving the securities from my old account into my new account?
- Is this a margin or cash account? Can you explain the differences between the two?
- What choices do I have regarding investments? What choices do I have regarding cash sweep programs? Can you explain the benefits and risks of these programs, including any insurance protection, interest rates and costs I will incur?
- How can I access funds in my account and how much time does that take?
- How will I receive my account statements? Will they be online or in paper?
- Who do I contact if I have a question or concern regarding my account?

Source: The Securities and Exchange Commission's (SEC) Office of Investor Education and Advocacy