The Australian Finance Podcast Episode Transcript

Episode: Choosing a Brokerage Account | Where Do I Start?
Release Date: 10/09/2021
Speakers: Kate Campbell & Owen Rask
Duration: 50:10

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Episode transcript:

Owen:
Good day Kate Campbell, how are you going?

Kate:
Good, thanks Owen. Good to be back on a nice sunny Melbourne day in lockdown.

Owen:
Yes, it is indeed. Actually, it's a beautiful day, now that I look out the window. What are we talking about today?

Kate:
We're talking about a topic that is very popular at the moment in our Facebook community, and in various other Facebook communities that I have a bit of a lurk in, which is brokerage accounts. And I think that people are more interested now in what brokerage account to choose, almost than what ETF to buy, which is quite fascinating. There seems to be a shift in the questions because, there's so many different options now, and people are just really wanting to explore and do their research, which is fantastic. But I thought it would be really good today to talk about all the things that we would think about when picking a brokerage account, what matters to us, what matters to other people, what are some of the comparison points, and then

we're going to do a second part episode where we're going to overview some of those key platforms that everyone's tossing up between at the moment, like Stake and Superhero, Pealer, SelfWealth, CommSec, Vanguard Personal Investor, and give an overview of each of those platforms, maybe some of the key differences that you might be looking out for.

Owen:
So two parts, first part is we're going answer some questions, like which brokerage account might I consider if I don't want to trade that often. And just a comparison between platforms like Raiz and brokerage accounts, and we're just going to, in this episode, go through that kind of, what are brokerage accounts, and what are the risks and some of the benefits of using a brokerage account. So this one's a primer, and this one is essential before you get onto the next one, because this one's going to tell you how you can analyse the list of things that we cover, and brokers that we cover in the next episode. So this is going be a pretty rapid fire, we're going to be pretty concise. If you want to learn more, we've done heaps of other episodes, Kate's done a fantastic article to go along with this, which also links into our other episodes on things like robo-advisors, which are slightly different, similar, not the same. So Kate, first of all, why do we need a brokerage account to buy shares or ETFs?

Kate:
Yeah. So in Australia and I think pretty much every other market, you can... You can, but we won't get into that. To buy a share or an ETF, you need a middle person, to help you with this transaction. So, instead of me saying to Owen, "Can I buy your..." I don't know what ETF Owen has, maybe his A200 ETF off him, and we'll agree on a price between us, I'll give him some cash, he gives me the shares, which you can do in a way through an off market transfer, but that's not very common. What we do is, we get a brokerage account, and that helps us facilitate that transaction. So instead of me having to find a buyer or a seller for the shares or ETFs I want to buy, it just matches me up magically through technology with buyer or a seller, so I don't even know if I'm buying Owen's shares or ETFs, it just happens through the system, and all of the cash transactions are done on your behalf, and the settlement.

Kate:
So the broker really manages the whole transaction between you and another party, whoever that is, and it might be multiple parties. So when you place an order, you might get one unit from this person, one unit from this company, just whoever's selling, and it just matches it up and helps run the marketplace efficiently. I don't know. That's a really bad explanation, but...

Owen:
No, it is. It's a good one. So I think you used an example of having a Farmer's Market, right?

Kate:
Yeah.

Owen:
The difference between the Farmer's Market, where you're going around to different stalls, and buying and selling is that on the stock market, you're not necessarily buying from the stalls, you're buying from everyone else who's already at the market. So if they've already bought apples from the store down in there, and you want apples, you'll actually place your bid in the market. And that other person is who you are actually buying from. You never know who they are, but you're buying it from them. There are occasions when you do buy apples directly from the store or the company, and that's when they do capital raisings.

Kate:
So they initially list.

Owen:
That's it. So what happens is, the stock market, as in the ASX here in Australia, or the NedStack or the Footsie in London, these are the stock exchanges, and they run the whole marketplace. But typically what happens is, there's someone along with you called your broker, and they are the ones that speak to the other person's broker and make the deals. And they have to be approved by the stock exchange. So if you bring one of these partners to the Farmer's Market, they have to be approved by whoever runs the Farmer's Market. And that's a simplified version, but it gives you an idea of the differences between a traditional marketplace, and one that is run online for the stock market's purpose.

Kate:
Because you can just think about how chaotic it would be if there weren't brokers, and everyone was, if I wanted to buy some shares and Telstra, I'd have to go and find a buyer, and how do I know who has Telstra shares? Would I just have to knock on people's doors to find out?

Owen:
But they used to do that, right?

Kate:
Yeah.

