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SmartMoney

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FINDING THE BEST FIT

WINNERS & LOSERS

In the postcrash era, the names of the best–and the worst–brokerage firms are changing. Our 17th annual survey digs deep into the full-service and discount industries.

By Roya Wolverson and Neil Parmar

IF YOU'RE LUCKY, YOU SEE YOUR BROKER ONCE OR TWICE A YEAR. IF you're sharp, you may even understand what he's saying. (TIPS? Auction-rate securities?) The monthly account statement is often a jumble of numbers and pie charts you barely comprehend. And yet Ali Stocks is willing to endure all those hassles, so long as her broker follows one mandate: Call her regularly. The Slate Hill, N.Y., office manager says she switched brokers earlier this year just for that reason. "That's one of the demands, and I mean demands, that I made when we moved everything over to him," Stocks says.

Fed up with decimated portfolios, Americans are on a mission to evaluate the firms and people managing their money but are hobbled by an obvious problem: How do you do that? Each year dozens of research firms and news organizations conduct surveys to evaluate brokers big and small. And each year different names tend to rise to the top–or sink to the bottom. But experts say many of the surveys may be missing the mark, focusing on one or two areas at the expense of others. "It's not just the broker's performance that matters," says Larry Freed, CEO of research firm ForeSee Results. These days, he says, brokers need to find ways "to put customers at ease."

For three months, while the financial crisis was continuing to ricochet, we were busy digging up details on the most prominent discount and full-service brokers in the U.S. As we have for 17 years now, we relied on our own tests, consulting-firm analysis and surveys of the brokerages themselves. We noticed that WellsTrade and Banc of America charge $75 to close a retirement account–a service provided for free by some of their competitors. OptionsXpress left us on hold for nearly four minutes when we requested its interest rate on cash balances. (The company later said it shouldn't have taken that long.) But when we contacted Fidelity with a query on interest rates, the rep gave us a quick answer and even a compliment: "Good question."

The final results are based on categories that matter most to investors, like trading tools and customer service for discount brokers, and stock picking and account statements for full-service firms. Our efforts haven't gone unnoticed. For two years now, the Web site ConsumerSearch has said SMARTMONEY has the best broker survey among magazines and newspapers. Our findings:

[The following is excerpted]

FULL-SERVICE WARS

1. Raymond James

WWW.RAYMONDJAMES.COM

NUMBER OF BROKERS: **5,000**
NUMBER OF BRANCHES: **2,280**
HIGH MARKS: **CUSTOMER SATISFACTION**
LOW MARKS: **STOCK PICKING**

A repeat winner from last year, Raymond James knocks out the competition in two categories: customer satisfaction and brokerage statements. The St. Petersburg, Fla.–based firm also earns the highest marks in our new Web site evaluation, edging out competitor Smith Barney. The 47-year-old Raymond James, which took on more than 300 new brokers last year, says it's also scooping up new customers from full-service outfits with riskier balance sheets and uncertain futures. "There are just fewer firms to compete with," says Chet Helck, the firm's chief operating officer. One weak spot: Stock picking ranked third-to-last. "I'd attribute that to a tough market," says Helck.

2. Edward Jones

WWW.**EDWARDJONES**.COM

NUMBER OF BROKERS: **12,100**
NUMBER OF BRANCHES: **10,880**
HIGH MARKS: **STOCK PICKING**
LOW MARKS: **WEB SITE**

Call it a bear-market bounce. Edward Jones hired more than 900 new brokers last year, making it one of many regional brokers capitalizing on the misfortunes of Wall Street giants like Merrill Lynch. The St. Louis–based firm, with a reputation for at-your-doorstep service, also managed to lead the pack in stock picking. Its picks were down, of course, but not nearly as much as the competition's. "We don't pick exciting names," says James Weddle, managing partner. "We're just looking for solid companies that increase their dividends." On the down side, Corporate Insight found the firm's Web site hard to navigate. The company says its goal is to educate site visitors in clear language and connect them with a financial adviser.

