

# Understanding Your Brokerage Account Statements



# UTMAN INVE

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rendline

INVESTING

53



| Account    | Withdrawals | Year-to-date |
|------------|-------------|--------------|
| \$100.00   | \$200.00    |              |
| \$200.00   | \$100.00    |              |
| \$1,300.00 | \$4,000.00  |              |
| \$100.00   | \$0.00      |              |

ALLOCATION

Allocation by

- 12% Visa Fund
- 40% Voyager Fund

## **INTRODUCTION**

### **How am I doing financially?**

The best way to track your brokerage account activity and performance is to carefully review your monthly/quarterly statements.

This document provides a detailed “snapshot” of the value of, and the transactions that have occurred in, your account during the statement period. They are mailed quarterly or monthly, and many firms provide this information online, too.

Once you can interpret the information your statement provides, you will find that checking your statement regularly is a convenient, informative way to track your investments’ performance. And, you will have greater confidence when speaking with your financial professional about whether you are on course to meet your investment goals.

### **What can my statement tell me?**

Your brokerage account statement “keeps score” of your investments and reports all transactions during the statement period. For example, you can confirm how many shares of stock or mutual funds are held in your account. You will also see a summary of the income produced by each security, including dividends, interest, and capital gain distributions. Your account statement will also tell you the market value of securities you own – at the beginning and end of the period covered – so you can decide whether to buy more, sell, or simply hold your position.

With the help of your financial professional, checking your account statement regularly should become as routine as balancing your checkbook.

### **It’s easy to read**

Although it may seem complicated at first glance, the typical account statement is straightforward. In this guided tour, you will learn step-by-step what information is provided in most statements, and how to make that information a powerful tool in understanding and managing your investment activity.

A checklist follows to help you understand each section of a statement, next, a list of frequently asked questions. The final stop: a glossary of investment terms.

## **WHAT BROKERAGE ACCOUNT STATEMENTS HAVE IN COMMON**

### **➤ Account Information**

Here you will find basic information, such as the names of the account owners, the time period covered, and the account number. This section also provides you with useful contact information so that you can report to your financial professional any changes in account ownership or other updates. Although industry standards require firms to issue account statements quarterly, some provide you with statements more frequently, and post the information online (in a confidential password-protected location).

### **➤ Statement Account/Summary**

This section shows you how your investments are doing as of the statement date by displaying your unrealized and realized (if you have made any sales and kept the proceeds in your account) gains and/or losses. This section summarizes the total value of your stocks, bonds, mutual funds, other investments, and any cash.

### **➤ Portfolio Detail**

This section identifies individual assets in your account so that you can determine whether the holdings listed are accurate. Also, it shows the value of your investments at the end of the statement period, estimated income and yield, and other information, such as bond insurance ratings and stock symbols. In addition, this section's display of unrealized gains and losses may prove useful for investment planning purposes. This information gives you the opportunity to determine whether you should change your strategy. For example, do you need to further diversify your stock holdings because you are invested too heavily in one business sector? By reviewing your investments and then talking with your financial professional about your objectives, you can become an active partner in achieving your goals.

### **➤ Income Summary**

This section allows you to see the income and dividends earned by your investments for the statement period and the year-to-date. Income earned and its source (dividends, interest, etc.) are important elements in investment planning and in evaluating investment performance.

### > **Daily Activity**

Here you will find detailed information on all account activity during your statement period. You can verify that all securities transactions during the statement period are reflected on your statement. If you have a discretionary account (which means that your financial professional can execute transactions without first notifying you of each trade), be sure that the trades reflected on your statement are consistent with the trade confirmations you have received, and fit your investment objectives. If you see any inaccuracies, report them promptly to your firm.

### > **Disclosures**

These legal and administrative explanations may include fee information, penalty warnings, and a description of some symbols used. You may also find important facts about your statement here or in a separate “messages” section. Other times, important materials may be found in documents included with your account statement, such as newsletters or brochures. It is important that you read and understand this information to best protect your interests.