Owen:
Like in the old days, they used to have people in the room, they were brokers, but they would say, "Hey, do you want some of these shares?" "Can I have some of them?" Or... And that's what they'd do. There was this thing called a chalky, that was typically young boys or girls, who were standing up, the next level up, on a big chalkboard and writing the latest price of BHP. So everyone down below in that chaos, down below could decide, what's the fair price to pay? What's the current price? "Oh, you've got BHP shares? I'll buy them from you because the price is up there, and I want them." And yeah, to your point, it would be chaotic. And it does

Kate:
Yeah. Especially with the millions of Australians that are investing nowadays, to make it transparent and easy and efficient, having a broker is really important. And they're a great part of the marketplace to make things easier for you. You have all your holdings in one spot, you can see at any moment what your portfolio's worth, what your shares and ETFs are valued at. So it's a very transparent, I think, way of doing things, in most parts.

Owen:
Yeah, it is. And it's efficient, right?

Kate:
Mm-hmm (affirmative).

Owen:
In developed markets, it's a very safe way, it's very highly regulated. So, it's a good mechanism we have for creating wealth for society. Kate, the big thing I would say is that, it gets a little bit complex when we dive underneath the surface, and we start talking about like the legal part of things. So like the transfer of ownership, who owns what, and how do we identify those people? One of the things that we've covered before, is the difference between some brokers that use custodial models, and some that use something called a HIN, H-I-N. Now we've talked about this in the past, but this is a big thing here because, the custodial model is actually cheaper, but it may not necessarily be what you want. Is that right?

Kate:
Yeah, and I think it's something that more and more investors are becoming interested in and learning about, whether their brokerage account is a custodial model, or a Holder Identification Number model, and I should point out that HINs are a uniquely Australian thing, through our system, so if you are opening a U.S. brokerage account, you won't get a HIN. You'll get a different kind of investor numbers. So the thing about Holder Identification Numbers, is there a way of registering the securities you buy and your ETFs, under your name or your company, or however you set up that brokerage account, and you can easily transfer those holdings to another broker. If anything happens to the broker, there's still those records of your ownership, very clearly under that Holder Identification Number, and there are a few other things you can do, like participate in dividend reinvestment plans, which you can nominate for your share registry, I think we've chatted about that a little bit-

Owen:
DRPs, yep, we've talked about them.

Kate:
Yep. Participating in things like voting on matters like, how much is the chairman going to get paid?

Owen:
For ESG?

Kate:
Yeah, yeah. If the company has big matters, you can go to the AGM and vote on things. Getting involved in share purchase plans, which I know Owen is quite interested in.

Owen:
Yeah. We want to try to keep this as factual as possible, but just on this, I think a lot of people underestimate this kind of nuance. In my opinion, you're better off with a broker, and Australia that has Holder... Is CHESS sponsored, can give you a HIN, and then you can trade under that, because it's just an added layer of security. So a lot of these new brokers that we're seeing do not have this. Keep that in mind. I don't vote, let's be honest. I don't vote at the AGMs, but I want to be able to go if I do want to vote. And if some company's doing something really dodgy, I want to be able to attend that meeting, and find out, and raise my hand, and walk over to the microphone, and put them on the spot. So I want to be able to have that ability. And also, I want to be able to participate in dividend reinvestment plans. A lot of people don't care, let's be honest. A lot of people don't care. So, [crosstalk 00:09:34]-

Kate:
And when you're getting started, a lot of the benefits of having a Holder Identification Number aren't really relevant, or-

Owen:
... Yeah. If you have 1000 bucks-

Kate:
... they don't seem too obvious. But further down the track, and I've seen people in the past who have wanted to move from different platforms, and having a Holder Identification Number has made that off-market transfer process a lot easier, or if you want to gift shares to grandkids in the future, having that HIN just makes... The process is a lot more streamlined, and sometimes, the newer platforms that are just the custodian model, they can't facilitate either transfers in or transfers out that easily, because there is quite a bit of paper work and manual stuff behind the scenes.

Owen:
... Yup, 100%. Okay. So that's kind of an introduction to what brokers are, why they're important, and that Holder Identification situation. How do we go about comparing brokerage accounts? What are the things that we've got to look for?

Kate:
Yeah. So brokerage accounts come in all shapes and sizes, they're not all the same, like anything, comparing ETFs, comparing brokerage accounts, there's quite a few things you need to look for. And I wanted to bring your attention to maybe five different factors, and I don't know

if you've got any to add on, but we'll dive into each of them, but they are the fees, there are brokerage fees, but there's also other fees to think about sometimes, data and live pricing, the user experience, the research and access to international markets outside of our ASX.

Owen:
I think they're the main considerations, yeah.

Kate:
So, I guess the first one that people love to talk about is fees and specifically brokerage fees. And you might be looking at platforms like SelfWealth where it's $9,50 flat fee to trade, or CommSec where over $1000, it might be 19.95, and then if you're buying enough, in terms of quantity, it switches over to a percentage-based fee. So when you're doing your research, you do want to have a look at fees, and then some of the custodial models, maybe like Superhero, they can be a lot cheaper, like $0 or $5, depending because they can really, I don't know if the word's aggregate, but split the fee over a large number of people.

