

Six Words to Search in Your Brokerage Agreement

Every person reading this has signed one. Sixty to eighty pages, front to back, and almost nobody has ever read it. You don't have to. You have to find six words.

Your customer agreement is in your account documents, or the firm will email it if you ask. Open it, hit **Ctrl-F** (**Cmd-F** on a Mac), and search each word below. Twenty minutes, once, on the document that governs every dollar you have in the market — and you will have read more of it than ninety-nine percent of the people who own a brokerage account in this country.

1

☐ **arbitration**

NEAR THE FRONT, USUALLY IN CAPITAL LETTERS

You are not going to court. Any real fight with your broker goes to arbitration in FINRA's forum — no jury, far less discovery, an award that is close to unappealable. This is industry-wide and it isn't a scandal. The problem is that almost everyone who agreed to it still thinks they have a courtroom.

YOUR MOVE • Read it once now, so the words aren't new to you on the worst day of your financial life.

2

☐ **hypothecate**

IN THE MARGIN AGREEMENT, IF YOU HAVE ONE

An ugly word for a simple thing: your securities are pledged as collateral, and the firm may pledge them again to somebody else — without notice, and without holding a like amount in reserve. If you've never opened a margin account this may not apply to you. Check anyway.

YOUR MOVE • If you carry no margin and never intend to, ask whether your account can simply be a cash account.

3

☐ **lend**

MARGIN AGREEMENT, AND THE FULLY-PAID LENDING PROGRAM

Your shares can go out the door to short sellers. Many firms run a fully-paid lending program you join with a single checkbox, sometimes for a slice of the revenue. Two things nobody puts in the marketing: while the shares are on loan you generally **don't get the vote**, and your dividend stops being a dividend.

YOUR MOVE • Find out whether you are enrolled. If you are, decide on purpose — not by checkbox.

4

☐ **in lieu**

THE DISTRIBUTIONS SECTION, AND THE LENDING ADDENDUM

The one that costs real money. When your shares are on loan over a record date, the dividend comes back as a **payment in lieu of a dividend** — not qualified dividend income, generally taxed as ordinary income at your full marginal rate. You find out on a 1099-MISC in February, long after you could have done anything about it.

YOUR MOVE • If you own dividend stocks in a taxable account, price this before you enroll in anything.

5

☐ **amend**

NEAR THE BACK, RIGHT BEFORE THE SIGNATURE

"We may amend these terms at any time. Your continued use of the account constitutes acceptance." The fee schedule is folded in by reference, as amended from time to time. Then read the next paragraph — the one saying you can't change a word unless an officer of the firm signs it. They kept a box of crayons. You didn't.

YOUR MOVE • Nothing to negotiate here. Just know the deal you read today isn't necessarily the deal you have next year.

6

☐ **transfer fee**

THE FEE SCHEDULE, USUALLY A SEPARATE DOCUMENT

What it costs to leave, and how long an in-kind transfer actually takes. Full outgoing transfers commonly run around a hundred dollars, partial transfers less, retirement accounts sometimes more, plus a closing fee — and small residual balances may simply be kept.

YOUR MOVE • Write the number down today. Everybody wants to leave on the same day — and that's the day the phones don't work.

Read Any Contract in Twenty Minutes

Same five questions, every contract, every time. You are not reading every word. Nobody reads every word — I charged people for thirty years to read every word and I don't read every word.

And then the only question that matters

How do I get out? Know your exit before you need it. It's the last question in every contract I've ever read and the one that saves people the most money — in a brokerage agreement, a lease, an auto loan, or a job offer.

1 • Does it renew by itself?

Ignore the price. Hunt for the word **automatically**. If it auto-renews, find the escape window and set the alarm in your phone right there at the table, before you stand up. That alarm is the cheapest lawyer you will ever hire.

2 • What does this actually cost?

The number on the front page is marketing. Turn it over and add up every fee, charge and assessment. The gap between the headline number and the all-in number is the entire business model.

3 • What does the exit cost?

If I have to get out early, what's the damage — a penalty, the remaining balance, the deposit? Know the exit route before you walk into the building.

4 • What can they change later?

Look for **we reserve the right to modify**. If they can rewrite it and you can't, you're not signing a deal. You're chasing a moving target.

5 • Does the paper match the promises?

The integration clause quietly deletes everything the salesperson told you out loud. If it isn't on the page, it was a lovely story the two of you shared. Get it in writing.

Tonight, in ninety seconds

Pull up one subscription you're bleeding money on and read only the cancellation paragraph. Just that one. You will learn something you did not know about a thing you are already paying for.

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