November 2007 *MoneyMinute* Bonus – Why Your Brokerage Accounts Are Safe

By Jennifer Cray, CFP®

Our November *MoneyMinute* about FDIC insurance prompted this question from many readers: What about the SIPC insurance that covers my brokerage accounts? How does that work?

With the recent news about E-Trade Bank's subprime loan losses, many E-Trade brokerage customers have started to wonder how safe their investment accounts are.

U.S. brokerage accounts have insurance, just as bank accounts do. The Securities Investor Protection Corp. (SIPC) provides coverage to protect your holdings. The limits work differently than FDIC insurance, but the concept is the same: If any of your stocks, bonds, mutual fund shares, and money market shares go missing, SIPC will replace them.

Of course, the *value* of your investments is not protected. Just the shares and bonds themselves.

The limits: SIPC insurance covers up to $500,000 per customer, including up to $100,000 in cash. Note that the limit is per customer, not per account. Some types of investments aren't covered, including commodity futures contracts and fixed annuity contracts.

In addition, the major brokerages all carry what's called excess SIPC coverage. E-Trade and Charles Schwab have each bought additional protection from insurers in London that cover up to $150 million per customer, $900,000 to $1 million of which may be in cash. Across all clients, the additional coverage tops out at $600 million.

Considering that the big brokerage firms each hold billions in customer assets, $600 million sounds a little skinny. But in actuality, that much would likely be enough to go around. An example of how a brokerage failure might play out:

- "ABC Securities" holds $4 billion in customer brokerage accounts.
- ABC Securities' affiliate, ABC Bank, suffers loan losses so large that the parent company has to file for bankruptcy.
- In the bankruptcy process, ABC Securities gets sold off for $3.6 billion. Account holders would get 90% of their account holdings from the ABC sale, and the other 10% from SIPC.
- An ABC customer who had $6 million in covered investments would get $5.4 million from the ABC sale, $500,000 from SIPC, and the final $100,000 from excess SIPC coverage.

In reality, a brokerage like E-Trade Securities would be sold off to cover losses at E-Trade Bank – long before any brokerage accounts would be affected. And E-Trade's brokerage business is very healthy and profitable.

SIPC's website has a clear explanation of how its coverage works, and what the limitations are. If you have any unusual holdings in your accounts, http://www.sipc.org can show you what's

© 2007 Investor's Capital Management, LLC

All Rights Reserved
richc@feesonly.com, julies@feesonly.com, jenniferc@feeonly.com

covered and what's not. Also make sure that if you have accounts at small brokerage companies that they carry SIPC insurance as well.

Finally, of all the things in life you could worry about, the fear of your investments disappearing from your brokerage accounts is about the last thing that should keep you up at night.

Author note: I worked at E-Trade Securities from 2000 to 2004. Ironically, back then the bank's profits were making up for the brokerage's underperformance during the bear market.

Investor's Capital Management, LLC provides financial planning and manages investment assets so that clients can relax and stop worrying about it. Many of our clients are self-directed investors, and we enjoy helping them become more successful by following our professionally designed and monitored portfolios. **Our professional services are cost-efficient, and it's rare when a client doesn't make or save more than it costs.** As independent financial planners, we have a **fiduciary responsibility** to our clients to always put their best interests first. This may seem obvious to you, but in fact it is all too rare in the financial services area.

We are fee-only financial planners. A client's fee is the only payment we receive so that we work solely in their best interests. We do not take product commissions, nor do we gain from any portfolio activity. **No sales pressure - ever!**

The articles page on our website covers planning issues from real estate to long-term care, from investment risk to college funding, and more. See the rest at: http://www.feesonly.com/Articles.html.

OUR MISSION:
Giving clients the clarity and confidence they need to make consistently sound choices. If we may be of assistance in any way during the weeks and months ahead, please call or email. Check out our financial planning services: http://www.feesonly.com.

For others who may benefit from the monthly MoneyMinute, please forward. To sign up for your own copy: http://www.feesonly.com/moneyminute.html.

Rich Chambers, CFP®
Julie Schatz, CFP®
Jennifer Cray, CFP®
Investor's Capital Management, LLC, Menlo Park
Providing Unbiased Guidance to Financial Success
Member of the National Association of Personal Financial Advisors (NAPFA)
650-323-4706
info@feesonly.com http://www.feesonly.com

If you don't wish to see the MoneyMinute in the future, just reply to this message with "unsubscribe" in the subject.

Legal Disclaimer: Investor's Capital Management, LLC http://www.feesonly.com, and the *MoneyMinute* email does not render or offer to render personalized investment advice or financial planning advice through this free service. This service is limited to the dissemination of general information only. For specific financial advice you must enter into a formal relationship with a financial adviser.

Caution: All e-mail sent to or from this address will be received or otherwise recorded by ICM and is subject to archival, monitoring or review by, and/or disclosure to, someone other than the recipient.