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FUN FACTS TO KNOW AND TELL

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We continue to be in challenging times in the stock market and world economy. I don't mean to sugar coat anything, but we've been thru similar times before and we will face them again in the future. One mutual fund manager recently posted a cartoon in his newsletter with a picture of a man sitting on the ledge of a window of a skyscraper, as if he was getting ready to jump, with someone from inside the window shouting, "But, sir, many analysts consider this only a long-overdue correctional movement, following which the market will resume its upward course, with a rally expected to penetrate previous Dow Jones highs by the year's end." Why should this be funny? The manager's point was the cartoon was published in 1966. The market recovered will always be unpredictable.

Recently several clients have asked about the safety of their investment assets at TD Ameritrade. Brokerage firm assets are not covered by FDIC insurance but are covered by SIPC (Securities Investor Protection Corp) up to $500,000 (including $100,000 for clams for cash). Almost all of our clients' balances exceed $500,000. TD Ameritrade carries "excess SIPS" insurance through London insurers up to an additional $149.5 million per customer (including $900,000 in cash) up to an aggregate of $250 million.

There is a big difference between the major "Wall Street" brokerage firms like Merrill Lynch, UBS, Lehman, Bear Stearns, etc and the "retail" firms like TD Ameritrade (and Schwab and Fidelity, although I don't know as much about them). The "Wall Street" firms take investment risk with their own corporate balance sheet assets. Bear Stearns went down because of hedge fund trading. The "Wall Street" firms do underwriting and initial public offerings. TD Ameritrade (and, to the best of my knowledge, Schwab and Fidelity) does none of that. So TD Ameritrade has much less risk in its balance sheet.

The risk to an account holder at a brokerage firm is what the brokerage firm does with its corporate balance sheet. They hold investor assets in "nominee name" or "street name" but can not use investor assets for corporate activity. Bottom line, TD Ameritrade's business model is to serve retail investors directly and thru firms like Berno Financial. They make money on trading commissions, trading spreads, money market balances and margin lending.

I always say, "never say never" so I won't say TD Ameritrade can't fail, but I am confident that your assets are safe there. For what its worth, my personal accounts are there too!

A monthly publication for our firm's clients, prospective clients and friends.