OAKLAND BUSINESS & Finance

Securities now must be paid 3 days after trade

MORE THAN MONEY

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T+3 is not quite as bad as T+0. And some day when we have a cashless society, that, too, would become a reality. But why all this ballyhoo about T+3? Because recently, with relatively little fanfare, the government changed the way we may conduct our securities business.

Starting June 7, the SEC requires that you pay for securities three days after a trade instead of five. The rule applies to all stocks, corporate and municipal bonds, and mutual funds *(see accompanying table)*.

At first, it appears to be an insignificant change, but that is not the case. From now on, when you purchase a security, you will have to deliver the checks in person, send them via overnight delivery service, pay by electronic transfer from your bank, or keep more cash on hand with your broker.

According to the SEC, the reason for introducing T+3 is to make the markets more efficient and less volatile. The idea is to reduce the number of open transactions at any one time, hence increasing the liquidity of the markets. It also means that the sellers of securities will receive sale proceeds two days sooner.

That may be so, but if you are an investor, a shorter settlement deadline may be problematic for several reasons. First, you can no longer use your confirmation slips as payment notices. In fact, you have to send the payment on the day the trade is executed. If you don't, you can face fees for late payment or risk losing the trade and being held liable for any losses in the security or fund when the broker liquidates your investment.

■ **The rule applies to all stocks, corporate and municipal bonds, and mutual funds. At first, it appears to be an insignificant change, but that is not the case.**

Second, if you keep your stock or bond certificate in a safe deposit box, you may need additional time to consummate a sale, and with T+3 that choice no longer exists. Of course, you can solve that problem by holding your stocks or bonds in the street name, but that is not without cost. If you hold your stocks, you can participate at no cost in dividend reinvestment plans (DRIPS). If you hold your securities in the street name, however, you are likely to be charged fees to take part in DRIPS.

Third, if you are a frequent trader, T+3 may force you to use a bank trust department as the center of your brokerage activities. However, no trust department is likely to accept an account of less than $250,000.

Fourth, T+3 will make more money captive to brokerage money-market funds and asset management accounts, where it is easily accessible to cover trades. Asset management accounts typically offer a choice of competitive money-market funds to capture stock dividends and sale proceeds and to hold cash for future purchases. However, at full-service brokerages, asset-manage accounts generally require a $10,000-$20,000 minimum and cost $75 to $100 a year.

Whether you like to or not, T+3 is here to stay. So how should you handle this change? Although much depends upon your personal preferences and individual situations, here are some pointers to help you smooth out the transition problems.

■ Unless you have strong reasons to do otherwise, you would be well advised to hold your stock and bonds certificates in the "street name." This may cost some money if you wish to take advantage of DRIPS, unless you find brokers like Charles Schwab who offer free DRIPS services.

■ Open a money market account at your brokerage for quick cash transfers. As long as you have money in your account, T+3 should never pose a problem for you. Anytime you purchase a security through your brokerage firm, an appropriate amount of cash would be automatically swept out of your account on the third day of the trade.

■ If you have a brokerage account of at least $20,000, open an asset management account. Stock dividends and sale proceeds will automatically be swept into your choice of competitive money-market funds. This will provide the broker additional cash with which to buy securities in the future.

■ If you need additional information, write to the U.S. Securities and Exchange Commission, Office of Consumer Affairs, 450 Fifth Street, North West, Washington DC 20549, or call (800) 732-0330.

Sid Mittra is professor of finance, Oakland University, Rochester Hills, and owner, Mittra & Associates, a Troy financial consulting firm. Oakland University Professor Jerrold Grossman critically reviewed this column.

T+3

A GUIDE TO THE NEW RULES

STOCK AND BOND PURCHASES must be paid for within three days rather than five.

INVESTORS SELLING SECURITIES must deliver the certificates to their broker within three days or place the securities in the brokerage firm's name rather than in their name.

DIVIDENDS AND INTEREST are automatically swept into investor's brokerage account when securities are held in "street name."

INVESTORS WILL RECEIVE information about new stock and bond issues more quickly in prospectuses.

BUSINESS MILESTONES

This column highlights promotions, transfers, hirings and other key personnel moves within the Farmington-area business community. Send a brief biographical summary — including the towns of residency and employment and a black-and-white photo, if desired — to: Business Editor, Farmington Observer, 33411 Grand River, Farmington, Mich. 48335. The Observer's fax number is (810) 477-9722.

Lori Haris

Lori Haris, a Warren resident, has passed the Certified Public Accounting exam. She is a 1993 graduate of Walsh College and is employed by Corporate Accounting Services, a Farmington Hills CPA firm owned by Bruce Berndt, CPA.

Rab Durfee, a Southfield resident, was named manager of the Computer Renaissance Store in Farmington Hills, which offers used and new computers. He was a sales associate at Electronics Boutique, a retail outlet for software in Ann Arbor. A native of Cadillac, Mich., Durfee is a graduate of Western Michigan University where he earned a bachelor of science degree in computer science.

Michael F. Orsini of Farmington Hills was promoted to senior manager by Price Waterhouse.

James W. Sturtz

James W. Sturtz of Farmington Hills was promoted to vice president by Compass Group Ltd., a management consulting and retained executive search firm based in Birmingham. Prior to joining Compass Group in 1993, he was employed by General Motors Corp. in a variety of human resource activities. He is a graduate of Kent State University with bachelor and master of arts degrees.

Robert B. Gay of Farmington Hills was appointed manager of operations planning by Chrysler Financial Corp. In this position, Gay is responsible for the development and implementation of finance plans, operations methods, procedures and written instruction for field and staff operations, and the review of government examinations, new legislation and branch audits to assure compliance with regulations and company policy. He is also responsible for the Lock Box Control and Procedures Control activities. Gay joined Chrysler Credit as an administrative trainee in 1978 and has held increasingly responsible positions. He received his B.S. degree in business administration from Ferris State University.

Fred Fernandez of Farmington Hills succeeds George Benian in the position of president and chief executive officer of Venus Cleaners.

Ken Marcy of Farmington Hills was named director of strategic planning at Preferred Provider Organization of Michigan (PPOM). He will oversee new business development. His responsibilities include broadening PPOM's product line and entering new territories. Marcy, who holds degrees from the University of Michigan and Indiana University, joins PPOM after working for Johnson & Johnson Inc.

Mark J. Rogers, senior vice president and financial consultant for the Retirement Management Group of Smith Barney's Farmington Hills office, has been named Michigan spokesman for the Denver-based Investment Management Consultants Association. In this role, he will help educate Michigan consumers about savings, investments and preparing for retirement.