

Which Brokers Are Best For Trading Mining Stocks?

For contrarians, gold and silver mining companies were on the radar big time last year, with the miners down an astounding 80% or more from the sector's peak in 2011. For those of the belief that the gold bull was simply taking a breather, the risk/reward ratio for investing in precious metals mining stocks was more than compelling. The situation presented a rare opportunity to buy the miners at literally bargain basement prices. Indeed, price action in the first quarter of 2016 seems to infer that the precious metals complex is resuming its long term bull market.

If you're one of those investors that's chosen to take advantage of this situation by risking some capital in a leveraged play on precious metals vis-a-vis shares of the companies extracting the sought after minerals from the ground, then the next step is choosing a broker to facilitate your purchases. This article endeavors to pass on some tips with regard to selecting the best broker for this somewhat specialized task.

It's not only what to buy, but where to buy it

Over half of all mining companies are listed on Canadian stock exchanges, most often the **Toronto Stock Exchange (TSX)**, which incorporates the **TSX Venture Exchange (TSXV)** for emerging companies. Moreover, a number of the companies traded on these Canadian exchanges have their shares dual listed on US exchanges such as the NYSE, the AMEX, or even OTC (Over-The-Counter). For such mining stocks you can potentially execute a trade on either country's exchange. Should you have a preference? Yes. There are at least three notable differences between trading these stocks on their native exchanges vs. US exchanges, and how you weigh these factors influences your choice of brokers.

- SOME STOCKS TRADE EXCLUSIVELY ON THE TSX
- EXCHANGE RATE RISK
- VOLUME

The first bulleted item is quite straightforward. If you're a non-Canadian and interested in a miner that trades only on the TSX you need a broker that's licensed to execute trades on foreign exchanges.

Trading directly in foreign markets does bring with it the additional variable of exchange rate risk. If the USD:CAD exchange rate varies between the time of purchase and time of sale, the profit (or loss) is amplified or mitigated depending on whether the USD has weakened or strengthened in relation to the CAD. As it happens, during the gold bull in the first decade of this century the Canadian dollar generally appreciated in value to the USD, as did the value of many gold stocks. Canada is the world's largest exporter of minerals so the value of its currency has a correlation to commodity prices. Therefore buying gold stocks denominated in Canadian dollars was a win-win scenario during that period.

Right now with commodity prices beaten down the CAD has tumbled in relation to the USD. It might again be a great time to buy relatively cheap Canadian dollars to purchase your stock list. One might assume that if the price of gold, and presumably mining stocks, rises over time, with other commodities possibly rising in price as well, that the CAD will gain in value relative to the USD. In that case—trading profits aside—the same number of Canadian dollars would buy back more USD than originally invested. Win-win. This of course is a clever little theory that may or may not prove true as the future unfolds. One could certainly construct a parallel theory that has the USD gaining over all other currencies in the coming years. Regardless, exchange rates are a factor for non-Canadians investors trading on the TSX.

Thirdly there is the case for liquidity. The TSX often sees the greater volume of shares traded for a particular stock. Take for example Canadian miner **Pilot Gold**. This stock is listed on the TSX with symbol **PLG.CA** (also expressed as T.PLG or PLG.T or PLG.TO), but also listed on a US exchange as PLGTF. On the day this article was penned there were 400,000 shares of Pilot Gold traded on the TSX, with only 38,000 shares traded on the US exchange. If you were trading a significant number of shares, odds would be that the TSX would have rendered a better price, not to mention reducing the chances of a partial fill. And in times of market turmoil it's certainly wise to have access to the most liquid markets.

Furthermore, the folks at Casey Research –one of the few places I found solid information about investing in Canadian based miners when doing my own research last year– caution against using US exchanges at all for trading TSX listed miners. In their 'Guide to Buying and Selling Canadian Stocks' the investment research firm makes the argument that in purchasing dual listed stocks on a US exchange one is not actually buying the actual share, but rather a *proxy* to the share. The publication goes into the details and is recommended reading (link below). Other industry professionals I've spoken with however downplay any safety concerns with regard to trading on Canadian vs. US exchanges, pointing out that a single company –Depository Trust & Clearing Corporation– frequently acts as the custody agent for all forms of Canadian shares. So, hard to say if it's riskier trading Canadian listed stocks on US exchanges, but the *liquidity* argument about where to trade stands uncontested.

Bottom line, whether an investor is wanting to simply diversify out of the US dollar, speculate on favorable exchange rate movement, or is simply seeking the most liquid markets it seems prudent to work with a firm that is setup to trade on the Canadian TSX. This gives an investor the greatest flexibility in placing trades. In that case let's have a look at which brokers are up to the task.

The Big Four

By my count there are four US brokers licensed to trade on the Canadian stock market: Scottrade, Fidelity Investments, Charles Schwab, and Interactive Brokers. This is with regard to online, self-directed trading. This article will compare and contrast Scottrade and Fidelity, the two firms this writer has the most experience with (see comparison table of all four below).

