

The Best Online Brokers OptionsXpress takes top honors—again—in our updated annual survey. Kudos for Interactive and Terra Nova, too. SUV versus sports-car brokers.

Speed or Comfort?

Our annual rankings find the best online brokers for either

(the following has been excerpted:)

BY THERESA W. CAREY

CHOOSING AN ONLINE BROKER IS A lot like shopping for a car. If you're looking for good, all-around family transportation, you'll naturally want to check out the latest SUVs. But if it's power, speed and agility that you're after, nothing will do but a sports car.

Recognizing the different ways that *Barron's* readers trade online, we've split our annual ranking of online brokers into two pieces. Investors planning to do some basic trading—perhaps up to 10 trades a month—will want to look at the browser-based services, the SUVs of the field. They're easy to use, come with useful research tools and can be accessed from any computer with an Internet connection. More active traders, by contrast, should probably focus on the software-based models—the sports cars. With these, your computer, rather than the broker's, crunches the numbers, and that makes it easier to customize the systems to fit your own trading style.

We've reviewed a total of 30 online brokerage services this year—18 of the browser-based variety and 12 based on software. We put each one through the paces, measuring its capabilities and user-friendliness in eight different ways. We also spoke with top executives of many of the brokerages. In the end, we assigned each offering a star rating of one to five.

The overarching conclusion: Online-brokerage services, as a group, are better than ever. Back when we started ranking

online brokers, three stars got you near the top of the heap. Now, in our 10th survey, one browser-based broker and five software-based offerings each earned 4½ stars, double the number from last year.

In a remarkable display of consistency, optionsXpress, which took top honors in 2003 and 2004, did it again this year. The firm (www.optionsxpress.com) was easily the leading browser-based brokerage, and its margin of victory was greater than that of the winner among the software-based brokers, Interactive Brokers (www.interactivebrokers.com).

In the browser category, optionsXpress was followed by Ameritrade's Apex (www.ameritrade.com) and Fidelity Investments (www.fidelity.com). Among software-based competitors, Interactive narrowly beat Terra Nova Trading (www.terranoaonline.com), TradeStation (www.tradestation.com), thinkorswim (www.thinkorswim.com) and MB Trading (www.mbtrading.com).

We rated both types of brokers on such considerations as the types of investments that can be traded online, the quality of screeners that help you pick stocks,

Star Power

► Here's how the online brokers stack up in eight key areas. *Barron's* awarded a maximum of five points for each category—and a maximum of five stars for the overall rating.

BROWSER-BASED										
Broker	Trade Execution	Trade Tech	Usability	Range of Offerings	Research	Portfolio Reports	Access/Help	Costs	Weighted Total	Star Rating
optionsXpress	4.6	3.1	4.7	4.6	4.8	4.7	4.5	4.5	35.5	★★★★½
Ameritrade (Apex)	3.8	3.0	4.0	4.2	4.2	4.4	3.7	3.5	30.8	★★★★
Fidelity Investments	3.8	3.6	3.8	4.6	4.5	3.7	4.3	2.2	30.5	★★★★
E*Trade - Power E*Trade	3.4	2.6	3.7	4.7	4.0	4.0	3.5	4.0	29.9	★★★★
Wall Street Electronica	4.0	3.7	3.6	4.5	2.8	3.7	3.0	4.2	29.5	★★★★½
Muriel Siebert & Co.	3.5	2.3	3.6	4.3	4.3	4.2	4.5	2.5	29.2	★★★★½
Schwab Active Trader	3.9	2.6	3.5	4.5	4.3	4.3	3.9	2.2	29.2	★★★★½
Schwab	3.7	1.9	3.5	4.5	4.4	4.2	3.7	2.2	28.1	★★★★½
TD Waterhouse Trade Ctl.	4.1	1.8	3.7	4.6	4.2	4.5	3.3	3.2	28.1	★★★★½
E*Trade - Priority E*Trade	4.0	1.9	3.5	4.4	3.8	4.0	3.3	2.7	27.0	★★★★½
Brown & Co.	3.7	1.9	3.5	4.4	4.2	4.0	3.3	4.5	26.2	★★★★
Harrisdirect	3.2	2.2	3.2	4.4	4.2	4.3	3.9	1.1	25.6	★★★★
Scotttrade	3.9	1.9	3.0	3.1	3.2	2.8	3.3	4.2	25.4	★★★★
Firsttrade	3.3	0.9	2.8	3.8	2.1	3.8	3.0	4.2	23.9	★★★★
TD Waterhouse	3.5	0.3	2.4	3.6	3.0	2.7	3.6	2.2	21.3	★★★★½
Freetrade by Ameritrade	2.7	0.7	2.0	2.5	2.1	3.0	2.5	4.2	19.7	★★★½
Follofn	1.7	2.2	2.0	1.3	1.8	3.0	2.4	4.0	18.4	★★★
WellsTrade	2.3	0.7	2.5	3.1	3.3	2.0	2.9	1.2	18.0	★★

(over please)

options or mutual funds, the usability of the trading screens and a site's ability to be customized. We also examined the types of reports that the brokerages send to users, including printed monthly statements.

