INVESTOR'S EDGE

TD Ameritrade sale shouldn't affect clients very much

Investors should wait before buying Schwab stock

"When's the best time to invest? It's today, not tomorrow." — Charles Schwab

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Without a doubt, 2019 was a superb year for the stock market. As I write this in late December, the S&P 500 Index will likely end the year up over 30%, its best showing in six years. In fact, as a result of accommodative central bank policies around the globe, every major asset class — including ultra-safe treasury bonds — were up 10% or more for the full year.

Great stuff!

2019 was also a major year in the markets for other reasons. Dozens of so-called "tech unicorns" made their IPO debuts including Uber, Lyft, Peloton, Beyond Meat, Pinterest, and others. Indeed, in April I recommended investors pass on the equity ride offered by Lyft and Uber. I sure hope you did, as both stocks are down more than 25% since my article.

For many readers of this column, 2019 was also an important year for their brokerage accounts. In October, discount brokerage firms like Charles Schwab, E-Trade, and Fidelity went to commission-free online equity trades. Just weeks later, the two largest discount brokerage firms, Charles Schwab and TD Ameritrade, announced they would be merging. Charles Schwab would buy TD Ameritrade in a $26 billion all-stock deal, creating a discount brokerage behemoth with more than $5 trillion in total client assets.

As many local investors have accounts at either TD Ameritrade or Charles Schwab, have already gotten questions from both clients and readers who custody at TD Ameritrade and wonder what changes they might experience once the Schwab takeover is complete. While we don't know many of the merger details yet, my best guess is that those currently at TD Ameritrade will experience some minor changes that might include adjusting to Schwab's technology and online platform, a different look to your monthly statement, and some Schwab paperwork. I think these are changes that most local investors at TD Ameritrade should have no problem adapting to.

In a merger of two companies this size, the post-merger company will often retain features from both. For example, TD Ameritrade has historically had the largest variety of online trading tools and a higher rated trading platform itself. Schwab, on the other hand, has a reputation of offering its customers better research options and better customer phone service. So the "new" Charles Schwab should offer something everyone will like and cement its position as the leader in the discount brokerage space.

The TD-Schwab merger should be completed sometime in the second half of 2020. In my view, the consolidation should only improve the overall experience and service for current clients of both Schwab and TD Ameritrade.

Now, what is my view on actually buying Charles Schwab common stock? Currently Schwab (ticker symbol: SCHW) stock trades just under $50 per share and pays a 1.5% dividend yield. While investors might be excited to buy into the now combined discount brokerage giant, I would use caution for now. There are still many details of the merger to be released, and there is the real possibility of a regulatory challenge by the Justice Department. I would like to know exactly how the new Charles Schwab will be run differently from today, and most importantly, how it will raise its earnings and dividends going forward. To me, those questions have not been fully answered yet.

So keep the brokerage firm, but I would hold off on buying the stock.

To close, a few readers have emailed me asking for my outlook for 2020. Well, it will be the fourth year in the presidential election cycle, which is historically one of the best for stocks, averaging a return of just over 7%. So to keep it simple, that is my sophisticated forecast: 7% or so in 2020.

One thing is for sure — 2020 is an election year that will be chalk full of campaign promises and media headlines, which will likely lead to heightened market volatility.

In 2016, the consensus on Wall Street was A) Hillary Clinton would win and B) in the unlikely scenario that Trump won, markets would immediately correct 15-20%.

Well, Trump won, and markets are now up approximately 50% since election night.

In fact, if there is anything the last four years have taught us, it is that American business is a juggernaut that will keep moving forward regardless of who is in office and what the political headlines are.

So in 2020, stay invested with my recommendations, and don't psyche yourself out.

Happy New Year!

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