



## ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



January 18, 2013

### **Fidelity Closing Popular Fund**

Fidelity announced that it was closing its Small Cap Discovery fund to new investors as a result of accelerating inflows, which nearly doubled assets under management over the last year. The fund will close at the end of business January 31--after that, only existing shareholders and participants in retirement savings plans offering it as an investment option will be able to buy additional shares.

Small Cap Discovery has seen positive inflows over the past several years; coupled with the fund's outperformance over its Russell 2000 index benchmark for the one-, three-, five- and 10-year periods through 2012, it's no surprise that manager Chuck Myers and Fidelity had to eventually stem the tide.

While \$3.9 billion under management may not seem like too much for a mutual fund to handle, in the small-cap space, too great of an asset base can become unwieldy, impacting a manager's ability to invest effectively in his best ideas, since a small-cap company's limited market capitalization acts as a constraint on how much of its stock can be purchased for a portfolio. The larger a fund gets, the more it has to invest in a stock for it to have the same impact on the fund's returns--funds are far more likely to press up against this limit in the small-cap space. A large move into a smaller company's stock could also drive up the price, hurting return potential. For all of these reasons, it's in Small Cap Discovery investors' best interests for Fidelity to keep assets at a manageable level so that Myers' investment discipline is not compromised. As such, we do not see a reason for current investors to be concerned by the closing, as it's a preventative step.

### **Vanguard Begins Index Transition**

On January 10, Vanguard began putting into effect its plan to replace MSCI index benchmarks at 22 domestic and international index funds and ETFs, starting with Emerging Markets Index, which will transition to tracking an FTSE index over the next several months. Just a handful of days later, Institutional Total Stock Market Index and the equity portion of Balanced Index also began the move to their new CRSP index benchmark. During the changeover, the affected funds will track a "transition index" composed of a mix of the old and new benchmarks' holdings.

### **In This Issue**

- Fidelity Closing Popular Fund
- Vanguard Begins Index Transition

As we reported in our [October 12, 2012 Adviser Fund Update](#) (where you can also see a full list of the funds getting new benchmarks), the moves are not about performance or methodology, rather, Vanguard is saving on index licensing fees by adopting CRSP and FTSE bogeys for these funds. Those savings could eventually be passed on to shareholders, and will allow Vanguard to keep expenses lower than those of comparable funds from competing index fund and ETF providers.

Most investors won't see much of a difference in their funds as a result of the changes, although perhaps the largest exception will be the one Vanguard began with, Emerging Markets Index, which will see South Korean companies (accounting for almost 15% of assets at year-end) sold out of the fund. FTSE qualifies South Korea as a "developed" nation, and thus excludes it from its emerging markets index.

For more on the changes, please see the aforementioned October 12 issue.

### **About Adviser Investments**

Adviser Investments and its subsidiaries operate as an independent, professional money management firm with particular expertise in Fidelity and Vanguard mutual funds. With 2,400 clients and over \$2 billion under management, Adviser Investments is one of the nation's largest mutual fund research and money management firms. Our investment professionals focus on helping individual investors, trusts, foundations, and institutions meet their investment goals. Our minimum account size is \$350,000.

For more information, please visit [www.adviserinvestments.com](http://www.adviserinvestments.com) or call 800-492-6868.

#### Disclaimer:

This material is distributed for informational purposes only. The investment ideas and expressions of opinion may contain certain forward looking statements and should not be viewed as recommendations, personal investment advice or considered an offer to buy or sell specific securities. Data and statistics contained in this report are obtained from what we believe to be reliable sources; however, their accuracy, completeness or reliability cannot be guaranteed.

Our statements and opinions are subject to change without notice and should be considered only as part of a diversified portfolio. You may request a free copy of the firm's Form ADV Part 2, which describes, among other items, risk factors, strategies, affiliations, services offered and fees charged.

Past performance is not an indication of future returns. The tax information contained herein is general in nature, is provided for informational purposes only, and should not be construed as legal or tax advice. We do not provide legal or tax advice. Always consult an attorney or tax professional regarding your specific legal or tax situation.