Kate:
So I think fees are important, but I don't think they should be the only thing dictating your decision, especially if a brokerage platform, I'd say fees are probably lower down on my list, just because I am investing for a long period of time, I maybe investing larger amounts of funds than maybe $100 nowadays, so I would be focusing on a few other factors that we'll talk about, and fees wouldn't be as much of a priority for me right now.

Owen:
Yeah. I totally agree with you, Kate. I think in the beginning, if you have got 500 bucks, and we'll get to this in a minute, just go and try a broker. Just go and-

Kate:
Yeah. Create a few accounts. There's no risk creating accounts. [crosstalk 00:12:52].

Owen:
And you don't even need money, a lot of the time. Just open them and see what they're about. And then chuck 500 bucks in, because that's the minimum, for most of them, have a play around, but as time goes on, pay attention to things other than fees. Things like, the security of the platform, the reliability of the platform, the ongoing fees. I know a lot of our community, and rightly so, are interested in dollar-cost averaging. So buying every month, maybe a small parcel, maybe a thousand bucks, maybe 500, maybe 5,000, whatever your situation. So yes, fees are important, but there are other things to consider too, like how easy it is to invest in, and those types of things.

Owen:
One of the things Kate, which we just call out for the fee section, is the brokerage fee. Brokerage fee, is what you pay when you buy and sell, that's automatically taken out. If it's

$9.50, you might place a trade for $510, and then you get $500 worth of shares, that's an example.

Kate:
Yeah. And it's worth noting, you get stuck with the brokerage fee on the way in, and on the way out.

Owen:
Good point, yeah. The other thing is that what we just talked about, Holder Identification Numbers, if your broker provides that, and it's CHESS sponsored, you will probably pay a little bit more in brokerage fees. The ones that can do it below $9, are those ones typically, that don't offer that service. But a lot of brokerage accounts also offer introductory rates. Like five shares for free, or five trades for free, those types of things. So you can take advantage of those too. Okay. So, [crosstalk 00:14:24].

Kate:
And also in fees, they don't happen as much anymore, and sometimes they're more relevant to international accounts, but there's inactive account fees that sometimes pop up on some of the larger platforms.

Owen:
Good point.

Kate:
So that's, if you haven't traded for six months, on this international account, you might be charged, a set fee-

Owen:
Like an account keeping fee.

Kate:
Yeah. Because brokerage platforms make money by you trading. So if you haven't made any purchases or sales for a whole year, they're not making any money off you. So sometimes they do hit you with a fee there. There also may be fees, as we'll talk about a little later with the international platforms for foreign exchange transfer, like you'd pay for other things, but they do vary depending on the platform, for moving your Aussie dollars into U.S. dollars to buy U.S. shares, for example. And some of the larger platforms, do have add-on packages for like premium research or premium data or things like that. So, depending on what you want, have a look at that when you're researching as well.

Owen:
Yeah. So there are a bunch of other fees. Personally, I would avoid a broker that charges a meaningful account keeping fee. There is one in Australia that I kind of like the broker, they do charge a very modest fee, but fees are inevitable. The broker has to be incentivized, right? One

way or another, they have to be a sustainable business. If they weren't charging a fee, I would be concerned, but it doesn't necessarily have be a fee that is ongoing. Because if you're a long term investor, and you don't trade, and invest all that often you shouldn't pay as much as someone that's trading all the time, right?

Kate:
Mm-hmm (affirmative).

Owen:
You should be incentivized not to trade, I think. Anyway, the next point, so fees were number one, number two is data and live pricing. This is something that a lot of people don't understand, Kate. Can you explain what this means?

Kate:
The Australian Stock Exchange controls access to data. And I was having a look through their website the other day, and on their data and pricing page, they have a very long PDF-

Owen:
It's huge.

Kate:
... with about 1000 different options of data packages, and so many variations that brokerage companies like, SelfWealth or Superhero can pay for, and the more data and the more current the data, the more expensive. So, some of the smaller platforms may have a delay in the data you see up to 20 minutes, or they might not be able to give you as much in terms of ASX announcements, or things like that, because that costs a lot more money. And if you're trying to keep the costs of brokerage really low, you may not be in a position to pay for the premium data package from the ASX. So, some of the platforms, and it's worth, they should have in their FAQs somewhere on their brokerage platform, how current the data is, and sometimes it does say there's a 10 minute delay on the data you see on our website or in your portfolio, and that means that the share price maybe showing up in your portfolio as what it was 20 minutes ago.

Kate:
So if you're not investing, or looking at a brokerage account on a daily basis, which is probably what we're advocating, it might not matter as much, but if you're someone who is more actively investing, it may matter a lot that you are getting the most accurate price possible. Because a lot can change with shares in 20 minutes.

