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Your New Brokerage Account Documents

And Other Important Communications

Your brokerage account statement is the official document for complete information pertaining to your account's value, holdings, and activity. It's important to carefully review your account statement in a timely manner upon receiving it. This guide provides a helpful overview with explanations of the purpose and importance of the information typically included in your account statement and other official communications.

Contents

Your Investment Profile

When you open a brokerage/advisory account, your advisor gathers a lot of information about you. Much of this information is used to create an "investment profile" of you.

"Okay… So why is my investment profile important to me?"

> *"It's used by your advisor to determine whether an investment, recommendation or investment strategy is right for you. In regulatory-speak, "right" is called "suitability".*
>
> *The "suitability standard of care" requires your advisor to "have a reasonable basis to believe" that a recommendation is suitable for you. Your investment profile helps with this."*

So what information is included in your investment profile?

- ☐ **Your investment experience**

  This includes your level of knowledge on certain types of investments, and the number of years you've been investing in them.

- ☐ **Investing objective**

  With the assistance of your advisor, you set your investment objective. Investment objectives are the marching orders for your account. Your advisor uses your account's investment objective along with information in your investment profile to determine what types of investments are suitable for you. But caution is in order:

  - ☐ No uniform definitions for investment objectives exist. It's important that your advisor carefully explains what each investment objective means, and gives examples.
  - ☐ Another cautionary note: incorrectly stating investment objectives at the firm level does occur. For example, you may be a "conservative" investor, but your investment objective is improperly stated as "aggressive". This has implications for "suitability" and in any disputes.

- ☐ **Risk tolerance**

  As with investment objectives, uniform definitions do not exist. Since you set your risk tolerance, you must insist that your advisor carefully and fully explains what each risk tolerance definition means and gives examples. Many firms offer questionnaires to help you determine your risk tolerance.

- ☐ **Investment time horizon**

  This refers to the length of time you have to meet your investment goal(s). In addition to your risk tolerance, your investment time horizon is an important consideration when making investment recommendations. Why? Because certain types of investments are generally considered more appropriate for shorter time horizons, and other types appropriate for longer time horizons.

- ☐ **Liquidity Needs**

  For example, if you need funds on a regular basis or have planned expenses that will require funds from your account, your advisor needs to know this.

Other information and "essential facts" about you that are required on your brokerage account application include:

- ☐ Your name
- ☐ Social Security number
  Your firm uses your Social Security number for IRS reporting and to comply with the USA Patriot Act of 2001 to prevent terrorist financing and money laundering.
- ☐ Age
  Your advisor photocopies your driver's license or passport to comply with the Patriot Act.
- ☐ Address
- ☐ Phone number
- ☐ Employment status
- ☐ Annual income
- ☐ Tax bracket (highest marginal rate)
- ☐ Net worth

Updating Your Account Information

Your financial advisor is required to periodically update your account information and investment profile.

"What if my financial or personal situation changes?"

"It is your responsibility to inform your advisor in a timely manner. It may warrant a change in your account's investment objective and your risk tolerance."

Account Type: Cash and Margin

Knowing your account type is important. Most brokerage/advisory firms offer at least two types of accounts.

Cash Account

A "cash" account is generally coded as a Type 1 account and a "margin" account is typically coded as a Type 2 account. These codes are explained in the "Disclosures and Definitions" section of your statement. In a cash or Type 1 account, you pay for your securities in full by the "settlement date" (generally three business days) either by depositing funds or with proceeds from the sale of securities.

Margin Account

In a margin loan account or Type 2 account, your firm can lend you funds to pay for the securities being purchased. The securities in your account serve as collateral for the loan. This is called buying securities "on margin." For example, if you purchase securities totaling $20,000 and you pay $10,000 and your brokerage firm lends you the other $10,000, the borrowed amount of $10,000 is your margin balance. Your brokerage firm charges interest on this balance. You are liable for the margin balance and the interest incurred. Most brokerage firms have minimum equity requirements of $5,000 to $10,000 for margin accounts.

There are special risks with margin accounts that are not associated with cash accounts. Confirm with your financial advisor that your account type (Type 1 "cash" account or Type 2 "margin" account) is appropriate for you.

Trade Confirmations

Your brokerage/advisory firm is required to provide you with written communication for each brokerage transaction executed on your behalf. These official communications with you are referred to as "trade confirmations" or trade confirms. In addition to other information, confirms generally provide the following details about the trade:

- ☐ Whether the trade was solicited or unsolicited.
  Note: The deliberate mismarking of solicited trades as unsolicited does occur. Unethical advisors do this to hide improper and unauthorized trades.
- ☐ Whether it was a buy or a sell
- ☐ Name of the security
- ☐ Quantity bought or sold
- ☐ Execution price
- ☐ Principal amount of the transaction
- ☐ Commission
  Always check this. If it's not the agreed-upon amount or seems excessive, contact your advisor and request a corrected trade confirmation.
- ☐ Any additional security description, information or required trade disclosures.

"That's a lot of information to review."

> *"Trade confirms are generally easy to read. It takes only a few seconds to review the information. Don't throw them in a pile and forget about them!"*

In Your Better Interests…

It is your responsibility to review your trade confirmations. If you find discrepancies or trades you believe may not have been authorized by you, contact your financial advisor immediately to discuss the matter. Also, match-up your trade confirms with the "Account Activity" section of your account statement to make sure there are no errors. Keep your trade confirms in a paper or electronic folder. You'll use them to document gains and losses for tax purposes.