3. UBS

WWW.**UBS**.COM

NUMBER OF BROKERS: **13,900**
NUMBER OF BRANCHES: **720**
HIGH MARKS: **CUSTOMER SATISFACTION**
LOW MARKS: **WEB SITE**

What else can go wrong? The brokerage firm's parent bank has been hit by the largest annual loss ever for a Swiss company, thousands of layoffs, and a U.S. government probe into how it helped wealthy clients cheat on taxes. UBS is suffering from "concerns about financial strength," says William Blair analyst Mark Lane. Still, the brokerage firm got a boost in our survey from high scores in customer satisfaction and account statements. The firm's Web site didn't fare as well. Research firm Corporate Insight found its pages hard to navigate and the search tool inefficient. A UBS spokesperson says clients have found the site easy to use and that more improvements are on the way.

4. Smith Barney

WWW.**SMITHBARNEY**.COM

NUMBER OF BROKERS: **13,000**
NUMBER OF BRANCHES: **800**
HIGH MARKS: **WEB SITE**
LOW MARKS: **CUSTOMER SATISFACTION**

This Citigroup unit—soon to be Morgan Stanley Smith Barney, after its combination with Morgan Stanley—climbs in our rankings from last place last year. The firm earns high marks for trust, according to Forrester Research. James Tracy, Smith Barney's director of business development, says that amid the financial crisis, the firm boosted its contact with clients by adding educational seminars, research papers on its Web site and more-frequent phone calls from brokers. As for the merger, the firm says it doesn't plan to shed brokers, despite losing billions of dollars more in client assets in the fourth quarter than it brought in. Departing investors are "looking for second opinions," says Tracy.

5. Wachovia

WWW.**WACHOVIA**.COM

NUMBER OF BROKERS: **14,400**
NUMBER OF BRANCHES: **1,460**
HIGH MARKS: **STOCK PICKING**
LOW MARKS: **WEB SITE**

Clients of this firm might be developing a case of whiplash. Wachovia had only just begun merging its back offices with recently acquired A.G. Edwards when Wells Fargo snapped up Wachovia late last year. All those changes make some investors nervous, but Jim Hays, president of Wachovia's retail brokerage unit, says brokers like the new link-up with the San Francisco–based Wells. The firm is "attracting brokers in droves," he says. Wachovia (soon to be renamed Wells Fargo Advisors) improved in two categories this year: statements, which Wachovia revamped last year, and stock picking. Its Web site, on the other hand, ranked the lowest in the group, with a clunky search tool and dowdy layout. A redesign is in the works.

6. Merrill Lynch

WWW.**ML**.COM

NUMBER OF BROKERS: **15,700**
NUMBER OF BRANCHES: **790**
HIGH MARKS: **STATEMENTS**
LOW MARKS: **TRUST**

Analysts are still pondering the fate of Merrill Lynch and its "thundering herd" of brokers, following the firm's rescue by Bank of America and the departure of top Merrill execs. The turmoil certainly didn't help the firm's overall ranking in this year's survey; it fell three notches, from third place last year. Only 34 percent of Merrill's clients surveyed by Forrester Research think the firm did what was best for them, down from 47 percent in the previous survey. A Merrill spokesperson says the company's own surveys show that clients are "very happy" with their brokers. The firm earns kudos from the researchers at Dalbar for account statements, including an "easy-to-understand" chart showing how clients' portfolios are faring.

7. Morgan Stanley

WWW.**MORGANSTANLEY**.COM

NUMBER OF BROKERS: **8,400**
NUMBER OF BRANCHES: **500**
HIGH MARKS: **WEB SITE**
LOW MARKS: **TRUST**

Is bigger better? Linking up with Citigroup's Smith Barney would give the joint venture more brokers than any competitor, even Merrill Lynch. But combining brokerage teams comes as Morgan Stanley confronts other big challenges. The firm posted its second straight quarterly loss in the first quarter and slashed its dividend to preserve cash. What's more, Morgan Stanley ranks near the bottom in most categories in our survey. Clients are "disappointed that their wealth is declining," says head of national sales Andy Saperstein, adding that the company is doing its best to help clients navigate the turmoil. The Web site earned better marks, helped by a top-notch design.