Still, comparing just two brokers yields some surprising information, not only in how differently trades for Canadian miners are executed, but also how it is to do business with the respective firms on a day-to-day basis. I suppose you could characterize the difference between Scottrade and Fidelity as being akin to the difference between driving an automatic vs. a stick-shift, respectively. In general, Fidelity (as well as Interactive Brokers) gives you more control over how your trades are executed, whereas Scottrade (and Schwab) attempts to handle aspects of your Canadian stock trades behind the scenes.

But first the similarities. Scottrade and Fidelity have comparable commission structures, with an online commission of \$7.00 and \$7.95 respectively per trade on US exchanges. Trading on foreign exchanges incurs an extra charge with both brokers, and the spread between the two widens a bit as they each handle commissions for Canadian stocks differently (see table below).

Both companies are privately held, but in spite of no annual report to mull over, each firm passes the sniff test with regards to their financial condition. Given what happened to brokerage MF Global in 2011 (its CEO John Corzine broke bad and raided client accounts to fund margin calls when the firm's own leveraged bets went south) it seems fair to say that if any broker you are considering doing business with is trying to supplement its income from commissions by playing in the **derivatives market**, then you should hold up the index finger of each hand in the form of a cross and then turn and run away (other finger configurations are possible as well). Both Scottrade and Fidelity appear to be derivative free, and each are members of insurer **SIPC** (the brokerage industry's equivalent to the FDIC).

Now for the differences. Overall, Fidelity edges out Scottrade on several fronts. It appears Fidelity has put that extra .95¢ of commission to good use. To begin with, only Fidelity (as well as Interactive Brokers) guarantees that you can execute a trade on the TSX when trading online. If you place an order from a Fidelity account to buy shares in say, Pilot Gold, placing the order with symbol PLG:CA (Fidelity uses “:CA” to distinguish a Canadian stock), will force the order to be executed on the TSX, with the broker converting USD to CAD on your behalf. Conversely, an order placed with symbol PLGTF is executed on the stock’s US exchange.

With Scottrade, to insure the trade takes place on the TSX you must call in and place the order with a broker (\$32 commission). Scottrade’s online system will allow you to place the trade, but the exchange the order is filled on is determined by an algorithm incorporating price, volume, and volatility on a trade by trade basis (Schwab operates in a similar fashion). In fact, you’ll never know which exchange the order was executed on as the order will always be denominated in US currency in your account (unlike Fidelity you cannot hold funds in a Scottrade account denominated in any currency except US dollars). In this latter case it should be noted that exchange rate risk may still be a factor, it’s simply made opaque by the fact that the sale of the stock may or may not take place on a Canadian exchange. Your account will show the sale in US dollar terms, but there may have been a conversion from CAD to USD at the prevailing exchange rate. All in all, allowing the broker to choose the “best” exchange to buy and sell the stock on is not a bad system per se. It’s just that Fidelity gives you more online control. It’s automatic vs. stick-shift.

Other differences between the two brokers are less apparent. Let’s say you wish to open a second account with the same broker. Say a Roth IRA. With Fidelity the account can be opened online 24/7. Your personal information is automatically copied over to the Roth IRA application so the account can be created and funded in a matter of minutes. With Scottrade you are virtually opening a brand new account and all your information must be typed in from scratch. Furthermore, the process cannot be completed online. You must go to the *Forms Center* link, download and fill out the forms, print them, sign them, and mail or fax them in. A slower, more time consuming process.

Moving Money Around

The ‘filling out a form’ syndrome with Scottrade is pervasive across many activities. Unlike Fidelity, simply moving money between two Scottrade accounts –even if both accounts are in your name– requires a form. Such a policy sticks out like a sore thumb in the point-and-click world we now live in. This is not necessarily a bad thing though, if you consider the risks of identity theft and password stealing computer viruses. The paperwork slows down the bad guys too. Scottrade is clearly a very conservatively run company and such policies are designed to keep the firm and its clients solvent.

Now for a pop quiz: What’s the quickest way to deposit money into your brokerage account? If you haven’t been down this road the answer may surprise you. The quickest way to place money in your account may well be with a **cashier’s check** rather than an electronic transaction. For example, bank-wires are often not transmitted until end of day. And the ubiquitous ACH (Automated Clearing House) system most often used to transfer funds takes four business days. That’s post office speed.

No, a physical cashier’s check handed over at your friendly neighborhood brokerage office might get the funds into your account the fastest. If you think you will ever have the need for such speed –like wanting to add funds and trade those funds the same day– you may wish to check if the broker you are considering has a nearby office.

Mobile Access

Both brokers have a mobile app, but if you’re an Android user be cautioned that the Scottrade app only

runs on Android **4.1** or higher. Some Android smart phones still come with 4.0 and the app won't run on that operating system. It's rather a pain to upgrade the OS on an Android device so if you use this platform and wish to be able to check on your investments, make trades, and perform remote deposits on the go, it's best to insure that the app from whatever broker you're considering runs on your devices. Fidelity requires Android 4.0 or better. For Apple, the app for both brokers requires iOS 8.0 or better.

