



Knowing Your Limits

September 2008

Understanding Portfolio insurance

As recent as 12 months ago, we would have never considered writing a newsletter on brokerage account insurance coverage – it just didn't seem pertinent. But obviously the housing meltdown has infected financial institutions' balance sheets to the point where the solvency is questioned. Understandably, investors with bank/brokerage retirement and non-retirement accounts are concerned. That being said, we have great confidence in TD Ameritrade, the custodian of clients' assets. TD's balance sheet is strong and their business is thriving.

Let's review the account coverage and the actual insurance agencies.

- **Federal Deposit Insurance Corporation (FDIC).** An independent agency of the federal government, the FDIC was created in 1933 in response to the thousands of bank failures that occurred in the 1920s and early 1930s. Since the start of FDIC insurance on January 1, 1934, no depositor has lost a single cent of insured funds as a result of a failure.ⁱ
- **Securities Investor Protection Corporation (SIPC).** When a brokerage firm is closed due to bankruptcy or other financial difficulties and customer assets are missing, SIPC steps in as quickly as possible and, within certain limits, works to return customers' cash, stock and other securities. Without SIPC, investors at financially troubled brokerage firms might lose their securities or money forever or wait for years while their assets are tied up in court. Although not every investor is protected by SIPC, no fewer than 99 percent of persons who are eligible get their investments back from SIPC.ⁱⁱ

Here's an overview of actual coverage at TD Ameritrade.

- FDIC coverage up to \$100k for non-IRA accounts; \$250k for IRA's not covered by SIPC. Note that this coverage exists per account and is not limited per customer. So a customer with different account titles/beneficiaries would qualify for this expanded coverage.
- TD Ameritrade USA Money Market Mutual Funds Covered by SIPC (\$500k per account title, \$100k of which can be applied to cash. For example, if a client has two individual accounts with the same title and social security#, he/she would only get \$500k coverage for both accounts combined.) Excess SIPC insurance through London insurers of \$149.5 million per customer, including \$900k in cash, up to an aggregate of \$250 million for the whole firm.
- While it seems excessive that TD would offer \$149.5 million of excess insurance per customer for a firm total of \$250 million, you have to understand that almost all mutual funds, stocks, ETF's, etc. do not belong to TD Ameritrade and are not, in reality, actually held here but with the fund companies. So if TD Ameritrade were to go bankrupt, pretty much all of a customer's securities, minus the TD money markets, would not go down with us and the client would still own them. So really, what we're left with are the TD money markets that need to be insured. Another important point is that money markets are not cash. They count as securities and do not fall under the \$100k SIPC and \$900k excess SIPC insurance coverage but are part of the larger amounts covered.

In reality, given the ample SIPC coverage, your assets are safe at TD Ameritrade or any other SIPC member. With respect to banks, the much lower limit FDIC limits are in effect. Pay close attention to the bank's financial health and watch out for 'teaser' CD and checking account rates – a red flag suggesting the bank is in desperate need of capital.

Obviously we have encountered a tenuous financial era. While we don't profess to know how long the credit-unwind will take, we certainly advocate safe keeping your financial assets. If you would like further insurance clarity, please do not hesitate to call.

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ⁱ [FDIC](#)
ⁱⁱ [SIPC](#)