Based on input from about 150 *Barron's* readers, we tweaked many of the criteria and added an all-new rating measure—trading technology. For each of the eight measures, we assigned a point value ranging from a low of zero to a high of five and then, for browser-based brokers, added up those points. For the software-based brokers, we assigned varying importance to each measure,

based on feedback from our readers, and created weighted totals. We performed all our analyses with an eye to handling an online portfolio of about \$100,000.

So, which type of online service is best for you—an SUV or a sports car? If you trade for long stretches at a time from a single location and are willing to put in the time to customize the platform to your trading style, you're a candidate for a software-based broker. But if you pop into your portfolio just a few times a week, you may find that the work of running a direct-access application isn't worth the time.

Here are the gauges we used:

Trade Execution: Readers have told us to focus on the process of placing and confirming trades, which can be done only by working with a live account. We looked for smart order-routing technology, which finds the best bid or offer, and price improvement on limit orders, or purchases or sales at specified prices.

We executed equity trades during market hours, making market buys and limit sales of a Nasdaq stock or an exchange-traded fund. After the market buy, we evaluated the execution and portfolio reports. After entering the limit-sell order, we examined the open-order reports and looked at ways for the trader to follow the progress of the order, as well as ways to adjust the limit price or cancel the order outright.

This year, we placed options orders as well, and looked at order-entry screens for complex options trades, or simultaneous trades of more than one option. We also examined the order-entry screens for mutual-funds, bonds, and, when available, futures and currencies.

We broke the points awarded into several sub-categories, such as quality of the trading screen, design of order-entry screens for stocks and other types of investments and accessibility of order-status reports.

MB Trading, thinkorswim, and optionsXpress had particularly well-designed order-entry screens, including the ability to cancel and replace a previously entered order. Rushtrade, meanwhile, does a great job of linking from your existing holdings to a sell order, and pre-fills the order ticket with the number of shares you currently own—a key factor that should help customers avoid an inadvertent short sale.

An overall score of five in trade execution means the order entry- and-execution process flowed easily from one step to the next, with real-time information available when needed. For software-based brokers, 50% was added to this score for the weighted total, to emphasize the need for well-designed and informative order-entry screens when trading quickly.

Trading technology: The availability of price-improvement strategies and smart-order routing technology, and the absence of internalized orders (trades in which the broker takes the other side), are necessary to earn a five in this new category. A broker offering price improvement—a sale above the bid price or a buy below the offer—for limit orders received a half point. A broker that has smart-order routing technology in place earns a half point. A broker that internalizes order flow for more than 25% of nondirected orders loses up to a half point.

Many readers have told *Barron's* that they want to avoid brokers that internalize orders because the orders don't get the benefit of the market. Brokers that refused to answer whether they internalized orders were assumed to do so.

We also looked at the range of order types available, such as trailing stops and conditional orders; the option for customers to route their own orders; the ability to customize trading screens;

provisions to enter multiple orders on one screen; and the ability to create baskets of stocks.

Among the browser-based brokers, optionsXpress has the most flexible order-entry system. Its customers make extensive use of these conditional orders and order triggers. Preferred Trade, Terra Nova Trading, TradeStation and Wall Street Electronica also allow their customers to set up conditional orders, and even to define when those triggers will expire.

As with trade experience, the overall technology category was given an additional 50% weighting for software-based brokers.

Usability: How easy was it to navigate around the site? Does the layout of the site make sense and minimize the number of mouse clicks it takes to get from one place to another? The key theme in this category is ease of use. We also looked at the ability to personalize each broker's site. For example, can the welcome screen be customized? Can portfolio-analysis reports be altered to show items of importance to the individual investor?

A rating of five in this category means the site is easy to use and well-designed, doesn't bog down when moving from screen to screen, and can be tailored to display what the user wants to see. The weighting was cut by 50% for software-based brokers, because their users are likely to invest the time it takes to climb up the learning curve.

