

Fidelity vs. Vanguard

WHICH FUNDS ARE BEST FOR YOU?

Fidelity vs. Vanguard. Contrafund vs. 500 Index. Ned Johnson vs. Jack Bogle. Active vs. Passive Investing. The hidden pitfalls and profit potential of both...and what difference could it make to you?

We've spent more than 20 years specializing in both Fidelity and Vanguard mutual funds, and that gives us the experience and perspective to compare the two companies' funds and managers, strengths and weaknesses, pitfalls and profit potential.

We've learned over years of wealth management for thousands of clients like you that there is no simple, one-size fits-all answer. Both companies have done an outstanding job delivering long-term value to shareholders—albeit with distinctly different philosophies. In fact, we believe that investors who focus on the question of “Who’s biggest?” or “Who’s best?” miss a more important point:

It's not a matter of which fund company is better. It's a matter of which company's funds serve your individual needs best.

In this report we will provide you with the information you need to make an informed decision for yourself. Inside we'll detail:

- **Key issues** to consider when selecting a mutual fund company
- **Snapshots** on both Vanguard and Fidelity
- **Discussion** of the relative strengths and weaknesses of each company's products and services
- **And, finally**, a brief questionnaire for determining which funds are best for you—after all, the best person to judge your investing needs is you.

Advantages of Fund Family Investing

The average mutual fund shareholder invests with more than one fund family. In fact, most Fidelity investors also own Vanguard funds and vice versa. So why choose between the two? If one company is good, aren't two fund families better?

The answer depends on you and your investment goals. There's no reason you can't have accounts with both Fidelity and Vanguard (among others). You'll have two (or more) sets of statements to review, multiple phone numbers to remember, several websites to navigate and nearly 700 funds to understand and monitor. It's a major undertaking, no doubt, but far from impossible.

But there is a benefit to consolidating: Savings and simplicity.

Sure you can get used to reviewing multiple sets of statements each month, but you have to ask yourself what added benefit you're receiving by having to learn and review two reporting systems. For the average investor, either Vanguard or Fidelity has ample funds to construct a diversified portfolio. What's more—through their brokerage systems, Fidelity account holders are able to purchase Vanguard funds and Vanguard account holders are able to purchase Fidelity funds—so consolidating with one or the other does not necessarily mean narrowing your investment options.

Of course not all fund companies are equal. But Fidelity and Vanguard are the industry leaders. When dealing with smaller fund companies you have to consider the breadth of offerings (is it truly a full-service provider?), security (a strong balance sheet can protect against financial missteps that might bankrupt a lesser company) and resources (especially research capabilities and online access and support).

Janus is an example of a once up-and-coming fund company that thrived during the technology boom of the late '90s,

only to suffer disproportionate losses and shareholder defections when the bubble burst. Why? Portfolio inbreeding.

Sure, Janus has a large menu of funds. Unfortunately, it turns out that their funds don't provide much variety. Managers from different funds were frequently buying the same technology stocks as their peers—presumably those favored by the research department. This is called “portfolio inbreeding” or “group think,” and the result was that many Janus investors investing in a number of different Janus funds were not nearly as diversified as they thought they were. When the bear market took hold, they got mauled.

Which Funds Are Right for You?

We have provided a brief questionnaire at the end of this report to help you determine whether Fidelity or Vanguard funds are right for you. This section previews some of the most important issues to consider:

- **Municipal and tax-free bond funds:** If you're on a fixed income and rely on your after-tax returns for living expenses, you should carefully consider whether Vanguard or Fidelity has the right mix of state-specific tax-deferred funds for you.
- **401(k) (or other retirement) plan:** If you have a 401(k) plan at work with either Vanguard or Fidelity, you may want to open an individual account with the same company. It will make record keeping and fund selection that much easier.
- **Sector funds:** Are you an aggressive investor interested in investing in certain sectors or industry groups? If so, you should consider which funds best meet your investing

needs. For example, if you're looking for a health care fund, Vanguard has one of the best funds available by far. But if you're looking for a niche sector fund, forget it: Vanguard only offers broad market sector funds.

