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Fidelity Gets Rid of Short-Term Trading Fees

In mid-December, Fidelity announced that it would do away with short-term trading fees on 75 of its mutual funds. The move is Fidelity's means of addressing the changing marketplace and the low costs (and subsequent popularity) of exchange-traded funds.

Traders have increasingly relied on ETFs rather than actively managed mutual funds to gain short-term exposure to specific asset classes and sectors. Fidelity attributed its decision to drop this fee category because the popularity of ETFs (which don't charge sales fees) means that excessive short-term trading of its funds is much less of a concern.

Commonly known as "redemption fees," these charges are imposed on mutual fund shareholders who sell shares within a certain period of buying them. They seek to deter short-term trading, which can make a fund manager's asset base less predictable, compromising their ability to buy and sell when they see fit while adding the need to hold or be able to raise cash quickly to meet significant withdrawals.

The now-defunct redemption fees varied by fund. For example, prior to the change, Fidelity Growth Strategies imposed a 1.5% fee on shares held for fewer than 90 days. International Discovery charged 1.0% for the sale of shares held for 30 days or less.

"This is a unique and fairly aggressive move on their part," Adviser Investments Chief Investment Officer Jim Lowell told *The Wall Street Journal*. Lowell also told the *Journal* that the timing of the change could make some Fidelity funds more eye-catching for financial advisers and retail investors at the end of the year who are looking to buy and sell shares in mutual funds for tax-harvesting purposes.

Fees were lifted on 14 U.S. stock funds, 13 international stock funds, 27 sector funds, 20 fixed-income funds and one asset-allocation fund. Popular Fidelity funds that no longer carry redemption fees include Mid-Cap Stock, Total Market Index, Growth Strategies, International Index, Global Balanced, Overseas and Worldwide, as well as a number of the firm's Select sector funds.

"We're comfortable removing redemption fees on those funds because of the nature of their investment universes and the broad spectrum of ETFs available for investors with short term investment horizons," said Fidelity spokeswoman Sophie Launay. "We now have other effective tools in place, and those tools have become more sophisticated since we initially applied redemption fees in 1989 to combat market timing and other excessive short-term trading strategies."

The funds will still be subject to rules enacted in 2004 that prohibit excessive trading within a three-month timeframe. As for the 78 Fidelity funds that will maintain short-term redemption

fees, 64 of them will see their rules amended so that retirement-plan investors will get the same fee waiver treatment that previously was only available to participants in plans run by Fidelity.

While we typically buy and hold funds for the long term at Adviser Investments, there may be times when an investor needs to reverse course on a fund purchase (such as the tax-swap example CIO Jim Lowell cited above), and not having to contend with short-term fees on the way gives greater flexibility and choice to those carrying out such investment strategies.

Vanguard Lowers Fund Expenses

Last week, Vanguard lowered expense ratios on a number of equity and fixed-income mutual funds and ETFs, a fairly regular occurrence at the fund titan, but one shareholders should always welcome.

As a reminder, an expense ratio tells shareholders how much they're paying to support the firm's annual operating costs for a particular fund or ETF. The expense ratio is calculated by dividing annual operating expenses by the average dollar value of the fund or ETF's assets under management.

Vanguard has built its reputation on being a leader in low-cost mutual funds. Its relatively reliable fee reductions are a positive for investors who benefit from the firm's at-cost corporate structure, the enormous economies of scale at work with more than \$3 trillion in assets under management, and Vanguard's dedication to outcompete other fund companies on the fee front. The attention to costs is significant; in 2015, the last full year for which data is available, Vanguard's average mutual fund expense ratio of 0.18% was 82% lower than the industry average.

With expense ratios already so low, there's not room to come down too dramatically at once (the moves this time around saw expenses reduced by one to three basis points, or 0.01% to 0.03%), but any additional amount shareholders can save and keep invested and compounding over time is an unalloyed positive for Vanguard investors.