Trade Confirm Delivery Options

- ☐ Paper trade confirms are delivered by the US Postal System.
- ☐ Email: you receive an email alert that contains a hyperlink to a printable electronic image of the trade confirm on your firm's website.

Account Statement

Your account statement is the official document for complete information pertaining to your account's value, holdings, and activity. Knowing what information is in your statement helps you stay on top of what's going on in your account. While account statements can look different from firm to firm, they all have this information in common.

- ☐ Account information
- ☐ Account summary
- ☐ Income
- ☐ Fees
- ☐ Account activity

- ☐ Margin
- ☐ Portfolio detail
- ☐ Disclosures and definitions

Brokerage/advisory firms are required to provide you with a statement at least quarterly. If your account has frequent activity, you may receive monthly statements. As with bank accounts, most firms provide the option to receive your statement (and other account-related documents) either electronically or through the mail.

Special note: Your brokerage/advisory firm may not be the firm that generates your account statement. Your firm may be an "introducing" firm that takes orders from their customers and then "clear" or "settle" the trades through a "clearing" firm. Clearing firms finalize trades and hold the securities for the introducing firm. Typically, it is the clearing firm that generates the account statement, not the introducing firm. To reduce the potential of you being defrauded through forged statements, the Financial Industry Regulatory Authority or FINRA requires that all brokerage account statements contain the clearing firm's name and contact information.

Account Information

The account information section shows:

- ☐ The statement reporting period
- ☐ Your account number
- ☐ Account type
- ☐ Titling on your account
- ☐ Your address of record
- ☐ Account investment objective (optional)

Investment Objective

Most statements show the investment objective of the account, for example "Moderate Growth and Income" or "Long Term Growth". This information is important two ways:

- ☐ It allows you to re-confirm your investment objective.
- ☐ You can confirm that the securities listed in the "Portfolio Detail" section are consistent with your investment objective and investment strategy.

The account information section also shows:

- ☐ The name of your brokerage firm
- ☐ Your financial advisor's name
- ☐ Office address and phone number
- ☐ The clearing firm's name, address and phone number

Account Summary

The account summary section typically shows:

- ☐ Beginning account value for the period (month or quarter).
- ☐ Summary of account activity including cash deposits, cash withdrawals, dividends and interest paid, and fees charged.
- ☐ Closing account value for the period.

It may also include a pie chart and a tabular summary of your account's investments by asset class or investment type e.g., mutual funds or annuities, and the estimated annual income generated from your holdings. Complete information on the individual investments in your account is provided in the "Portfolio Detail" section.

Note: While a summarization of the beginning and ending value of your account is a quick and convenient way to see whether your account was up or down for the period, it may not tell you whether the securities in the account contributed or detracted from the ending balance. A closing balance that is higher or lower than the opening balance may be the result of deposits or withdrawals, or from interest and dividend payments being credited to the account. The "Portfolio Detail" section of your statement provides the ending value for each investment and the total value by asset class or investment type in your account. You, or you with your advisor, can review the investments and their values in this section and compare them with the previous period statement.

Account Activity

The categories of activity include:

- ☐ Credits and debits
- ☐ Interest and dividend income
- ☐ Charges and fees
- ☐ Transfers and journals
- ☐ Securities transactions

Your statement provides consolidated information on the account's income, credits and debits in the account summary section. As with a bank checking account, it is important for you to reconcile the flow of funds into, out of, and within your brokerage account.

It's important that you review the trading activity in your account and reconcile the transactions with the trade confirmations you receive. It's also important that you confirm that the transactions, and the frequency of transactions, are appropriate for your account's investment objective. If you have questions on specific trades or need further clarification, discuss the matter with your advisor. He/she welcomes every opportunity to help keep you informed and in-the-know about the activity in your account.

Portfolio Detail

This section provides a complete inventory of the individual investments in your account. The inventory includes the investment's name, ticker symbol or CUSIP, share quantity/ number of bonds, cost basis (if available), current price, current market value (quantity x market price), estimated annual income and percentage yield.

Brokerage firm statements generally categorize investments by asset class, e.g., stocks/ ETFs, fixed-income and cash. Mutual funds are typically listed separately by asset class, e.g., stock mutual funds and bond mutual funds. Annuities and alternative investments are also typically listed separately. A summarization of the "Portfolio Detail" section usually displayed in the "Account Summary" section as a pie chart or table.

Disclosures and Definitions

This section helps you understand your statement by providing legal and administrative explanations about fees, penalties, and the terms and codes used in your statement. "Stuffers" and brochures (some mandated by regulators) may also be included in your account statement.

Consolidated Reports

Some advisors provide consolidated account reports to their customers. These reports combine the information of several accounts into one document. While consolidated reports are convenient, they do not replace your account statement which is the official document for complete information pertaining to your account's value, holdings, and activity. Carefully check the information in your consolidated report against each official account statement. The potential for inaccurate or misleading information exists.

It is your responsibility to check for inaccuracies or discrepancies in your statements. If they appear, contact your broker/adviser immediately.

Four things to do when you receive your statement:

- ☐ Confirm accuracy of account information including investment objective.
- ☐ Know why your account increased or decreased in value from the previous reporting period. If you can't figure this out, talk to your financial advisor.
- ☐ Review account activity with special attention to fees and charges, deposits and withdrawals, transfers, journals and letters of authorization.
- ☐ Review trade activity.

Disclaimer

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