## **CHECKLIST:**

1. Verify the activity in your account:
  - Identify the time period covered by the statement;
  - Find your beginning and ending balances;
  - Verify withdrawals and additions to your account;
  - Identify dividends and interest received in your account and understand the source (i.e., the specific security investment) of that income; and
  - Verify all transactions against trade confirmations.
2. Confirm basic account data and compare it to previous statements:
  - Check account numbers;
  - Verify that any address changes are reflected accurately; and
  - Compare the beginning balance of your current statement with the ending balance of the previous statement.
3. Look for a summary of your holdings:
  - Identify security descriptions, dollar value, the quantity of shares of each investment, and maturity dates, if applicable; and
  - Make sure that the calculated portfolio percentages agree with your diversification and asset allocation objectives.

4. Be sure that you understand performance data:
  - Review your portfolio's gains and losses;
  - Determine which securities gained or lost value;
  - Assess whether the net value reflects an increase or decrease; and
  - Review whether portfolio gains and losses represent investment opportunities.
5. If the account has multiple owners, make sure that all account owners have the opportunity to review the statement.
6. Review the margin activity and interest charges, if applicable.
7. Call and ask questions if you are confused or if your investment situation has changed as to goals, risk tolerances, or time frame.
8. Report any discrepancies promptly. It is extremely important to address any discrepancy quickly after you receive your account statement. Call your financial professional. If he or she is not available, ask for the branch manager. Put your report of the discrepancy in writing, send it to the firm, and keep a copy for yourself.

## FREQUENTLY ASKED QUESTIONS (FAQs)

**1. Why do I receive an account statement in some months, and not others?** At least quarterly, all firms must send out statements that reflect activity in the account. Additionally, if your account is active, you may receive monthly statements. Some firms also post this information online, which you can access after registering and receiving a password.

**2. What do I do if I don't agree with something on my account statement?** Reviewing your account statements is an integral part of being a good investor. You need to verify that your investment instructions have been carried out properly. Mistakes do not occur very often, but checking your statement is the best way to spot one quickly. When you find something that you don't agree with or don't understand, call your financial professional or the firm's branch office manager immediately.

**3. If my financial professional is unavailable, where do I go?** If your financial professional is not available in a timely manner, or if you want to speak to someone of higher rank, ask to speak with the branch manager. It is part of a branch manager's job to provide oversight of all his or her representatives and the business that occurs in the branch office.

**4. Is the information on my account statement sold to any other firms?** Under the privacy provisions of the *Gramm-Leach-Bliley Act*, investors' personal financial information is protected. Certain account information may be distributed to third parties, but only if you do not object. No later than July 2001, investment firms notified their customers of the firms' policy on disclosure of personal financial information. By law, it is up to you to respond to this notice and advise the firm if you do not want your information shared with third parties.

**5. Are my investments insured?** The Securities Investor Protection Corporation (SIPC) is a nonprofit, membership corporation, funded by its member securities brokerage firms. Although it was created by Congress in the *Securities Investor Protection Act of 1970*, SIPC is neither a government agency nor a regulatory authority. It is not the securities world's equivalent of the Federal Deposit Insurance Corporation (FDIC), which insures bank deposits. SIPC's reserve funds are available to satisfy customer claims up to a maximum of \$500,000, including up to \$250,000 on claims for cash in the event your brokerage firm fails. Some firms will obtain additional coverage for your account through private insurance companies; this additional coverage is designed to protect your securities in excess of the insured limits. Neither SIPC protection nor additional coverage will safeguard you from a decline in the market value of your securities. In the unlikely event your brokerage firm fails, you will need to prove that cash and/or securities are owed to you. This is easily done with a copy of your most recent statement and transaction records of the items bought or sold after the statement. In case a transaction you did not authorize took place in your account, you will need to provide a copy of your timely written objection to that trade.

