

WHAT IS A FINANCIAL CUSTODIAN?

A financial custodian is a financial institution or professional firm that safeguards and holds financial assets (such as stocks and bonds) for clients, such as individuals, families, or institutional investors. Custodians can be banks, brokerage firms, trust companies, investment management firms, and specialty custodians.



However, a practical way to think of the Custodian is to consider them a “Vault” that holds investments, and anyone using a vault will want to be sure it is strong, impenetrable, and reliable.

WHICH ARE THE BEST CUSTODIANS FOR INDIVIDUALS?

While there are hundreds of Custodians, Fidelity, Schwab, and Vanguard are among the largest firms serving individual investors and managing retirement plans. They hold TRILLIONS of dollars worth of investments for MILLIONS of individuals.

	Fidelity	Schwab	Vanguard
Established	1946	1971	1975
Corporate Headquarters	Boston, MA	Westlake, Texas	Valley Forge PA
Founder	Edward Johnson	Charles Schwab	John Bogle
Investor Centers (branches)	215	380	About 5 regional offices – but almost all investor contact is done online or by phone
Clients	50 million individual investors, plus 40.9 million corporate retirement account participants,	34.8 million active brokerage accounts 1.8 million banking clients, and 5.2 million corporate retirement acct participants	50 million investors
Assets Under Management	4.4 trillion dollars As of sept 2023	7.38 trillion dollars As of February 2023 (after acquiring TD bank)	7.7 trillion dollars As of April 2023,
Website to open an account	www.fidelity.com	www.schwab.com	www.vanguard.com
Customer Service Phone	1-800-343-3548	1-800-435-4000	877-662-7447

WHAT FACTOR TO CONSIDER WHEN CHOOSING A CUSTODIAN

Trustworthiness – while nothing in life is guaranteed, sticking with the largest firms is wise.

Customer Service – is key; you need to reach a human being at the firm easily and feel that your questions are patiently answered by their customer service center no matter how many times you call. You should also be able to set up an account online and transfer funds electronically between your local bank and the custodian. Schwab is known for superior customer service, and Fidelity is also excellent.

Branches – some people like walking into a brick-and-mortar store and getting help. If that is the case, it is worthwhile to investigate if the Custodian has a convenient branch nearby with people who can help.

Technology - Statements and Apps – accessing your account online and through an app is essential nowadays. The large firms all have apps – some better than others. Also, the clarity of the statements and the ability to see your gains and losses is important. Getting your tax reporting information and accessing historical information through the web is very helpful. All the large firms provide these services. Unfortunately, the only way to determine if you like how the Custodian provides these services is to open an account and get experience.

Cost – when you contact a Custodian to open an account, they will ask what type of account you want to set up – there are two choices.

- **A Managed Account –** whereby you have an Investment Advisor who will guide you on what to purchase. For this service, they typically charge an “asset under management” fee ranging from .25% to 1.5% annually. This fee is charged EVERY YEAR based on the value of your investments, REGARDLESS of whether you are trading or not. Asset Under Management fees significantly eat away at earnings.
- **A Self-Directed Account –** whereby you make your own choices of what to buy and sell. In this case, you do not pay maintenance fees, but if you purchase investments, you may be charged a fee. For example – if your Custodian is Schwab, and you purchase a fund in the Schwab family, there will not be a fee, but if you purchase a Vanguard fund, there may be a fee. If you are a buy-and-hold investor, the fees are nominal because you are NOT trading actively.

**It is STRONGLY recommended that you open a self-directed account.
AVOID Managed Accounts.**

MONEY 101 EDUCATION

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ARE CUSTODIANS INSURED?

Custodians carry SIPC Insurance (Securities Investor Protection Corporation) to protect customers if the Custodian financially fails. SIPC insurance protects up to \$500,000 per account, including up to \$250,000 for cash. However, the primary risk in investing is NOT that the Custodian will financially fail, but that the investments within the account will decrease in value. No insurance is provided if a client's investments (stocks and bonds) decrease in value.

However – Custodians offer a range of cash products such as Certificate of Deposits (CD). If a client purchases a CD issued by an FDIC-insured bank through the Custodian, then the CD is insured by the issuing bank.

For those concerned with maintaining FDIC insurance and having the simplicity of working with one custodian, purchasing CDs through the custodian is a great way to have the best of both worlds.

IS IT GOOD TO HAVE MULTIPLE CUSTODIANS?

Some people mistakenly believe that having multiple custodians will add protection. Frankly, investment risk is in what you buy and put in your account, not who holds it. (provided you are going with one of the larger, well-known Custodians)

It is strongly recommended that you select one custodian and keep all your accounts with them. Then, you can see the total value of all your investments in one place. Keeping financial records keeping simple – is an important step in building wealth.

CAN AN INDIVIDUAL HAVE MULTIPLE ACCOUNTS WITH ONE CUSTODIAN?

Yes, most people have non-retirement and retirement accounts with the same Custodian. Below are some typical accounts an individual might have:

- Taxable (regular) Investment Account
 - Retirement – Traditional IRA Account
 - Retirement – ROTH IRA Account
- And sometimes*
- Inherited – Traditional IRA Account
 - Inherited – ROTH IRA Account
 - 529 Plan Account(s) – Educational Savings Plan (one for each beneficiary)