Comparing Websites

Fidelity and Scottrade share one thing equally; a sometimes confusing website that can be a bit tricky to navigate. The path to common functions such as adding a stock to your watch list, accessing your watch list, checking open orders, etc., is sometimes relative to the page you're currently on, and can be a variable number of clicks away. It would seem preferable to have a side bar of user defined favorite links that are always visible. Short of that you're relegated to memorizing the maze to reach certain destinations.

In terms of account integration –easily accessing your individual account, your IRA, your cash account, etc.- Fidelity wins here with a single sign-in to gain access to all accounts. When you login you are given an aggregate of total dollar amounts and you can drill down to a specific account for more details. When placing a trade there is a pull-down menu to choose which account the trade is credited to. In other words it works the way you'd expect. Scottrade is weak here. Integrating accounts is clearly an afterthought. After filling out the form to link your accounts, the only indication that there is access to more than one account is a tiny pull-down in the upper left of the screen. You have to access the appropriate account *first*, and then place the trade. For certain functions –like transferring money– you must actually login separately to the account you want to work with. But for maximum security you *can* keep your Scottrade accounts completely separate, with unique login credentials for each account.

Real-time Quotes

One place where Scottrade really shines online is with streaming real-time quotes. Fidelity offers free real-time quotes and charting, of course, but just for one stock at a time. Fidelity has a streaming quotes platform but you only get access to it once Fidelity is convinced you will be placing 36 or more trades per year. Scottrade on the other hand allows access to a full blown java based streaming quotes platform from day one. It is a separate window that allows charting and tracking multiple issues at a glance. This application rocks.



From the streaming quotes screen you can quickly place orders, and unlike Scottrade's web interface, this platform allows you to choose from any of your accounts as you build the order. If you're used to a trading platform such as TradeStation (which does **not** allow trading foreign stocks), you probably want streaming quotes from the get-go, so you will almost certainly prefer trading with Scottrade over Fidelity. (Hint: It doesn't cost extra to have two brokers).

Free Checking

Finally it should be noted that both Scottrade and Fidelity have banking services. They each offer free checking accounts... key word here being *free*. No-cost checking is something you don't find on every street corner these days. This can be a great convenience as well, bypassing some of the aforementioned money management scenarios. If this is an important service to you be sure to include banking services on your checklist when comparing brokers.

Summary

Most any broker allows trading in Canadian securities if the company is dual listed on a US exchange, but you will be denied access to the liquidity of the TSX. Brokers licensed to access Canadian markets, either by allowing you to execute directly on the TSX, or by the broker executing on your behalf to the most liquid market at the time, are listed in the below table.

One last thing: Scottrade, Interactive Brokers, and Schwab allow trading on the TSX from a retirement account. Fidelity does not. Only Canadian stocks listed with a US symbol can be traded from a Fidelity retirement account (yes, this is surprising!). If you need guaranteed online TSX execution for an IRA or Roth IRA you should look into an Interactive Brokers account.

Now you are hopefully armed with a few of the key questions that need answering before you choose a broker for trading the miners. Happy trading.

US Based Online Brokers Licensed to Trade Canadian Exchanges

Broker	Execute online trade on TSX?	Trade on TSX from a retirement account?	Settle in either USD or CAD when liquidating a TSX position?	Commission
Fidelity fidelity.com	YES	NO	YES	\$7.95 ¹
Scottrade scottrade.com	Only with broker assistance ²	YES	NO. All trades settle in USD	\$7.00 ¹
Interactive Brokers interactivebrokers.com	YES	YES	Settles in the same currency used to make purchase. Can be converted after trade settles	½ cent per share, with 0.5% maximum
Schwab schwab.com	Only with broker assistance ²	YES	NO. All trades settle in USD ³	\$8.95 ¹

¹ Price is for a trade executed on a US exchange. For online trades executed on the TSX, Fidelity charges a flat \$19 commission. Scottrade charges a \$32 commission for a TSX broker assisted trade. Scottrade also charges 0.5% of the order amount for any stock trading under \$1 regardless of online or broker assisted. Schwab charges \$8.95 online fee, \$33.95 broker assisted, plus all trades incur a 1 cent per share fee for all Canadian stocks regardless of exchange or whether placed online or broker assisted.

² Online trades made without broker intervention may execute on either Canadian or US exchanges based upon

price, volume, and volatility.

3 Schwab offers a *Global* account which allows trades to settle in CAD. Also has some limitations. See Schwab for more.

2013 Casey Research post on best brokers for trading Canadian stocks

<https://www.caseyresearch.com/brokers-new>

https://www.caseyresearch.com/pdfs/20080103_0801_ABCs_of_Canadian_Stock_Investing.pdf

Note: The primary article lists several Canadian based brokers. Non-Canadian residents cannot open an account with these brokers.

Full service brokers licensed to trade Canadian markets

sprottglobal.com

raymondjames.com