Stockbroker Charges Are One Risk You Can Control

When it comes to investment performance, only a few people seem to have informed, realistic expectations. Many have none at all and certainly even the better informed don't usually have a clue of the total costs of buying individual shares, either by signing up with a stockbroker, making single buy or sell orders or opening a comparatively cheap on-line, execution-only account.

I've written before about the risks you take buying Irish bank shares. They are thinly traded, they are still considered "penny shares" for good reason: banks make money lending. Heavily indebted Irish banks are still not lending to any significant degree.

But no matter if it is a rubbish Irish bank share or a profitable, global, household name 'blue chip' share that pay decent dividends, there is always a risk in putting your hard earned money or savings into just a few shares. No one can predict the future and the fortunes of individual companies and sectors ebb and flow. (Look at the once giant camera industry, US motor manufacturers, computer hardware and software companies (IBM and Blackberry two of the most famous casualties). Picking a single winner from tens or thousands of public companies is is nearly impossible.

Which is why pools of investment funds and investment trusts, which represent many companies and other asset classes (bonds, property, cash deposits and currencies, commodities, etc) spread your risk and give your investments some balance.

That said, some people are determined to buy individual shares believing that their share will come good some day.

Unless you are an experienced stock market investor, at least read up on how the markets perform. Come up with a plan.

Rory Gillen, an ex-stockbroker who now offers stock market courses and share investment advice at Gillen Markets (see www.gillenmarkets.com) has written a very good book called "3 Steps to Investment Success". Buy it, read it. Take the course. (I did. I no longer punt on individual shares.)

Next, be very careful about how you buy your shares and the charges, commissions and fees you pay for them.

There are a number of stockbrokers operating mostly in Dublin, Cork and on-line. They all charge certain commissions and fees to buy shares and operate accounts with the most expensive offering discretionary trading and advisory services to mainly higher net worth clients with larger sums to invest.

Accounts like these can attract large annual management fees that are a percentage (say 0.75-1%) of the value of your portfolio; execution fees per trade (ranging from 1.65% up to €15,000 value down; 1% for the next €30,000 value, reducing to 0.5% on trade values over €30,000. Minimum trades range from as low as €40 to €100, depending on the stockbroker. You want to have at least €50,000 at hand to justify these charges.

Even accounts that don't include discretionary management require annual maintenance fees, (including on-line execution only trades, that is requiring no advice or contact with a broker) usually amount to between €60 and €100 a year.

Charges also include extra fees for buying or selling non-Irish shares, mainly in UK or American markets. These are usually an extra percentage commission on top of the existing 1.65% – 0.5% and something called a "custody transaction charge", again usually a flat cash sum of about €25. If you buy an ETF from a broker, (the very good value exchange traded fund that includes many stocks but trades as just one share on the market) they will most likely add their own management fee on top of the very low ETF fee, which is usually less than 0.5%, even though there is no management on their part.

When government stamp duty (1% for Irish shares, 0.5% for UK ones) and sundry other little charges – say, for operating a CREST account – the impact can be significant. Your shares had better perform, because these charges are imposed whether you make a penny or not.

Sommerville Advisory Markets, a relatively new player in the Irish stockbroking community seriously undercuts all the others with a single, flat trading commission of just 0.15% and government stamp duties.

It is worth checking out (www.SAM.ie) but this broker is targeting active traders of CFDs – contracts for difference vehicles in which you either speculate on how the price will move (as in spread bets) or entering into a contract that you buy at one price and sell at another, paying out the difference (CFDs).

Both are traded on a margin of cash, not the entire purchase price and can result in huge losses – CFDs are how Sean Quinn lost his billion euro business empire. A wise old bird once said, “The stock market is the most efficient place to separate a man (or woman) and his money.”

The least you should know is exactly how much they’ll charge you to do so.