

Online Brokers or Discount Broker

The terms are interchangeable.

On-line brokers offer a service. Their service is to provide a platform for clients to open and maintain accounts and to purchase and sell investments. Financial advisors and financial planners do this as well. Online brokers do not offer investment nor financial planning advice. Financial advisors and planners do. This is the difference.

Online brokers will answer questions such as how do I open an account or how do I purchase these investment within my account but won't answer questions such as what investments should I buy nor should I hold this investment within my RRSP or TFSA account.

Online brokers generate revenue largely from charging per trade. I pay \$9.95 each time I purchase or sell a security. The more I trade, the more lucrative my accounts are for the online broker. They encourage me to trade. Being largely a passive investor, I don't trade much. I could find an on-line broker that charges less but because I do not trade much the cost per trade is less relevant to me.

Every major bank has an online broker, every credit union has at least an association with an on-line broker, and there are many stand alone online brokers. If you choose a bank you can open accounts in a branch with bank account manager and a representative of the bank's online broker on the phone. Or, you can do it all online. It is a one-time event and can be a little daunting but eventually the correct outcome will occur.

To understand what accounts you need to open, understand what you already have. Your current statements will indicate what kind of an account you have. While you are opening accounts, you may want to open a TFSA and a non-registered account and potentially a joint account if warranted (a joint account is a non-registered account with more than one owner). Even if you don't need the accounts now, you may in the future. You can open accounts in the future if you choose not to do so now.

Go to the online brokers website and they will walk you through how to open accounts.

Online brokers and protection

You have protection with CIPF <http://www.cipf.ca/> and CDIC <http://www.cdic.ca/en/about-di/what-we-cover/Pages/default.aspx>. To determine if a GIC issuer is covered by CDIC insurance. <http://www.cdic.ca/en/about-di/what-we-cover/Pages/list-members.aspx#CC>

Benefits To The GIC Investor

Currently in November 2017 my online broker has 31 issuers of 5 year GICs. The top rate is 2.78% per year offered by Homequity Bank. I plug Homequity Bank into CDIC website and find Homequity Bank is covered by CDIC insurance. The lowest rate is 1.1% for the same 5 year term.

It is a massive benefit to be able to choose GICs from many different issuers compared to dealing with GICs from one or two banks only. If the bank or banks you deal with do not have a demand for money, you are stuck with a bad GIC rate. With an inventory of GICs you are certain to always purchase GICs with rates at or at least near the top.