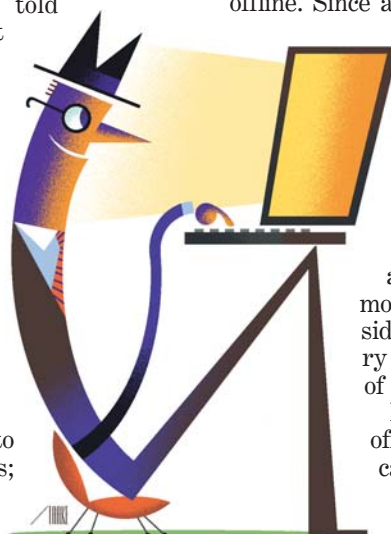
Once again, site design is an area where optionsXpress shines. ChoiceTrade, RushTrade and Terra Nova Trading are among the easiest of the software-based brokers to navigate and to personalize.

Range of Offerings: We awarded points for the range of investments that can be traded online, with partial points given for those that can be traded only offline. Since all the brokers allow you to

buy stocks as well as sell them short, we award only a half point for that capability. Regular options trading, complex options trading and mutual-fund availability each were good for a full point. The availability of futures and commodities trading was also considered. A five in this category means you can execute all of these transactions online.

E*Trade's Power E*Trade offering ranks highly in this category, missing a perfect five only because of the limitations placed on

"In a remarkable display of consistency, optionsXpress, which took top honors in 2003 and 2004, did it again this year. The firm (www.optionsxpress.com) was easily the leading browser-based brokerage."



complex options order-entry. Fidelity Investments, Schwab, and optionsXpress also make a wide variety of investing alternatives available online.

We reduced the weighting in this category by half for software-based brokers, since frequent traders usually focus on equity and options, and then added four criteria—trend-analysis capability, the ability to enter trades that will be executed automatically, the ability to develop a trading system and apply it, and whether the broker's fees are assessed on a per-share basis rather than per-trade.

Research Amenities: This category measures the quality and accessibility of research, quotes and charting. The highest points in this category went to brokers giving exceptional research and quote services. We evaluated the research amenities available to those with more than \$100,000 in their accounts, or who traded 36 times a year or more.

We looked for research, news and charting linked to customers' portfolio and watch lists; the availability of third-party research and its integration with

the rest of the site; and the availability of screeners, with emphasis on options-strategy screeners.

Brokers also won points for offering real-time streaming quotes at no additional cost, powerful charting capabilities and Level II Nasdaq quote accessibility. Software-based TradeStation shines when it comes to technical analysis, while optionsXpress does the job best for Web-based brokers.

Portfolio Analysis and Reports: The emphasis here is on clearly written reports, updated in real time, showing current balances, positions and margin status. Portfolio-analysis reports, with links to news and research, as well as extensive transaction history, are most desirable. We also favor systems that track the tax consequence of each trade and deliver thorough tax reports, including records of past transactions.

We got pickier this year when evaluating reports, and specifically looked for the ability to customize real-time data. Both thinkorswim and Terra Nova Trading stand out among the software-based bro-

kers for their performance calculations, letting you know what you did right—and wrong.

However, the weighting in this category was trimmed by 50% for software-based brokers, because many frequent traders say they use other applications to analyze portfolio performance.

Customer Access and Help: There comes a time for many online traders when the best hope is to click the Help button. So we sized up online help such as live-chat capability, user guides and frequently-asked- question files. Offline help was assessed by making calls to customer service. We also evaluated the availability of education in investing and trading.

This category also takes stock of brokers' wireless-trading access and provisions for allowing online cash transfers into and out of an account.

Though the quality of the printed statement is an important criterion, few brokers scored well here; most statement formats are abysmal and don't add to the customer's knowledge base. There's room for improvement for every broker on the

What's on the Menu?

►Here are the main services offered by each online broker. Check Websites for details. For mutual funds, NL means no-load and NTF means no transaction fees. For bonds, C means corporates, T means Treasuries and M mean municipals.