**6. Are the “security prices” or “market prices” that appear on my account statement accurate?** The prices on account statements come from a variety of sources, and are believed to be reliable (although most firms do not guarantee their accuracy). Securities prices that appear on your statement are intended to be representative only. For securities listed on a stock exchange, the price on your account statement will be the closing price on the date of settlement. Prices of fixed-income securities may be based on recent transactions or derived from computerized formulas that calculate prices based on institutional “round lot” quantities. Therefore, the prices for smaller quantities of securities may be different. Some inactively traded stocks may not be priced, and may be reflected as “N/A” on the account statement.

**7. What is the difference between “capital gains” and “capital gains distributions”?** A “capital gain” is profit derived between a securi-

ty's adjusted cost basis and the price at which it is sold. An example of a "capital gain distribution" is a mutual fund's distribution to shareholders of the profits derived from the sale of the fund's underlying securities.

**8. Where do I find the commissions that were paid for the purchase or sale of a security on my statement?** This information does not appear on most account statements, but will appear on the separate securities transaction confirmation sent to you after the purchase or sale of a security. You should retain this information for your file.

**9. What if I have an annual fee-based compensation arrangement for my brokerage account rather than paying a commission on each securities transaction?** In that circumstance the annual fee, or portion of the annual fee (if it is calculated on a monthly or quarterly basis) will appear on your statement.

**10. What is all the fine print on the back of the statement about?** The back of your statement informs you of the firm's policies and procedures, and defines many terms mentioned in the statement. It also contains contact information if you have questions.

**11. Can I have duplicate copies of my statement sent to others?** Many firms, on their new account application form, will ask if you want duplicate statements sent to a third party. If you elect to do so they will continue to send these statements automatically. It's your responsibility to notify your financial professional of any subsequent changes.

**12. Can I have a copy of my year-end tax information sent directly to my tax preparer?** Most firms do not have the capability of sending just one selected statement to your tax professional.

**13. Why is the date on my statement not always the end of the month?** Most, though not all, firms end their statement period on the last business day of the month. Some firms, however, end their statement period on the last Friday of the month. Be sure to ask your financial professional how your firm handles it.

## **GLOSSARY**

### **Asset Allocation**

An investment strategy that divides assets among major asset categories such as stocks, bonds, or cash, usually balancing risk and creating diversification.



**Accrued Interest**

The estimated amount of interest that would be received upon a sale. In most cases, it is calculated from the date of the last coupon payment up through the closing date of the account statement.

**Bond**

A bond is considered a debt instrument – you are lending money to an entity (company or government) that needs funds for a defined period of time at a specified interest rate. In exchange for your money, the entity will issue you a note that states the interest rate to be paid and when your borrowed funds are to be returned (maturity date). Interest on bonds is usually paid every six months (semi-annually).

**Cash Equivalents**

These are assets that are cash or can be converted into cash immediately (for example, money market funds).

**Confirmation**

This written notice provided by a brokerage acknowledges completion of a securities transaction. It includes details such as the date of purchase, price, number of shares, commission, fees, and settlement terms.

**Coupon**

The interest rate stated on a bond when it's issued. The coupon rate is typically paid semi-annually. (For example, a \$1,000 bond with a coupon of 7 percent will pay you \$35 every six months).

**Discretion**

Prior formal authorization, frequently referred to as “trading authority,” that permits a financial professional to make transactions in a client's account without having to first get authorization for each trade. You and your financial professional should discuss your overall goals and risk tolerance before you decide whether to grant this authority.

**Distributions**

This term often refers to a corporation's distribution of funds (usually in the form of dividends, interest, and capital gains) as payment of current or past earnings to its shareholders. This term could also mean the dispersal of assets in a brokerage account, as designated by the client (for example, IRA distributions).

**Diversification**

A risk management technique that mixes a wide variety of investment products and asset classes within a portfolio, minimizing the impact of any one under performing security on overall portfolio performance.

## **Equity**

Another word for “stock.” It represents an ownership interest by shareholders in a corporation. In a margin account, equity is the difference between the value of your stock and the amount of money you have borrowed in that account.

