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Vanguard Fires Broadside at ETF Industry

On Thursday, June 24, in a move which will send a shockwave throughout the ETF industry, Vanguard announced its plan to expand its ETF lineup with 20 new offerings, 19 of which will be tied to institutional index funds. The firm says it plans to unveil the new funds over the coming year, with the first likely showing up sometime this fall.

Of the 20 ETFs, 16 will track major market indexes offered by Standard & Poor's and Russell (see below for a full list), including long-delayed ETF shares of Vanguard's flagship 500 Index, tracking the S&P 500 (the firm initially tried to release an ETF version of the fund earlier this decade, but was blocked by a lawsuit). Three of the ETFs will be based on a series of S&P municipal bond indexes, and the last, Global ex-U.S. Real Estate plies the international real estate sector, and will also be the only of the new funds to concurrently introduce an investor share class.

ETFs Galore

Fund	Expense Ratio
S&P 500	0.06%
S&P 500 Growth	0.15%
S&P 500 Value	0.15%
S&P Mid-Cap 400	0.15%
S&P Mid-Cap 400 Growth	0.20%
S&P Mid-Cap 400 Value	0.20%
S&P Small-Cap 600	0.15%
S&P Small-Cap 600 Growth	0.20%
S&P Small-Cap 600 Value	0.20%
Russell 1000	0.12%
Russell 1000 Growth	0.15%
Russell 1000 Value	0.15%
Russell 2000	0.15%
Russell 2000 Growth	0.20%
Russell 2000 Value	0.20%
Russell 3000	0.15%
Short-Term Municipal Bond	0.12%
Intermediate-Term Municipal Bond	0.12%
Long-Term Municipal Bond	0.12%
Global ex-U.S. Real Estate	0.35%

Source: The Vanguard Group

This is just the latest, and perhaps most threatening, move that Vanguard has made in the so-called "ETF Wars," which we covered in the May 14 *Adviser Fund Update*. Back in May, Vanguard, following similar moves by Fidelity and iShares, began offering free trades on all 46 of its ETFs to clients on the firm's brokerage platform. iShares already offers ETFs based on the same index benchmarks, so Vanguard has put itself in direct competition for market share. If the expense ratios Vanguard put forth today in its press release remain the same at the funds' debut, they will effectively be undercutting iShares across the board.

While the release of these new funds is a marketing move, plain and simple, as Vanguard already has ETFs (and index funds) covering similar market segments based upon MSCI indexes, the increased lineup will certainly draw in many new clients chasing the free trades and lower expenses.

Our preference here at Adviser Investments is to build diversified portfolios utilizing the best active managers at Fidelity and Vanguard, so the release of these new ETFs, while notable in its scope, is not a huge cause for excitement for us. But when fund companies compete like this, the real beneficiaries are individual investors, who get more choices for lower prices—a trend we hope to see continue.

Will Reform Work This Time?

Following a marathon session last night, Congress is close to passing

the most substantive financial reform since the New Deal. The bill would create a consumer financial protection bureau within the Federal Reserve, push most derivative trades onto clearinghouses and exchanges, and bar banks from owning hedge funds and trading for their own accounts, the so-called "Volker Rule" (with a carve out for traditional banking hedges, like interest rate bets). The bill also creates a \$19 billion bailout fund, which will draw its assets from a tax on the largest financial firms.

The bill passed in committee along strictly party lines. Republicans criticized the bill for being too heavy-handed. But the truth of the matter is the market hates nothing more than uncertainty, as we've seen in the market's volatility all week. So, if nothing else, the bill does remove one of the greatest question marks hanging over the markets, and as such, should be a positive. As of this writing, Goldman Sachs, Citigroup, and Bank of America were all up on the news.

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