Owen:
Yeah. And some brokerage accounts, if you trade a lot, this is how they incentivize you. If you trade a lot, meaning that they get a lot of income in brokerage revenue, they will offer you like free live pricing, because then it incentivizes you again to start trading more and more. So I think the distinction you might want to draw when you test out these platforms is, when you have like a watch list, or you just are browsing for a company in your brokerage account, that

may be 20 minutes delayed, which is standard, but when you go to the order page, you may see the latest price, or at least you should. So then you can make an informed decision of what are these, but it will be very limited.

Owen:
So there can almost be two prices that you see, and you just want to know which one's the latest, because if you place an order, let's say $10, that's what you want to pay for your shares, but you're looking at 20 minutes ago prices, it might have completely changed. So it might now be $9.50, in which case, you want to place yours at $9.50, not at $10. So keep that in mind too.

Kate:
Yeah. And even announcements. I mean, most of the larger platforms will have all the announcements coming through, and you can have alerts coming through from when a company announces a new contract or something to the market, but some of the smaller platforms may not have that data, it might not be as up to date as well. So depending on how important that is to you, and of course you can always go directly to the ASX website to get the most up to date, announcements there.

Owen:
For sure. Okay. So let's move on to the number three, which is user experience, UX, UI, however you want to frame it. GUI is what I heard it called, the other day. So user experience, Kate, why does this matter? And can you just kind of fill us in on maybe who does this well, and who doesn't?

Kate:
Yeah. I think a user experience does matter in terms of, if you wanted a platform that's simple for you to use, that you can understand. Some of the newer platforms that are becoming much more educational focused, so they'll have little icons that pop up next to terms on the website, when it says price, you can hover over that and see what that means. And if you're a new investor, you probably want to play with some of the simpler platforms to start with, because if you dive right into CommSec or nabtrade, you can kind of get lost because there are just so many things, and suddenly it's talking about options and warrants and margin loans, and you're just getting completely confused. So some of the smaller, newer platforms like, SelfWealth and Pearler and Superhero, keep it really simple and focus on trading, rather than all of the other products that some of the large brokers offer. So I think user expense is important.

Kate:
And also keeping in mind that if you do want an app for your brokerage account, if you want to be able to easily buy and sell on your phone, not all of the companies have great apps, or have apps. So that's something you should keep in mind as well, especially if you don't have a computer or you're going to be travelling a lot, I wish. So having it on your phone, I know with some of my family members, they don't really even use a computer for their trading and they'll just use their phone all the time. I mean, come to think of it, I place most of my orders through

my phone as well. So, you've always got the browser version, but if an app's important to you, that's something you should keep in mind.

Owen:
Yeah. I find that, you want to be careful here too. Investing can be a pretty serious thing. So we make it pretty lighthearted and fun, which is what we're trying to do to make it accessible to everyone, but at the same time, it's a pretty serious thing. So sometimes some of these brokers, yes, they can have fantastic software engineers and designers, but sometimes what their actual incentive is, is to make it so easy for you, and get you all kind of gamified in their process, that they make it too easy for you. So they send you alerts. I deleted my brokerage account apps many years ago because I didn't want the alerts on my phone. Because it creates an unhealthy association with investing. Which is that, it wants you to focus on the short term. I'm the type of person who I'm quite happy to not check it for a year and see what happens. And I think the longer you can put... Like the more behavioural barriers, we talked about this, right?

Kate:
Mm-hmm (affirmative).

Owen:
From the beginning of this podcast series with people like Ted Richards, the less you can let your short term behaviour and process signal your brain, the better your long term outcomes are going to be. So keep that in mind, user experience is very important to me, as it is to you and everyone else, but at the same time, know when you don't need that extra feature. So there is a limit to it, is what I'd say. Unfortunately everyone seems to be playing catch up with each other. So everyone's kind of getting to a good standard now, whereas I'd say five years ago, they weren't at that. So, user experience, some of the new brokers, I should say, do it really easily.

Kate:
Yeah. And consumers just expect more with user experience and how the platform works, and they expect a well functioning mobile app now. So I think all brokers will slowly get better and better in that direction.

Owen:
One final thing on user experience is that, also the sign up process can be pretty horrendous for getting brokerage account. So if you're new to investing in brokerages in general, just pay attention, and just take your time.

Kate:
Because they do have to collect information, like enough points to identify you and your address, and your date of birth. So there's some stuff they have to get, which I know some people often say, "Oh I can't open my brokerage account, because they're waiting to confirm my identity." Or things like that, and that's the kind of thing they have to do, but it can make it a bit more challenging if you've moved recently, and possibly you have to get a verified driver's

licence from the post office or something like that to finish the account opening process. So for most people it is very streamlined, but it sometimes can be a bit more difficult.

