

Investor Education

Securities Division, Maryland Attorney General's Office

How to Choose a Stock Broker

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 typically charges less than a full service firm, but doesn't make recommendations about buying or selling a specific security.

2. Research your brokerage firm and stockbroker.

- Stockbrokers must be registered with each state in which they regularly conduct business, and licensed through the Financial Industry Regulatory Authority (FINRA).
- Call the Maryland Securities Division, 410-576-6494, to verify the firm's and the stockbroker's registration and to check for a complete disciplinary history. You may also check BrokerCheck on the web at www.finra.org/InvestorInformation/Investor-Protection for some information, but not necessarily all adverse 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.

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 of your account. Make sure you understand these fees and how they are charged to your account.

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

- 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, but will buy and sell securities based on his/her 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 confirmation 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 for a copy of our booklet *Understanding Your Brokerage Account Statements*, it will help you decipher your account statement.
- 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>

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