Fidelity has more than 40 sector funds. In 2004, Vanguard introduced 10 new sector index funds. But with \$100,000 minimums (as opposed to \$2,500 on Fidelity sector funds), they're targeted at large institutions and would not be appropriate for most individual investors.

■ **Index funds:** Do you believe that actively managed funds can beat the market over extended periods of time? Or are you an indexer at heart (primarily concerned with matching the market's returns)? If you have a large percentage of your assets indexed, Vanguard offers the most choices: From its flagship S&P 500 fund to small-cap, international, emerging market and bond indexes—but surprisingly, Fidelity has numerous index funds as well, many of which have lower expense ratios than Vanguard's.

■ **Brokerage:** Although both Vanguard and Fidelity now offer mutual fund supermarkets (featuring selections from other fund families), Fidelity has embraced the initiative to a much greater degree than Vanguard. The same goes for its brokerage services if you intend to buy individual stocks and bonds and/or options.

Fidelity is happy to offer one-stop shopping, even if it means sharing assets and fees with competitors. Vanguard has only entered the fray in large measure in reaction to market forces. For many years, Vanguard's goal was for investors to invest in Vanguard funds and never trade—but Vanguard changed to openly courting traders by adding nearly 2,000

Fidelity and Vanguard: At a Glance

	Fidelity Investments	The Vanguard Group
Assets Under Management	\$2.5 trillion	\$5.1 trillion
Total Funds	504	180
Total Employees	42,000	15,000
Avg. Expense Ratio	0.45%	0.11%
Walk-in Centers	190+	n/a
Founder	Edward C. Johnson II (1946)	John C. Bogle (1975)
Management Team	Abigail P. Johnson, <i>Chairman and CEO</i> Charles S. Morrison, <i>President of Asset Management</i>	William McNabb III, <i>Chairman</i> Mortimer J. (Tim) Buckley, <i>CEO</i>
Corporate Structure	Privately held (controlled by Johnson family)	"Mutual" ownership (management co. owned by member funds)
Flagship Fund	Magellan	500 Index

Sources: Fidelity, Morningstar, Vanguard. Information current as of 6/30/2018.

commission-free ETFs from competitors to its brokerage platform in 2018. Fidelity took this approach years earlier.

■ **Innovation:** Fidelity is a new product innovator. It was the first to offer sector funds, ETFs and asset management services. Vanguard, on the other hand, tends to be more cautious about moving into new markets. It's only since John Bogle stepped down as Chairman that Vanguard made its entry into

ETFs, one of the fastest growing segments of the financial services industry. While Vanguard may be more progressive now than any other time in its history, its cost-conscious culture ensures that it will never be the early-adopter that Fidelity is.

Snapshot: Fidelity Investments

With \$2.5 trillion under management and more than 500 funds, Fidelity Investments is one of the largest mutual

Questionnaire

Will you be better served using Fidelity or Vanguard funds—or perhaps, a combination of funds from each? Both companies offer many excellent funds. There are no clear-cut rules for choosing between the two. At Adviser Investments, we make it our business to help you make the decision that's best for you.

The following questionnaire is designed to give you a sense of which direction you should be leaning. Naturally, we would not suggest you sell out of one family's funds entirely and buy into the other solely on the basis of our questionnaire. However, it may help you determine whether Fidelity or Vanguard funds are more appropriate for you.

This questionnaire is for informational purposes only and should not be construed as an advertisement for the Vanguard Group or Fidelity Investments or as investment advice of Adviser Investments. As always, you should read a fund's prospectus carefully before making any investment.

Which of the following terms best describes your investment philosophy?

- a) Aggressive b) Conservative c) Moderate

Do you invest in any of the following: Individual stocks or bonds, futures, options, hedge funds and/or private equities?

- a) Yes b) No c) Occasionally

Which statement do you agree with most?

- a) Good investment managers can earn their fees through superior investment performance
 b) Investment managers—even good ones—are overpaid for the amount of value they create

Which is a better predictor of market outperformance: Superior investment track record or low expense ratio?

- a) Superior investment track record b) Low expense ratio
 c) Neither

Do you prefer actively managed funds to index funds (or vice versa)?