Expense Ratio Changes Effective December 22, 2016

Fund	Share Class	Ticker	Former Expense Ratio	Current Expense Ratio
Explorer Value	Investor	VEVFX	0.65%	0.63%
Extended Duration Treasury	ETF	EDV	0.10%	0.07%
Extended Duration Treasury Index	Institutional	VEDTX	0.08%	0.06%
FTSE Social Index	Institutional	VFTNX	0.15%	0.12%
FTSE Social Index	Investor	VFTSX	0.25%	0.22%

Intermed.-Term Corporate Bond	ETF	VCIT	0.10%	0.07%
Intermed.-Term Corporate Bond Index	Admiral	VICSX	0.10%	0.07%
Intermed.-Term Corporate Bond Index	Institutional	VICBX	0.07%	0.05%
Intermed.-Term Gov't Bond	ETF	VGIT	0.10%	0.07%
Intermed.-Term Gov't Bond Index	Admiral	VSIGX	0.10%	0.07%
Intermed.-Term Gov't Bond Index	Institutional	VIIGX	0.07%	0.05%
International Growth	Admiral	VWILX	0.34%	0.33%
International Growth	Investor	VWIGX	0.47%	0.46%
Long-Term Corporate Bond	ETF	VCLT	0.10%	0.07%
Long-Term Corporate Bond Index	Admiral	VLTCX	0.10%	0.07%
Long-Term Corporate Bond Index	Institutional	VLCIX	0.07%	0.05%
Long-Term Gov't Bond Index	Admiral	VLGSX	0.10%	0.07%
Long-Term Gov't Bond Index	Institutional	VLGIX	0.07%	0.05%
Long-Term Gov't Bond	ETF	VGLT	0.10%	0.07%
Mega Cap	ETF	MGC	0.09%	0.07%

Mega Cap Growth	ETF	MGK	0.09%	0.07%
Mega Cap Growth Index	Institutional	VMGAX	0.08%	0.06%
Mega Cap Value	ETF	MGV	0.09%	0.07%
Mortgage-Backed Securities	ETF	VMBS	0.10%	0.07%
Mortgage-Backed Securities Index	Admiral	VMBSX	0.10%	0.07%
Mortgage-Backed Securities Index	Institutional	VMBIX	0.07%	0.05%
Short-Term Corporate Bond	ETF	VCSH	0.10%	0.07%
Short-Term Corporate Bond Index	Admiral	VSCSX	0.10%	0.07%
Short-Term Corporate Bond Index	Institutional	VSTBX	0.07%	0.05%
Short-Term Gov't Bond Index	Institutional	VSBIK	0.07%	0.05%
Short-Term Gov't Bond Index	Admiral	VSBSX	0.10%	0.07%
Short-Term Government Bond	ETF	VGSH	0.10%	0.07%
U.S. Growth	Admiral	VWUAX	0.33%	0.32%
U.S. Growth	Investor	VWUSX	0.47%	0.46%

Source: Vanguard.

At Adviser Investments, we're always happy to see investing come with fewer strings and costs attached, even if our philosophy is to buy funds for the long-term rather than making frequent trades. As the fund industry evolves, Fidelity and Vanguard innovate and the landscape becomes more competitive, investors are keeping more and more of what they

earn, a trend we can safely expect to continue in 2017 and beyond. That's something we can all raise a glass to.

Happy New Year from all of us at Adviser Investments, and here's to a safe, sound and prosperous 2017 for you and your portfolio!

About Adviser Investments

Adviser Investments and its subsidiaries operate as an independent, fee-only professional money management firm with particular expertise in Fidelity and Vanguard mutual funds. We advise more than 2,500 clients and have over \$3 billion under management. Our investment professionals focus on helping individual investors, trusts, foundations and institutions meet their investment goals. Our minimum account size is \$350,000. In 2016, Adviser Investments was named to *Barron's* list of the top 100 independent financial advisers nationwide and its list of the top advisory firms in Massachusetts for the fourth consecutive year. We have also been recognized on the *Financial Times* 300 Top Registered Investment Advisers list in 2014, 2015 and 2016.

For more information, please visit www.adviserinvestments.com or call 800-492-6868.

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