
What Fools These Mortals Be

By Kerry Pechter *Wed, Dec 18, 2013*

*E*Trade, TD Ameritrade and Merrill Edge all dangle a \$600 signing bonus to people who open new brokerage accounts with cash--lots and lots of cash, it turns out.*

Here's an offer you can easily refuse: Send me \$100,000 in cash today, and let me keep it for at least three months. At the end of that time, I will give you \$250... and maybe a bunch of commission-free online trades to boot.

Attractive? No, not really. But a significant number of day traders or would-be day traders must be vulnerable to this sort of temptation. Why else would serious companies like Merrill Edge, TD Ameritrade, and E*Trade offer nearly identical variations of it?

You've seen the ads in glossy magazines or on television. The three companies named above all promise "up to \$600" to anyone who funds a new brokerage account with money that's new to the firm.

After seeing a few of these ads, I thought it would be edifying to go online and read the fine print behind these teasers. As you might suspect, the offers aren't nearly as generous as the headlines suggest.

Merrill Edge

Merrill Lynch pitches a "Simply a Great Offer": Up to \$600 when "you enroll, open and fund a new Merrill Edge investment account or IRA." But you have to move at least \$200,000 in cash or securities to Merrill Lynch in order to qualify for \$600.

If you bring between \$25,000 and 49,999 to Merrill Edge, you get \$100. Bring \$50,000 to \$99,000 and you get \$150; bring \$100,000 and you get \$250; to get \$600, you must bring \$200,000 or more. The money must come from outside Merrill Lynch and Bank of America (including Merrill Lynch 401(k) plans), must arrive within 30 days of the opening the account, and must stay for at least 90 days.

Even then, you don't get your bonus right away. "Please allow up to 45 days for the cash reward to be credited to your account," the footnote said. I called Merrill Lynch's customer service line to ask if my account would bear interest. The phone rep said yes: at the rate of one basis point per year (0.01%). If I put my money in a money market account it could earn 1.15% per year, he said, but I wouldn't be able to trade in and out of that account.

The Merrill Edge offer came with 300 commission-free equity, ETF or options trades, which had to be executed within 90 days. In addition, anybody who maintains a balance of at least \$25,000 at Merrill Edge gets 30 commission-free trades a month, every month.

TD Ameritrade

TD Ameritrade's bonus offer was slightly different. There, the account must be opened by December 31, 2013, and funded within 60 days with \$2,000 or more. To receive a \$100 bonus, the account must be funded with \$25,000 within 60 days; to receive \$300, it requires \$100,000 or more; and to receive the maximum \$600 bonus, the account must be funded with \$250,000 or more within 60 days of account opening.

Regarding the amount of time your money must be deposited, TD Ameritrade is more demanding than Merrill Lynch. "The Account must remain open with minimum funding required for participating in the offer for *nine months*, or TD Ameritrade may charge the account for the cost of the cash awarded to the account," the disclaimer on the firm's website said. (Emphasis added.)

The TD Ameritrade program comes with 500 commission-free online trades of equities, ETFs or options. They must be used within 60 days of opening an account.

E*Trade

This online discount brokerage, whose hard-boiled toddler-spokesperson is as familiar as GEICO's green-and-yellow gecko, demands more skin-in-the-game than the others. New accounts must be funded with at least \$10,000. But the top bonus is \$2,500, not a mere \$600. Like TD Ameritrade, E*Trade offers 500 commission-free trades, available during the first 60 days after the account is funded.

To get the full \$2,500 bonus, you have to deposit \$1 million at E*Trade. People who deposit \$500,000 to \$999,999 get \$1,200; people who deposit \$250,000 to \$499,999 get \$600; those who deposit \$100,000 to \$249,999 get \$300; those who deposit \$25,000 to \$99,999 receive \$200.

Please note that not all \$600 bonuses lead to the same service. Merrill Lynch can afford to offer a slightly less attractive bonus because its flat online trading fee is just \$6.95, compared with \$9.99 for TD Ameritrade and \$7.99 at E*Trade (for people who trade 150 to 1499 times a quarter).

OK, I get it. These three firms compete strenuously for the loose cash of over-confident amateur traders (many of whom might just as well apply their animal spirits to slot machines, the Lotto or bingo at the Odd Fellows lodge). In a hyper-competitive market, you need a sexy teaser just to lure eyeballs to your website. If one brokerage firm promises a bonus, the others have little choice but to match it.

But it's tacky, frankly, to offer cash—and so little cash, relatively speaking—to potential investors. It also seems vaguely unsuitable to solicit hundreds of thousands of dollars from people without knowing if they can afford to put that much at risk. As for meeting a fiduciary standard, forget it. If day trading is a losing game, as everyone knows it to be, no fiduciary could recommend doing it.

It's surprising that such promotions are even legal. A few years ago, after repeatedly watching the talking E*Trade baby imply that anybody with a sippy cup, a highchair and a smartphone can succeed as a day trader, I called FINRA to ask why or how such an ad could elude the compliance police. I was told that because E*Trade provides an investment *service*, not an investment *product*, none of the usual rules against promissory claims applied.

I find it a little scary to think that a retiree or job-changer could roll his or her entire 401(k) nest egg into a discount brokerage IRA account, invoke the spirit of Jim Cramer, and start betting on short-term volatility.

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