

Choosing a Broker

Depending on the type of investing that you plan to do, you may need to hire a broker to handle your investments for you. Brokers work for brokerage houses and have the ability to buy and sell stock on the stock exchange. You may wonder if you really need a broker. The answer is yes. If you intend to buy or sell stocks on the stock exchange, you must have a broker.

Stockbrokers are required to pass two different tests in order to obtain their license. These tests are very difficult, and most brokers have a background in business or finance, with a Bachelors or Masters Degree.

It is very important to understand the difference between a broker and a stock market analyst. An analyst literally analyzes the stock market, and predicts what it will or will not do, or how specific stocks will perform. A stock broker is only there to follow your instructions to either buy or sell stock... not to analyze stocks.

Brokers earn their money from commissions on sales in most cases. When you instruct your broker to buy or sell a stock, they earn a set percentage of the transaction. Many brokers charge a flat 'per transaction' fee.

There are two types of brokers: Full service brokers and discount brokers. Full service brokers can usually offer more types of investments, may provide you with investment advice, and is usually paid in commissions.

Discount brokers typically do not offer any advice and do no research - they just do as you ask them to do, without all of the bells and whistles.

So, the biggest decision you must make when it come to brokers is whether you want a full service broker or a discount broker.

If you are new to investing, you may need to go with a full service broker to ensure that you are making wise investments. They can offer you the skill that you lack at this point. However, if you are already knowledgeable about the stock market, all you really need is a discount broker to make your trades for you.

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