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Direct-Access Showdown

Among these online brokers emphasizing performance, a couple of standouts

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Edited by Randall W. Forsyth

Online brokerages' ideal customers are those who stay busy pressing the "Trade Now!" key all day long. Not so long ago, peripatetic traders had to sign up with a day-trading firm, rent a desk and go through an expensive training program in order to access the tools needed. Now all it takes is a high-speed connection to the Internet and a fast computer. Well, that, a large pile of cash and the nerve to trade on margin.

Attracting hyperactive customers -- and hanging on to them -- has become a key to survival for the struggling online-brokerage industry. Brokers have added features that appeal to frequent traders, such as Level II quotes, price improvement on orders, and access to multiple electronic-communication networks (ECNs). They've also nudged customers toward more active trading by giving commission discounts and other goodies to those who hit the Trade key often enough.

For the past couple of months, we've looked at direct-access brokers, which cater to seriously active traders with direct links that don't go through your Web browsers ("[Hard Core Connections](#)," May 7, and "[Help for the Hyperactive](#)," June 4). Those columns examined five direct-access brokers; here we'll wrap up the series with an additional two brokers, Terra Nova Online and ProTrader. Finally, we'll compare the costs of using these brokers the way they're designed to be used -- dozens or hundreds of times per day.

Mainstream online brokers have gotten into the direct-access act primarily by

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buying up the competition. Charles Schwab was one of the first to get into the game, purchasing direct-access broker CyBerCorp in 2000. As reviewed in the May 7 issue, Schwab has integrated many of the CyBerBroker functions into its newest incarnation of StreetSmart Pro, which they offer to their Signature Platinum customers. Ameritrade moved in by taking over TradeCast this quarter (also reviewed May 7), and just last month E*Trade bought out WebStreet and its new Web Street Direct service (reviewed June 4).

We've put these brokers through the ranking scheme used in our annual rating of mainstream online brokers ("Survivors on the Online Island," March 12) in which 23 browser-based brokers were examined. Our ranking calculations tend to favor brokers that offer a broad array of tradable equities online, which can penalize brokers that offer only stocks and options through their direct-access service. In general, direct-access brokers score lower than browser-based brokers when comparing "Ease of Use" and "Research Amenities," but "Trade Execution" scores are higher. In that sense, direct-access brokers are more like sports cars, emphasizing performance over amenities.

Terra Nova Online (www.terranoaonline.com), which is published by Townsend Analytics, offers the RealTick platform to its clients. The screen layouts can be customized, and you can set up as many layouts (or "pages") as you'd like. The watchlists can contain an unlimited number of symbols; clicking on a particular symbol links it to the Level II quotes and real-time charts. The trading window opens when you click on either a bid or an asked price in the Level II screen, and the order entry specifics are pre-filled. You can direct your trade to a particular ECN, or let the smart order routing take it away. The order-routing algorithm seeks to improve your limit-order pricing, and we saw this during our testing.

Table: The Nitty-Gritty on ProTrader and Terra Nova Terra Nova recently rolled out a tax-information page, which will feature columns by day-trading tax experts. To keep tabs on the tax impact of your own trading, transactions can be downloaded to the two most popular personal-finance programs, Microsoft's Money or Quicken. You can also request a list of all trades over a range of dates, and get up-to-the-second margin reports.

ProTrader's direct-access program, called Gr8Trade, launches a collection of windows, each of which shows up in your Windows taskbar individually, leading to some screen clutter. You can close each window one by one, or right-click on the Gr8Trade icon on the taskbar to shut the entire thing down. The "Eyes" market-watch feature allows you to define trading criteria and apply them to a group of stocks, so you can set up trading signals and track them in real-time.

ProTrader's InfoCenter allows customers to review their trading gains and

losses, and offers a look at your trading performance on a quarterly basis. These reports can be very helpful when you're filling out your estimated-tax statements.

Now, the bottom line. The ranking table above shows how all 12 direct-access brokers we've reviewed in the last three months compare. TradeStation (reviewed June 4) and Terra Nova Online are at the top of the list, thanks to the depth of the tools offered and the charting and analytical capabilities built in. But if you're looking for the lowest-cost deal, you have to check out Interactive Brokers, which charges just one cent a share.

Web-based brokers also offer commission discounts; notably National Discount Broker's TLC (Trade at Lower Commissions) program, which allows you to make multiple trades of the same stock on the same side and same day, at a discount. You pay the regular commission on the first transaction, then pay \$3.95 for each additional trade. Many others offer reduced rates as trading frequency increases, but some apply a flat rate no matter how many times you click the "Buy" or "Sell" button.

Obviously if you're trading constantly, you're also racking up a huge commission bill. In the table here, we calculated an average transaction surcharge due to ECN and exchange fees, and added it to the commissions. If you place four trades a day, you'll end up paying, on average, around \$1,200 per month. That average rises to \$5,400 per month if you make 20 trades daily, and leaps to \$44,000 for those placing 200 trades per day. You have to do a lot of buying low and selling high to make up for the transaction fees.

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