## **Estimated Income And Current Yield**

In most cases, estimated income is the amount of dividend and/or interest expected to be received annually. Current yield is the annual interest on a bond divided by the market price.

## **Margin Debt**

The difference between the collateral deposited by the client and the amount borrowed (currently a maximum of 50 percent of the current market value of the securities) represents margin debt. Should the stock decrease in value, the investor must keep the proper maintenance level, either by putting up more money or by selling marginable securities. The use of borrowed money to purchase securities is referred to as “buying on margin.” This strategy dramatically increases both upside potential and downside risk.

## **Mutual Fund**

An investment vehicle that allows investors access to a diversified portfolio of equities, bonds, and/or other securities. A mutual fund offers investors the advantages of diversification and professional management. Shares of open-end mutual funds are issued and can be redeemed as needed. Mutual fund shares are redeemable at net asset value by shareholders. The fund's net asset value (NAV) is determined each day at the markets' close. Each shareholder participates in the gains or losses of the fund. Each mutual fund portfolio is invested to match the objective stated in its prospectus.

## **Options**

A privilege sold by one party to another that offers the option holder the right to buy (call) or sell (put) a security at an agreed-upon price during a certain period of time or on a specific date.

## **Realized And Unrealized Gain/Loss**

The results of securities transactions are usually categorized into either realized gains or losses upon the sale of security. An unrealized gain or loss is the appreciation or depreciation in the value of an unsold security since the time it was originally acquired (informally know as “paper gains or losses”).

## **Reinvestment**

Using dividends, interest, and/or capital gains distributions generated by a mutual fund investment to purchase additional shares, rather than receiving the distributions in cash. With stocks, using dividends to purchase additional shares instead of receiving payments in cash.

## Return

The gain or loss for a security over a particular time period, consisting of income plus capital gains relative to investment, usually quoted as a percentage. The real rate of return is the annual return realized on that investment, adjusted for changes in the price due to inflation.

## Trade Date v. Settlement Date

The trade date is the day a trade is executed. The settlement date is the agreed upon date when payment must be made and/or securities presented. For purchases of securities, the brokerage firm must receive payment no later than three business days after the trade date (T+3).

## Zero-Coupon Bond

A corporate or municipal debt security sold at a deep discount to its face value that does not pay periodic interest. The profit is realized when the bond is redeemed at maturity for its full face value.

## RESOURCES

|  | <b>Web Site</b>                                  | <b>Phone Number</b> |
|--|--|---------------------|
| <b>Investment Company Institute</b><br>1401 H Street, NW<br>Washington, D.C. 20005   | <a href="http://www.ici.org">www.ici.org</a>     | (202) 326-5800      |
| <b>National Association of Securities Dealers Regulation, Inc.</b><br>1801 K Street, NW<br>Washington, D.C. 20006                          | <a href="http://www.nasdr.com">www.nasdr.com</a> | (301) 590-6500      |
| <b>New York Stock Exchange</b><br>11 Wall Street<br>New York, NY 10005   | <a href="http://www.nyse.com">www.nyse.com</a>   | (212) 656-3000      |
| <b>North American Securities Administrators Association</b><br>750 First Street, NE, Suite 1140<br>Washington, D.C. 20002                  | <a href="http://www.nasaa.org">www.nasaa.org</a> | (202) 737-0900      |
| <b>Securities and Exchange Commission</b><br>Office of Investor Education and Assistance<br>450 Fifth Street, NW<br>Washington, D.C. 20549 | <a href="http://www.sec.gov">www.sec.gov</a>     | (202) 942-7040      |
| <b>Securities Industry and Financial Markets Association</b><br>120 Broadway, 35th Floor<br>New York, NY 10271-0080                        | <a href="http://www.sifma.org">www.sifma.org</a> | (212) 608-1500      |
| <b>Securities Investor Protection Corporation</b><br>1667 K Street NW, Suite 1000<br>Washington, D.C. 20006-1620                           | <a href="http://www.sipc.org">www.sipc.org</a>   | (202) 371-8300      |



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