

Investor Education

Securities Division, Maryland Attorney General's Office

How to Choose a Stockbroker

1. Determine How much and what type of service you want from your brokerage firm and stockbroker.

A full-service firm will offer investment advice, make recommendations, and offer research support. A discount broker doesn't make recommendations about buying or selling a specific security.

2. Research your brokerage firm and stockbroker.

Stockbrokers must be licensed through the Financial Industry Regulatory Agency (FINRA) and registered with each state in which they regularly conduct business.

3. Ask about fees and commissions.

Most brokers earn commissions when they buy and sell investments on behalf of their clients. Make sure you understand these costs before opening an account.

Many brokerage firms charge ongoing fees related to the maintenance and servicing of your account. Make sure you understand these fees and how they are charged to your account.

4. Determine your investment needs and objectives, e.g. short term profits, long term growth, steady income, tax savings.

Call the Securities Division, 410-576-6494, to verify the firm's and the stockbroker's registration and to check disciplinary history. You may also check BrokerCheck on the web at www.finra.org/brokercheck for some information on firms and their stockbrokers.

Ask for and check references from several clients. Ask these clients how much better off they are as a result of the services of the stockbroker.

Don't make a decision about a brokerage firm or stockbroker based solely on a telephone solicitation, advertisement, or seminar.

Make your goals clear to your broker, preferably in writing.

Your investment goals should be accurately reflected on your new account form. Check the form and get a copy for your records.

If your investment goals change, be sure that your broker's records and your records accurately reflect your revised objectives.

5. Determine your tolerance for risk.

Your new account form requires that you specify the level of risk you are willing to take to achieve your financial objectives. If you don't understand some of the categories in

the form, ask your broker to explain what each category means. Make sure you fully understand how much risk is involved in each category.

- Remember a basic investment rule: the higher the potential rate of return, the greater the risk. If you are promised spectacular, or even above-market returns, be skeptical and ask questions.

6. Make sure you understand the type of account you want to open before you sign any customer agreement.

- If you open a *discretionary* account, you allow your broker to make investment decisions without consulting you about each transaction. Your broker will not obtain your authorization about the price or type of security or when to buy or sell securities based on a determination of what will best meet your investment objectives.

- If you open a *margin* account, you may borrow money from the brokerage firm to buy securities. You are required to pay interest on that loan and the securities in your account are collateral for that loan. If you buy securities on margin, you are liable for the outstanding balance of the loan regardless of the value of the securities purchased. If the securities in your account fall in value, you may receive a margin call that requires you to add funds to your account, or risk the sale of your securities.

7. Make sure you can understand account statements and confirmations slips.

- Understanding your account statements and confirmation slips is key to controlling your investments. Check the statements over carefully as soon as you receive them. Familiarize yourself with the format, terms, and codes used by your brokerage firm. Call our office for a copy of the booklet *Understanding Your Brokerage Account Statements*, a collaborative piece of NASAA, SIFMA and SIPC.

- If you ever find information in your account statement or confirmation slip that you do not understand, contact your broker immediately and get a satisfactory explanation.

Remember to do your own homework, and call us to inquire about your broker's status.

Call us, we're here to help.

The Maryland Securities Division
410-576-6360

Visit our website at:
<http://www.oag.state.md.us/securities>

Free Publications Available

If you would like to receive a full listing of all our investor education publications, visit our website at www.oag.state.md.us, call us, or send your request to:

Investor Education
Maryland Securities Division
200 St. Paul Place
Baltimore, MD 21202