

Quadrant II – Notes

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Meaning of Stock Broking

A stockbroker is a middleman who has the authority to buy and sell stocks and securities in a stock exchange on the investor's behalf

Stocks are traded through exchanges. However, an investor cannot directly trade in stock exchanges. To buy a stock or sell a stock through exchanges, you need an intermediary who will help you with the transaction. This middleman can be a person or a company who is authorised to buy and sell stocks and other securities on your behalf. Such a person or a company is known as a stockbroker. Stockbrokers are generally associated with a stockbroking firm, but they can also be independent people. For providing this service, a stockbroker charges a commission or a fee.

When understanding stockbroker meaning, one should note that a stockbroker is performing a service for the investor. The role of a broker is to buy and sell shares for a client. Stockbrokers also play another vital role; they provide information that helps an investor make correct investment decisions.

Services provided by Stock Broker

1. Services a stockbroker traditionally provides to its clients in greater detail.

2. Stockbrokers give accurate advice on buying and selling stocks and other securities. Since they know the markets, they can advise a client on what stocks to buy and sell and when to buy or sell them. They thoroughly research securities before making such recommendations
3. Stockbrokers buy and sell shares on behalf of their clients and handle the associated paperwork. They also act as a record keeper and keep records of all transactions, statements and so on
4. Stockbrokers manage the client's investment portfolio and provide regular updates to their clients about their portfolios. They also answer investment questions that a client may have
5. Stockbrokers inform their clients about any new investment opportunity in the stock market
6. Stockbroker also helps a client to make changes in investment strategies depending on the market conditions

How are they regulated?

Stockbrokers are governed under the Securities and Exchange Board of India Act 1992, Securities Contract Regulations Act, 1956, and also the Securities and Exchange Board of India (Stockbrokers and sub-brokers Regulations), 1992. Stockbrokers are also regulated under other rules, regulations and bylaws that SEBI may issue from time to time.

Every stockbroker in India needs to be a member of stock exchanges and is also required to be registered with SEBI. Stockbrokers display their registration details on their websites and even on official documents. One can also visit the Sebi website and find details of registered stockbrokers.

Types of stock brokers

Based on the types of services provided, there are three types of stockbrokers, full-service stockbroker, discount stockbrokers and ROBO broker

1. **Full-service stockbrokers:** Full-service stockbrokers offer a full stack of services to their clients. They are traditional brokers who provide a trading facility coupled with advisory services. For this reason, the fees charged by full-service stockbrokers are high, and the brokerage they charge is based on the total amount of trades that are executed by the client. Full-service brokerages are established players who have branches located all over the country. Clients can visit these branches for service and advice.
2. **Discount stockbrokers:** Discount stockbrokers have come into existence due to the increased use and availability of the Internet. These brokers provide an online trading platform for their clients. However, discount brokers do not offer advisory services and research facilities. For this reason, discount brokers also charge fewer commissions, which is a mostly flat fee.

3. Robo-advisers

Robo-advisers are automated digital platforms that provide financial planning services online. They use algorithms to come up with financial advice and require very little human supervision. How do they work? The client completes an online survey to provide information about their financial situation and goals. The robot adviser uses this data to offer investment advice.

Robo-advisers tend to be cheaper than even discount brokers. Many charge an annual flat fee of 0.2% to 0.5% of a client's total account balance. The opening balances are very low as well. Besides, you can reach the Robo-adviser at any time through an internet-connected device. There's no need to go to their office. You can start transacting in just a few clicks.

All brokerages now provide services online where a customer can log in with a username and password and execute trades. Online stockbroking services are faster since transactions can be done with the help of the Internet, and the broker can also connect with the client through chat rooms, and emails and provide real-time updates.

When knowing what is a stockbroker, it is also essential to understand the meaning of a sub-broker. A sub-broker is a person or agent who is appointed by brokers to act on their behalf. A sub-broker is not a member of the stock exchange. Sub-brokers need to register with SEBI without which they do not have permission to deal in securities.

Services offered by Stock Broker

Depending on the type of brokerage firm you choose, expectations will vary. So, let's focus on the points of difference:

Tailored service:

- Full-service brokers are the most customer-oriented. They provide research-based market insights and alerts, financial advisory, and portfolio management services.
- Discount brokers focus more on the transactional experience.
- Robo-advisers provide investment advice using an automated algorithm.

Presence:

- Full-service brokers have an online presence, along with several physical offices that make face-to-face interactions possible.
- Discount brokers have only a few physical offices. They operate mainly through online platforms or the telephone.
- Robo-advisers are an online-only option.

Asset classes:

- Full-service brokers permit trades in multiple asset classes. These include mutual funds, stocks, bonds, IPOs, derivatives, and more.
- Discount brokers allow only stock and mutual fund investment.
- Robo-advisers mainly deal in mutual funds.

Charges:

- Full-service brokers usually charge brokerage fees of 0.3–0.5% per trade.
- Some discount brokers charge as little as Rs 10 per trade, regardless of the transaction value.
- Robo-advisers can be the most cost-effective option. The annual charges range from 0.2% to 0.5% of a client's account balance.

To learn more about Stock Broking

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<https://www.indiaonline.com/business-partners/how-to-start-a-brokerage-firm-in-india>