Owen:
Yeah. And it may take a few days, is the point kind of thing. It may just take a little bit longer, and that's okay. One final thing on this though, my partner, she signed up for a brokerage account last week, and she almost paid $500 a share, for a share that was worth 80 cents. And the reason she did that, she got confused between the amount she was investing, which was $500, and the price that she was wanted to pay for the shares in the order page. So don't get those little things confused, pay attention, use the little hover over icon. Is this the price per share, or is this the price for the total investment? And know the difference. Those are just little things. Just pay attention as you go through, because it may not be instantly what you think it is through the user experience. Cool. Okay. So the next thing, number four is research, Kate. So this is a kind of feature of some brokers, but not of others, right?

Kate:
Yeah. And I know it is important to some people, that some of the larger platforms, I'm probably talking more about like CommSec and Macquarie and nabtrade here, they'll produce broker research, like consensus pricing or something that we might say, "Oh, we'll buy up to this point." Or, "This company is now overvalued or undervalued." And I probably would take all of that with a grain of salt, because brokers are incentivized to get you to trade. So if they're ever going to say buy or sell, they're not going to be too much neutral. But I know for some older investors that this is really important, especially those blue chip kind of shares, these research coverage that is included in some of the larger platforms, and sometimes they're platforms you have to pay as sort of a premium package.

Owen:
Yeah, yeah. And this goes back to the data thing as well, from live pricing and data, which was the earlier point. Sometime you do have to pay for more data as well. So analyst research is one thing, but let's say you want like 10 years of financial data in a neat table summary, that might be on the $20 a month plan, or something like that. So keep those things in mind. Sometimes they're important, sometimes they're not, there's a lot of stuff for free on the internet now, like even our Rask media site does a better job than most analyst reports anyway. So, you can get that for free online. You don't necessarily need that in your brokerage account. I tend to go for low-frills brokerage accounts. Low-cost, secure, low-frills. Okay. So number five, the final piece of the puzzle, which is something that most beginner investors do not understand, I did not understand this when I started years ago. international share trading.

Kate:
Yeah. So when you're starting with buying shares and ETFs, you're probably just thinking about buying something on the ASX. You're thinking about maybe your basic BHP or Telstra, an Australian company that you know about, or you're thinking about buying a basic Australian ETF. And then once you start going a bit further down your journey, some investors decide they want to, not just... Because you can buy maybe a U.S. ETF from Australia, but investors might

go, "Hey, I've seen this company on the London Stock Exchange that I really want." So you might start then, at that point looking for a platform where you can invest in international markets. So that adds an extra layer of complexity, but some of the large platforms like CommSec and international brokers, and nabtrade, ANZ, they have partnerships with overseas firms as well. So you can trade, because nearly every company has their own stock exchange.

Kate:
Sometimes they have multiple like in the U.S. So you'll have the ability, once you have a, maybe CommSec brokerage account, for example, it's quite straightforward then to open an international trading account, but there's all sorts of fees and costs involved there for accessing different markets, you've got to transfer currency, it does add some complexity to the issue.

Owen:
Yeah. I can speak from firsthand experience that the CommSec International platform is horrendous for user experience. It is out there, it's bad. But that's just one example. The international side of things, if you go into Google, if you Google company name and stocks of Facebook stock or Amazon stock, what you'll see in Google is, you'll see the ticket code, that's that thing that identifies which share it is, so in Facebook's case it would be FB, in Amazon's case, it would be A-M-Z-N, for Amazon. But before that there's another thing, and it's called NASDAQ, N-A-S-D-A-Q, or a bigger company might have New York Stock Exchange or something like that, NYSE, or if it's in London, it might have FTSE which means Footsie, if it's in Europe, it could have anything.

Owen:
So the point here is that, some of the companies that you may want to invest in, and some of the brands that you know, may not be Australian companies. So the way you access them is, you still use a broker here in Australia, but it has international trading functionality. And as Kate said at the top of the show, about HINs, and custodial models, it's a different regulation overseas and a different system.

Kate:
For every single country and market, every country has their own market regulator, financial services system, and in Australia, it's becoming a lot easier to access the U.S. markets because you've got platforms like Stake, which offer really easy way to invest in U.S. companies, Superhero, I think some of these companies like SelfWealth, you can invest in U.S. markets, as we all know.

Owen:
Yep, definitely you can.

Kate:
So, it's becoming quite easy for Australians to invest in U.S. markets, but if you want to go any further than that, like the London Stock Exchange or the Japanese, I don't even know what the state stock exchange is called, so you might-

Owen:
The Nikkei. It is the Nikkei? I don't even know. [crosstalk 00:30:01].

Kate:
If it's that important to you, maybe you might need to look at a different platform.

