ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

May 14, 2010

Vanguard ETFs for Free!

Last week, Vanguard made a decisive move to reestablish its prominence in the ETF and brokerage market by announcing that all 46 of the fund company's ETFs are now commission-free for brokerage clients, while also lowering fees across the board on their brokerage platform for trading non-Vanguard ETFs and stocks. The move is certainly a response to Fidelity (which began offering commission-free trades on 25 iShares ETFs and lowered trading fees in February) and Charles Schwab (which offers commission-free trades on their lineup of ETFs as well), but also is likely an attempt to save some face in the aftermath of the 100 free trades flap we covered in this space in February and March.

Along with the elimination of commissions on ETFs for all Vanguard brokerage clients regardless of their account balances, as mentioned above, the firm has also lowered commissions for account-holders of varying balances to a range between $2 and $20 (previously, commissions ran between $8 and $25). For those with less than $50,000 invested in Vanguard funds and ETFs, the firm has reduced commissions on trades of stocks and non-Vanguard ETFs to $7 for the first 25 trades (subsequent trades will cost $20). If you are a Voyager client or have $50,000 to $500,000 at the firm, commissions are $7; for Voyager Select clients or those with $500,000 to $1 million with Vanguard, commissions are $2; and finally, for Flagship clients ($1 million or more at Vanguard), your first 25 trades are free and $2 thereafter. These lowered fees are also quite competitive with Fidelity, which lowered its trading commissions to $7.95 with great fanfare earlier this year.

Meanwhile, one thing that has not been reported is that this freebie should not be seen as a license to day-trade. Vanguard told our Chairman and CEO, Dan Wiener, that if someone makes more than 25 trades in a given ETF over a one-year period, they reserve the right to block the investor from trading in that ETF again for 60 days. Will there be an automatic shutdown? No. But again, Vanguard is "reserving the right" to block additional trades if you hit the 25-plus mark.

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If you've been following Fidelity or Vanguard for any length of time, this back-and-forth one-upmanship is quite reminiscent of the "Fee Wars" that started about six years ago, as each firm tried to undercut the other by lowering fees on key index funds. Does Fidelity have another maneuver in reserve? Only time will tell. Until then, however, the real winners of these "ETF Wars," as was the case in the Fee Wars, are the investors who are able to save some money by taking advantage of these free (or cheaper) trades.

Fidelity Goes Corporate

On May 13, Fidelity announced the opening of Corporate Bond Fund, which, as its name suggests, will specifically target investment-grade corporate bond offerings (at least 80% of assets must be invested as such) and will be benchmarked to the Barclays Capital U.S. Credit Bond Index.

Fidelity sees this fund as filling a heretofore unoccupied niche in its bond fund lineup, with its focus on corporate bond issues (corporate bonds comprise about 20% of the overall domestic bond market). While details about the fund's portfolio remain sketchy at this point, it will have a required minimum initial investment of $2,500, carry a 0.45% expense ratio and be run by a pair of managers, David Prothro and Michael Plage.

Prothro joined the firm in 1991, and currently manages credit-only strategies for institutional clients, as well as some investment-grade bond portfolios available exclusively in Canada. Plage has been with Fidelity since 2005, and got his start as a fixed-income trader. He now also manages a number of credit-related portfolios for institutional investors.

Without any substantial details on the fund's portfolio, we can't yet make a recommendation on Corporate Bond Fund. However, it is worth noting that in periods of rising interest rates, which we feel are an inevitability in the next year, investment-grade and corporate bond portfolios tend to have less sensitivity to changes in rates, so this fund's debut at what we see as the end of a long bull market for bond funds may be putting it in a good position for competitive relative performance.

About Adviser Investments

Adviser Investments is an independent, professional money management firm specializing in Fidelity and Vanguard mutual funds. With 1,500 clients and $1.1 billion dollars under management, Adviser is one of the nation's largest mutual fund research and money management firms. Our staff of 35 investment professionals focuses on helping individual investors, trusts, foundations, and institutions meet their investment goals. Our minimum account size is $350,000.

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