

# Stockbrokers – More than One?

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I am often asked whether I have more than one stockbroker in case my broker fails.

Over the years very few brokers have failed. The recent (2008-09) failures in the case of Tricom and Opes Prime did not lie in the traditional stockbroking areas that are regulated by the ASX. They lay in margin lending, albeit in two different manifestations.

The ASX, the two regulators involved and the government are looking at updating the law appropriately and have also taken the issues to international forums, as you will have read in the news.

I only have one broker. I used to have two, but there was a great problem of having to be very careful to act through the right one all the time. After I sold some shares through the wrong broker a couple of times, I simplified things by having only one account with one broker.

Many people have more than one broking account. One may be dormant and is there just in case the main broker's internet platform goes down. However, in that case, there is a need to move cash and/or shares, which is a nuisance if you can avoid it. I can operate with my broker either by internet or telephone. I have never had a problem getting to them, but there is always a first time for everything.

The other issue here is that I am an investor. Buying or selling on a specific day is not an issue for me. Orders can wait a day or so if there is a problem.

However, if you are a short term trader rather than an investor, this is a far more important issue and it might well serve you well to have more than one broker in case of emergencies.

Usually, when brokers start to get into trouble, they sell out to another firm, which wants the client base and which assumes the liabilities (for a price). The ASX is also likely to force a sale or merger in the case of a broker with problems. Nevertheless, it is always possible that the firm goes down because of something other than broking, like Tricom and Opes Prime. Even in this case, my expectation would be that the broking client base would be of value and could be sold to another firm, even though the rest of the business was bad. There may be some small delay, but the essence of the problem is that it must be done quickly in order to do it before the clients have made other arrangements.

The need for a second broker would be far more critical here for a short term trader. You will have to make your own judgement on this. However, do remember that with cash you could open a new account with another broker in hours. Likewise, in these days of electronic registers, it might take one or two days at most to get the sponsorship of your CHESS account switched. If a new broker wants your business, he will usually be helpful here in my experience.

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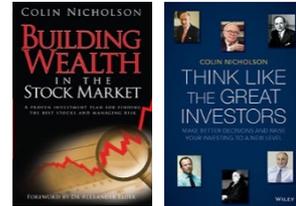
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