Owen:
Yep, that's it. And just on this, read the fine print before you choose one of these international models, really understand, we've got some questions in just a second, but really understand how your money is held, where it's held, what you actually own, and read those terms and conditions, and understand if whoever is partnering with your brokerage account, so if it's CommSec, who facilitates that international part for CommSec? Because CommSec doesn't have a CommSec USA, it's another company that provides that functionality through CommSec, which company is that, and are they reputable? Are they respectable companies with established brands and regulation?

Kate:
Yeah. Once you leave the Australian market, it's really important, but even more so to read the fine print and do some research, otherwise you just don't know where exactly in the world your money is actually being held, and how secure is it, and is it in your name? Is it a custodial model? What are your rights of recovery? So, do your research if you're starting to leave the Australian market.

Owen:
Yep. And you had a really good anecdote, from a family member who is an expert in this field that said, "During market crashes and times gone by, the big brokers are the ones that have the systems in place, to make sure that they're still up and running when the market crashes, whereas some of these new brokers, which we've seen recently, have gone down, because of things that have happened behind the scenes that we wouldn't normally be able to detect." So it's about being thorough and understanding who are the partners of these brokerage firms, that enable them to survive and ran? Because-

Kate:
Because when the market is crashing 20% in a day, everyone is logging onto their brokerage account. There's a lot of institutional order flow going through. So some of the smaller platforms, that can be a lot of pressure, maybe their systems haven't been tested that well against that pressure on the platform. So even having... I think we're going to talk about that shortly, but you can have multiple brokerage accounts, so having a backup brokerage account... I mean, I'm probably more of a risk mitigator, so I think redundancies in all areas of my life is important. Even having some money in a separate bank account in case your main banking platform goes down, and we saw many examples of that with even the major platforms last year, where people couldn't access their salary because the platform was down for a few days. When you're getting started it doesn't matter as much, but if you are building up a portfolio over a few decades,

having a backup brokerage account with a larger platform can be a good idea, especially if they're not charging an account inactivity fee.

Owen:
Yep, for sure. Okay, okay. Let's get into some questions.

Kate:
Yes. So these are from our Facebook community, and there was a lot of questions about brokerage accounts, so we thought we'd answer some, very quickly on this episode.

Owen:
Yep. So, for general advice warning, if we do answer your questions, we recommending you do anything at all. This is just general information only, you can read our financial services guide or FSG available on the rask.com website. We don't know your personal situation, so we haven't answered any of the questions with regard to that. We're just talking about brokerage accounts, and we receive nothing for mentioning names. So first question, which you've just answered, comes from Wayne in the Facebook community, he says, "Can you buy shares from multiple brokerages, or should you only trade from one at a time?"

Kate:
Yep. So you can have as many brokerage accounts as you want, as long as they're not charging you fees. I would recommend keeping it fairly, once you have tried platforms, maybe closing a few that you don't want to use, because there is a bit of paperwork involved, and it just clutters up your financial life, but I do use a number of platforms for different purposes. Like I have one for trading U.S. markets, I'll have one for ETFs and I'll have one for shares, just because I like to separate different investments in my mind. It just helps me personally, and I don't want to be checking my longterm ETF portfolio, nearly as much as I would check my more active share portfolio.

Owen:
Yep, great answer. So, it's horses for courses, Wayne. Always understand the risks and consider what is important to you, I would just say the complexity of managing multiple accounts might be something that you also consider. It's very-

Kate:
Oh, one thing I should mention. I ran into [crosstalk 00:34:42] last year at tax time, if you have the same ETF in multiple brokerage accounts, under different HINs, it can get a bit confusing when your account and the ATO is trying to work out, because you received maybe dividends from the ETF, but different amounts from different accounts. So it just gets a little bit confusing. So try not to double up on holdings. [inaudible 00:35:02] different accounts is my little tip for the day.

Owen:
Yeah, cool. It sounds great. Nicole asks, "What's the difference between a brokerage account and an investing platform like Raiz?" I'll just jump in on this one. Raiz is more of a do-it-for-you approach. So, Raiz and robo-advisor, go back and have a look our robo-advisor episodes or have a listen, I should say, they're really good. They're platforms where you put the money in and those things kind of happen for you. If you pop the hood on something like Raiz, you would see that it's kind of a different model. In my opinion, Raiz is more like a fund manager because it invests your money for you, and it invests in ETFs, whereas say a brokerage account is one where you do it yourself, and a lot of the times you own the individual things underneath. So, there are different robo-advisor out there that do allow you to own the thing that's actually inside the platform, but they're not as common as you think. So go back to our robo-advisor episode, and [crosstalk 00:36:01].

Kate:
Yeah. And I know Raiz has introduced options this year for customising your portfolio, but it's still within a set list, you can't just buy and sell anything you want, and there's also an account keeping fee to keep in mind. People like using Raiz or some of those other smaller platforms to get started and get comfortable, and then maybe move across to a different platform or keep the Raiz going and start to invest in a brokerage account directly, once they're a bit more comfortable with ETFs and shares.