Broker name www.broker.com 800-822-2021	Smart Order Routing	Customer-Directed Routing?	Execution Guarantee	Number of Mutual Funds	Bonds	Options	Futures	International	Market	Commissions Limit	Margin Rate		Account Maintenance Fee	Interest Paid On \$25K Cash Balance (taxable)	
											Options	\$25K Balance			\$50K Balance
Ameritrade (Apex) www.ameritrade.com 888-871-9007	Yes	Yes	Yes	13,264 (3,921 NL)	Live Broker	Yes	No	No	\$10.99	\$10.99	\$25.99	6.25%	5.75%	\$15/quarter if under \$2,000 or fewer than 4 trades in 6 months.	0.40%
Brown & Co. www.brownco.com 800-822-2021	No	No	No	7,000 (2,000 NL, 700 NTF)	Live Broker	Yes	No	No	\$5.00	\$10.00	\$20.00	5.25%	4.75%	None	0.65%
E*Trade (Priority E*Trade) www.prioritytrade.com 888-387-2336	Yes	Via Live Broker	Yes	6,361 (1,685 NL, 5,788 NTF)	C, T, M	Yes	Yes	Yes	\$11.99	\$11.99	\$26.99	8.99%	7.99%	None	1.26%
Fidelity Investments www.fidelity.com 800-343-3548	Yes	Yes (in Active Trader Pro)	Yes	4,592 (2,575 NL, 1,247 NTF)	C, T, M	Yes	No	Equities Only	\$10.95	\$10.95	\$47.50	7.33%	6.83%	\$50/year if under \$25,000 or fewer than 2 trades in 12 months.	1.50%
Firsttrade www.firsttrade.com 800-869-8800	No	No	Yes	9,578 (1,058 NL, 689 NTF)	C, T, M	Yes	No	No	\$6.95	\$6.95	\$19.45	7.00%	6.75%	None	1.36%
Foliofn www.foliofn.com 888-973-7890	No	No	No	750 (all NL NTF)	No	No	No	No	\$3.95	\$3.95	NA	NA	NA	\$14.95/quarter if fewer than 3 trades in prior quarter.	1.56%
Fretrade by Ameritrade www.fretrade.com NA	Yes	No	No	13,264 (3,921 NL)	No	Yes	No	No	\$0.00	\$0.00	\$25.50	6.00%	5.75%	None	0.40%
Harrisdirect www.harrisdirect.com 800-825-5723	Yes (through software)	Yes (through software)	No	10,800 (2,100 NL, 850 NTF)	C, T, M	Yes	No	No	\$19.95	\$19.95	\$36.45	7.00%	6.50%	\$15/quarter if under \$10,000 or fewer than 4 trades in 12 months.	1.51%
Merrill Lynch Direct www.mlirect.ml.com 877-653-4732	Yes	Via Live Broker	No	3,500 (500 NL, all NTF)	C, T, M	Yes	No	No	\$29.95	\$29.95	\$35-\$64	8.00%	8.00%	\$25/quarter if under \$25,000 or fewer than 2 trades in 6 months.	0.40%
Muriel Siebert & Co. www.siebertnet.com 800-872-0711	Yes	Via Live Broker	No	12,973 (4,388 NL, 1,335 NTF)	Indications online, orders via broker	Yes	No	Via live broker	\$14.95	\$14.95	\$58.50	5.00%	5.00%	None	1.57%
optionsXpress www.optionsxpress.com 888-260-8020	Yes	Yes	Yes	10,000 (5,400 NL)	C, T, M	Yes	No	No	\$9.95	\$9.95	\$15.00	5.75%	5.00%	None	1.28%
Schwab www.schwab.com 800-435-4000	Yes	No	Yes	5,000 (4,700 NL, 4,000 NTF)	C, T, M	Yes	Through partner Lind-Waldock	Live Broker and Lind-Waldock	\$12.95	\$12.95	\$23.95	7.50%	6.50%	\$30-\$45/quarter for accounts under \$25,000	0.5%-1.92%
Scottrade www.scottrade.com 800-619-7283	No	No	No	8,917 (2,762 NL, 871 NTF)	C, T, M	Yes	No	No	\$7.00	\$7.00	\$19.50	7.00%	6.25%	None	0.85%
TD Waterhouse www.tdwaterhouse.com 800-839-2837	No	No	No	11,700 (2,900 NL, 1,364 NTF)	C, T, M	Yes	Yes	Yes	\$11.95	\$14.95	\$29.45	7.25%	6.75%	\$25/quarter if under \$25,000 or fewer than 2 trades in 6 months.	1.70%
TD Waterhouse Trade Ctl. www.tradecentral.com 1-800-934-4448	No	Yes	No	11,700 (2,900 NL, 1,364 NTF)	C, T, M	Yes	Yes	Yes	\$9.95	\$9.95	\$22.45	7.25%	6.75%	None, but must trade 30 times/month to qualify.	1.70%
Wall Street Electronica www.wallstreete.com 888-925-5783	Yes	Yes	Yes	15,000 (2,000 NL, 1,500 NTF)	C, T, M	Yes	No	Live Broker	\$9.99	\$9.99	27.50	5.75%	4.25%	None	1.42%
WellsTrade www.wellsfargo.com 800-872-3377	No	No	No	9,000 (2,500 NL, 900 NTF)	Live Broker	Yes	No	No	\$19.95	\$19.95	Min \$40	6.75%	6.25%	\$15/quarter for under \$20,000 or fewer than 2 trades in 6 months.	1.42%

list, which is disappointing since this is the second year we've evaluated the printed statements and we found little change from last year.

