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Home / Finance / Personal Finance / Financial stability, ethics: Key factors to consider in choosing a broker

## Financial stability, ethics: Key factors to consider in choosing a broker

Traders must look for a platform that is robust and cost effective



Several New Investors Enter The Stock Markets Every Month. (Photo: Bloomberg)

Sanjay Kumar Singh | Karthik Jerome | New Delhi

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Groww, the wealth management platform, recently became the largest stockbroker in India in terms of active clients, sailing past Zerodha. Groww had 6.62 million active clients in September 2023 while Zerodha had 6.4 million, according to data from the National Stock Exchange.

Several new investors enter the stock markets every month. As many as 3 million accounts were opened in September alone. How should these new investors select a stock broker in these times when the pecking order among the country’s leading brokers is changing?

Experts say investors should avoid brokers who are very small, but size should not be their primary criterion. Says Mohit Mehra, vice president for primary markets and payments at Zerodha: “Sometimes, the bigger you get the more difficult it becomes to manage things. In the case of certain brokers, the quality of customer support has been known to dip as they grew, with customers finding it difficult to reach someone when they ran into problems.”

### Key filters

**Financial stability:** Select a broker who is financially stable. “As with any entity handling your funds or assets, you would want your stockbroker to have an adequate net worth. Regulators and exchanges ensure this by setting a minimum net worth requirement. However, a larger net worth can indicate a more financially stable stockbroking entity,” says Singhania.

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Jatin Khemani, managing partner and chief investment officer, Stalwart Investment Advisors LLP, a Sebi-registered portfolio management services firm in Delhi, also underlines the importance of financials. “The stockbroking entity should have a good

balance sheet to support the scale of operations. It should also have proper risk management in terms of margins, etc so that it doesn't go bankrupt during extreme market movements.”

**Clean record:** Experts emphasise the importance of going with a broker that pays a lot of attention to complying with regulations and follows ethical business practices. Says Tejas Khoday, co-founder and CEO of FYERS, a trading and investing platform: “The broker must have a strong track record of having navigated various market cycles in an ethical and transparent manner.”

**Customer support:** Positional traders might be okay with a do-it-yourself model, where, if there is an issue they raise a ticket and the broker gets back to them after a few hours. However, professional traders need immediate support. Says Shrey Jain, founder and CEO of SAS Online: “If they face issues like order rejection, need some segment to be activated, or have queries regarding certain risk management policies it would need immediate attention.”

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Khoday emphasises that besides customer support being timely, the personnel should be knowledgeable.

**Quality of platform:** The platform should be safe, secure and easy to navigate. It must be robust. Says Khoday: “It should have served enough customers so that one can be sure it is stable and scalable. He warns against going for a broker whose platform lacks robustness. “A trader could land in all sorts of trouble. You could even lose your entire capital in a single day,” he says.

Singhania too emphasises that traders often bet on very thin margins, so a lack of platform stability can cost them dearly.

### What should traders look for?

Professional traders have unique requirements. They usually place a large number of trades each day. “Positional traders place a maximum of 10–20 orders per day. They may be comfortable trading via an app or a web platform. But professional traders need downloadable exe versions, which are more stable, and offer the option to use keyboard shortcuts,” says Jain. Some brokers may not offer them.

Traders also have specific requirements with respect to, say, risk management practices. Says Jain: “Certain scrips, such as out-of-the-money options, which they use to hedge their positions, should be available for trading. Not all brokers may offer them.”

Singhania adds that a trader who relies on technical analysis may prefer a platform that offers those tools.

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An algo trader would want a broker that provides an application programming interface (API) into which they can easily plug in their algos. Says Rajesh Ganesh, founder and CEO of Tripleint.com: “The speed at which requests are executed is a key consideration. Also, the API needs to be operational throughout market hours. Any downtime during an active trade can be problematic.”

Some traders may also want to go with brokers that provide funding for margin trading or allow pledging of stocks and mutual funds to get margins.

### What should buy-and-hold investors look for?

Young Indians prefer to do investment research themselves. “They would prefer a tech-focused broker that offers sufficient data to help them conduct the research themselves,” says Khoday.

It may be fairly difficult for retail investors to get a sense of the risk management practices and the stability of the broker. Says Khemani: “One sensible shortcut is to stick to brokers backed by large private-sector banks. They do charge a higher brokerage. But since long-term investors engage in fairly limited churning, paying a few basis points extra brokerage doesn't make a lot of difference for ensuring the safety of holdings.”

He adds that when operating with a smaller broker, avoid giving power of attorney (PoA) and authorise each debit by the broker directly via NSDL (OTP-based).

Experts say pricing is not as important a criterion in broker selection as it was a decade or so earlier. Says Khoday: “Pricing is more or less standardised today at Rs 20 per order.”

Nonetheless, slight nuances exist that can lead to substantial cost differences over time. There is per-order pricing and there are unlimited plans where the customer pays a fixed subscription fee (say, Rs. 999) and can do an unlimited amount of trading in a month.

Pricing matters especially to traders who play on thin margins. If their cost per transaction goes down, they can earn better returns.

Says Jain: “The monthly, fixed brokerage plan is better suited for professional traders who engage in a very large number of trades.”

While cost is important, it should not come at the expense of features and characteristics that are important.

### Red flags

Be wary of brokers who promote unsuitable investment products. Says Mehra: “If a broker recommends penny stocks, or option buying to a novice investor, those are clear red flags.”

Some brokers generate a lot of alerts or send numerous stock ideas to push customers to trade more (to earn more brokerage). Says Jain: “Be mindful of such attempts and avoid overtrading.”

Steer clear of brokers who are excessively aggressive, engage in dodgy business practices, or look to circumvent the Securities and Exchange Board of India (Sebi) rules and regulations.

Before finalising a broker, check out app reviews and posts on social media. Says Jain: “Nowadays, one can learn about all the issues pertaining to a broker—instability of the trading software, frequent downtimes, delayed payouts (meaning broker may be in a difficult financial position)—by going through reviews.”

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Singhania urges customers to look up the number of complaints on NSE’s website as it can help them cull poor-quality brokers from the list of probables.

Finally, every trader should have at least two trading and demat accounts. Says Khoday: “If you have one account and it faces issues, you would incur losses. But if you have two, and there is an issue with the first, you have the option to offset your losses by hedging in the second account.”



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