Owen:
Yep. Roger from the Facebook community asks, "Best brokerage account for ETFs, if investing regularly, costs can add up pretty quickly." Yeah. Roger, we can't tell you what you should do, even if you're investing in ETFs, but what we can say is that we get it. Yeah, the fees add up. If you're putting 500 bucks in and it's costing you $20, not that it is, but if it's costing you 20 bucks, that's a big percentage of your investment going just to fees. So we say, save up chunks, if you can, save up bigger amounts, so just put it in your offset account or your savings account, one or $2,000 at a time minimum, probably is what I'd suggest.

Owen:
But there are some brokerages that allow you now to effectively, or very low cost buy ETFs for free. So Pearler is the new age kind of brokerage account, and that allows you to buy select ETFs, if you hold them for a year without paying the $9 brokerage, or $9.50 brokerage.

Owen:
Vanguard's Personal Investor Services, which is also a new one, which has undergone some changes recently, that allows you to buy their managed funds, which are very much the same as ETFs, for no fee, but there is an account keeping fee and there is also the fee for the actual fund itself, just like any ETF or fund. And finally, then you have things that are fixed level brokerage, which is a low cost like SelfWealth. These are just some things to consider, but always check the PDS and read the terms and conditions. Even if you're an infrequent investor, maybe it's even more reason to check the details before you kind of sit and forget.

Kate:
Yeah, yeah. And I think when you're getting started, you might be playing with $500, but once you've become more comfortable with investing, and you have a strategy, and maybe you've kind of worked out your budget and everything, it might be something you do every two or three months, once you've accumulated, as you said, one or two or $3,000, to keep those costs down, especially if you're investing for a long term horizon, just because if you want to use a platform that issues the Holder Identification Number, the cost can only go down so far right now, so you may have to just come to terms with the fact that every two months you have to pay your $9.50.

Owen:
Yep. This is a good question for you. Scott asks, "Currently I'm with a broker nabtrade, no problem with their service, but just curious, if he was to switch to another brokerage or platform, how does an investor go about doing that? Is there some sort of mechanism that allows investors to switch from one platform to another?"

Kate:
So, as we mentioned earlier, with the Holder Identification Number, it does give investors flexibility to move their holdings through an in-specie transfer, from one holder identification to another. Sometimes you can do it with custodians, but it just depends on the platform, I would definitely check before you do anything there. So you can fill in a form, or some of the larger platforms have even started to digitise this process, and you can kind of go through the account and nominate the HIN, and which holdings you want to transfer. And there's often a fee, maybe some of the larger platforms absorb the fee, it just depends. But you can quite easily, if you're willing to pay the fee and do the paperwork, move holdings from one platform to another. But definitely think before doing it.

Owen:
It's a good idea, to consider the tax implications of doing it the other way, which is, some people just sell their shares and then go and buy them again in another brokerage, that might incur tax, whereas in-specie, if it done correctly can just be a simple swap because still have their beneficial interests. You still own them, you're just holding them somewhere else.

Kate:
Especially if the investors that have been investing for many years now, and they might have quite large positions in ETFs or shares, as you mentioned, you might have found a lower cost platform. Someone might be moving from a larger platform to something like SelfWealth and the in-specie transfer does allow them to not reset their cost base since they don't incur a tax event. As long as the entity you're moving one holding to the other holding is exactly the same.

Owen:
Yep. And also just keep in mind that if you do do a transfer of shares, that the new broker might not know what you paid for those shares. So if you go to record tax in a few years, you want to make sure that you're tracking what your original cost was. So if you use something like Shared Site, which is a portfolio tracking tool, or if you just log into our old brokerage, take a snapshot of

what you actually paid, and the cost that you incurred in buying those shares, that's to work your tax later on, you can do that.

Kate:
And especially if you've been dollar-cost averaging into an ETF, and you have maybe 30 purchases of this same ETF over a decade, it is super important that you keep those records for tax purposes at full stop. And then especially if you are moving platforms, because it will it won't keep that transaction history.

Owen:
Yeah. Or just lump it all into one sort of [crosstalk 00:41:35], because in the future, your future self will thank you for having that screenshot. So Andrea, from the Facebook community, this is, I believe the last question we've got.

Kate:
Yes.

Owen:
An Andrea asks, Andrea's in the Rask Facebook community. "I'm generally happy with my ANZ international brokerage account, because I trade infrequently, so not very often. However, there is an international company I want to invest in on the Madrid Stock Exchange, which is not covered by ANZ or CommSec. Is there any other account that I could use?" Maybe I'll tell this one. So Andrea, you could find another broker, there's one called Interactive Brokers or IB, there are minimums, as far as I'm aware to use IB, they do take their pound of flesh in my experience, from the research I did a few years ago, as in they like to charge the fees.