Overall, the weighting in this category was reduced by 50% for software-based brokers, because frequent traders put greater emphasis on costs and technology than on hand holding.

Muriel Siebert's online offering ranks highly for customer access and help as a result of personalized service, especially to high- balance account holders and those placing large block trades. Terra Nova Trading gives its customers numerous educational opportunities, most of which result in discounts or trading rebates.

Costs: We looked at commissions for stock and options trades and margin interest rates, assigning higher points to lower costs. We looked at the cost of three round-trip stock trades, assuming one side of the trade was at market and one side was a limit order. Stock commissions are the biggest factor here. We also checked the cost of trading 10 options contracts at a \$5 premium; margin interest rates on balances of \$25,000 to \$50,000; charges for small or inactive accounts; and platform charges for software-based brokers.

A rating of five in this category could be earned by a broker with stock commissions of under \$50 in total for three round trips, of under \$25 for 10 options contracts, margin interest rates below 4.5% and no account-maintenance fees. Readers told us that costs are much more important to them this year, so we didn't trim the weighting of this category for browser-based brokers. For the frequent traders who use software-based brokers, costs are even more important, so we doubled the weighting.

The only five in this category was earned by Interactive Brokers, which has rock-bottom fees and no platform charges. The firm asks you to generate a minimum of \$10 per month in transaction fees.

While each service ultimately was given an overall score reflecting all eight measures, those totals alone may not point to the right broker for you. If you're interested in particular aspects of online trading, such as the best execution at the cheapest price, and don't care so much about the availability of mutual funds or bonds, consult the scores for those categories and find your own personal five-star broker.

In sizing up each broker, we not only

test-drove the sites, but also mailed questionnaires to all of them. The universe of sites was somewhat smaller than last year's because several of the 2004 offerings are no longer available. Merrill Lynch Direct, meanwhile, wouldn't provide us with a test account and thus was left out of the ranking. A rundown on the sites that we tested:

Browser-Based Brokers

It's hard to compare the total scores for the top software-based broker to those of the top browser-based broker, since there are additional factors added to the broker scores and different weightings. However, optionsXpress firmly leads the browser rankings, well ahead of the runners-up. This brokerage keeps evolving and adding tools and other goodies at a pace that is unimaginable at other brokerages, mainly because its back-end technology is so flexible.

Currently being rolled out is the optionsXpress toolbar, which is a browser add-on that keeps you logged in even when you go to another Website. Users can



customize it to display quotes, news, and other features.

The toolbar allows you to go anywhere in the site in one or two clicks. The firm has also added online seminars, bolstering already-impressive education content that includes the Xpress Guides, which are short explanations of available features, and financial literacy content from guide publisher Lightbulb Press.

As well, OptionsXpress' tax center has been augmented, and the capabilities of the Strategy Scan, which recommends options-trading strategies based on market conditions and user preferences, have been expanded. The firm aims to exploit liquidity pools wherever they can be found, and has interwoven its own X-spread opportunities into the quote screens. Open-order screens for multi-leg orders are well- designed and informative.

If you don't yet have an OptionsXpress account but want to try out the site's functionality, you can open a Virtual Trading account and see how it all works. There are no fees for Virtual Trading, but OptionsXpress president David Kalt believes his customers are using it to try out new functionality before they make actual trades.

Polishing the Crystal Ball

What's ahead for online brokers—and for you, their customers? Enhanced options and derivative trading is being rolled out at most brokers, and the recent wave of price cuts has brought out the bargain hunters. We expect to see prices in the \$15-to-\$25 per-trade range start to fall as the firms seek to prevent an exodus of customers to brokers charging in the \$5-to-\$10 range. Most of the brokers focusing on active traders expect increased competition, escalating the commission price wars. The skirmishing so far has not established any new price points in the industry. But we're seeing brokerages take a closer look at their customer base and modify their products to lure assets as well as trades.

With more options trading, many brokers are working to ensure accurate, timely option quotes, as well as the availability of back-up trading avenues.

What's certain is that online brokerages are scrambling harder than ever before to attract affluent and active traders. For them, it's likely to mean squeezed profit margins and further industry consolidation. For you, it's apt to bring enhanced services at better prices. So, here's to competition! ■