Owen:
You could check to maybe see if some of the other big brokers have an international account that covers Europe, some of them would. But I just want to emphasise one point here, which is that, if you don't completely understand what's going on, and what you own, how you own it, the taxes, the fees, the currencies, what would happen if that entity that hold your shares, something were to happened to it?

Owen:
Just think twice, is what I'd say. I'm not saying do it or don't do it, just really read the Ts and Cs, make sure you understand. Some brokers say we offer access to 20 markets, and that would be like "access to 20 markets." But really what you're getting are not shares, they might be like some sort of weird contract, or some indirect interest in a share, and they hold it in a different structure. I don't mean to be a doomsay here or really negative, but I just want you to understand that there are risks involved in investing internationally.

Kate:
Yeah. And if you're trying to go outside of the ASX, maybe the NASDAQ, the NYSE, sometimes it's quite easy to access the New Zealand market, maybe the London market, but outside of

that, it starts becoming a lot more complicated, especially if you want to access some niche European or Asian markets, a lot of brokers just won't bother because the demand's not there. So it doesn't make sense for them to offer access to those markets, and you can end up over complicating your life. So maybe even just like possibly an ETF can give you exposure to that company, or you can find similar companies in different countries, or different ETFs so you can get exposure to that thing that you're interested in, just in a slightly different way.

Owen:
Yeah. There was a company from Italy that I wanted to invest in years ago. It's a great company, it does like laboratory testing, love it, really interesting business, but I just made the decision that it was too hard. It was too hard. And there's another company in Canada that I'd love to own shares in. It's too hard. I just can't do it. But one thing that some of the big international companies do, even if they're from China, Europe, Australia, wherever, is they put something on the American Stock Exchange called an ADR, which stands for American depository receipt. It's not quite a share, but it kind of is. An ADR is a way to invest in a company via the US markets that may be overseas. There are risks associated with those things, so you want to find that out. But maybe there's a way to get exposure as Kate said, via and ETF or even a similar company, in a different jurisdiction that you can invest in.

Owen:
I just keep it simple for me, that's just me personally. But as we said, horses for courses. Okay, this is a long number one or part one episode on brokerage accounts. So we've covered the essentials, like the five things that you should look for, including fees, data and pricing, user experience, the research that you'll get access to, and whether they offer international trading. We've also covered the difference between Holder Identification Numbers and custodial models here in Australia, custodian models tend to be cheaper, HINs tend to give you more flexibility if you are interested in things like voting rights and doing transfers and kind of preparing for future generations.

Owen:
We've also answered some questions, such as which brokerage accounts could you consider, can you have multiple, we've covered a lot in this episode, Kate. Part two-

Kate:
Yeah.

Owen:
Sorry, go on.

Kate:
I was just going to say, don't become paralysed by this decision and just spend a whole year trying to decide which brokerage account, and not end up actually investing or having a go. You can easily create multiple brokerage accounts, just to have a look and explore the platform, put some companies on your watch list to get a feel of how it all works. And then down the track,

you can close the ones you don't want to use, and pick the one you can to move forwards with. Because at the end of the day, there's a lot of... Like with a HIN brokerage account, most of them, the core features are similar, and you're just sort of playing with some semantics on the fringes. So when you're getting started, it's more important to just get started, rather than spending a year deciding which brokerage accounts. So we dived into some quite specific things in this episode, and Owen and I probably overthink it a bit too much. And I don't think when you're a beginner, you need to worry about as many things like research.

Owen:
Yeah, that's it. Just keep it simple, open a few brokerage accounts, and just have a play around. You can open them for free, most of the time, almost all of them are free. See what you like, you can even play games like on the ASX Sharemarket Game to get used to the kind of feel of investing, you can use a website like Strawman, which is created by a friend of ours, which gives you fake dollars to invest in. That's not a brokerage account, it's just a fake dollars platform that allows you to buy shares, "to buy shares." In part two, we're going to talk about all the different popular brokerage accounts. So we're not going to talk about some of them that are for really sophisticated people or for the smaller ones that don't tend to going anywhere, we're going to talk about the popular ones, the ones that are relevant for our audience, the ones we get questions on, that'll be in part two.

Owen:
In the meantime, if you want to jump onto our Rask Education site or into the Rask Australia Facebook community, we would highly encourage you to do that, so you can ask your questions there and give us feedback as well. The Rask Education courses that I would recommend for anyone starting out are the ETF Investor Course, which is the beginner's course, the Share Beginner's Course, even Kate's five course would be really good to get that long term mindset. So those are a few of those that you should be looking at. If you want a deeper knowledge of investing, you can look at our Valuation Course or our Value Investor Programme. The Value Investor Programme isn't free, but the others are, so go and check them out. Kate as always, absolute pleasure to be with you on this sunny Melbourne day.

Kate:
Thanks for diving into brokerage accounts with me Owen.