- a) Actively managed b) Index c) Doesn't matter

Do you invest in sector funds?

- a) Always b) Never c) Sometimes

Do you (or would you like to) access your account over the Internet?

- a) Yes b) No

Are you a frequent trader (average one trade per month or more)?

- a) Yes b) No

Where do you have your retirement account(s) (e.g. IRA, 401(k), 403(b))?

- a) Fidelity b) Vanguard c) Both d) Neither

Is meeting with your financial services provider face-to-face important to you?

- a) Yes b) No

Do you invest in municipal money market and/or bond funds and live in one of the following states: Arizona, Connecticut, Maryland, Michigan or Minnesota?

- a) Yes b) No

Answer Key

Total (a) answers: _____
 Less Total (b) answers: _____
 Equals Your Score: _____

-10 to -2 points: You'd probably be most comfortable at Vanguard
-1 to +1 points: Either company would be a good choice for you
+2 to +10 points: You'd probably be most comfortable at Fidelity

fund companies in the world. The old-line Boston firm also ranks as the top provider of workplace retirement savings plans and the number two discount broker.

Traditionally, Fidelity's success has been built on active management and top-performing stock mutual funds. With well-known investment stars like Peter Lynch handily outperforming their benchmarks over long periods of time, it's no wonder Fidelity is considered the 800-pound gorilla of the investing world. With size comes additional benefits. Due to the volume of transactions they make, Fidelity managers and traders are often given preferential pricing and access to the best private placements and IPO's.

But Fidelity's success can be attributed to more than just excellent investment performance. Its competitive, individualistic culture has cultivated many successful "homegrown" portfolio managers who share ideas and resources but invest independently of their colleagues. Also, Fidelity's commitment to technology and product development has created state-of-the-art customer service systems and frequent new product introductions, such as its highly rated mobile app and its lineup of actively managed factor ETFs.

Why Fidelity Funds?

- **Aggressive:** Fidelity made its reputation cultivating star equity managers. The company still has the broadest array of top-performing stock funds anywhere.
- **Choice:** With more than 500 funds, including 40 sector funds, the nation's second-largest mutual fund supermarket and the top-rated discount brokerage, Fidelity has a fund to match any objective or risk tolerance.
- **Technology:** With a \$2.5 billion annual technology budget, it's no surprise that Fidelity continues to set the standard for the industry.
- **Research:** No firm spends more money or dedicates more resources to research than Fidelity. Their homegrown managers schooled in the "Fidelity way" are among the best, which is a double-edged sword: Fidelity also has the most manager defections.
- **Personalized Service:** Fidelity offers top-notch personalized service to shareholders both on the phone and in its 190-plus branches nationwide, and its online access and resources are second to none.

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Snapshot: The Vanguard Group

The Vanguard Group is the world's largest mutual fund company. Vanguard's success is built primarily on low-cost, passively managed index funds. As a staunch advocate of the efficient market theory (which holds that most active managers will fail to outperform the broad market over time), John Bogle, the charismatic founder of Vanguard, has built a loyal following of index enthusiasts.

Simply labeling Vanguard an "index shop," however, does not tell the full story. Unlike Fidelity, Vanguard cultivates relationships with some of the top independent managers in the business. The end result is a group of superstar managers that think and act independently from one another. It is only through these sub-advisory relationships with Vanguard that individual investors gain access to institutional managers that often require minimums of \$10 million or more when managing private accounts.

Why Vanguard Funds?

- **Conservative:** Vanguard is best known as a fixed-income and indexing shop. Our clients know better (About 20%—more than \$1 trillion—of Vanguard's assets are in actively managed funds), but Vanguard still appeals most to conservative investors.
- **Low cost:** John Bogle made a successful career out of saving investors money. Vanguard's "mutual" ownership structure (management company owned by member funds) has a built-in cost advantage.
- **Institutional quality outside managers:** We highlighted the dangers of "portfolio inbreeding" at Janus. By delegating investment management to sub-advisers, Vanguard side-steps this problem. Most Vanguard managers are highly respected institutional managers who are only available to individual investors through the Vanguard funds they manage.
- **Index funds:** If you're an indexer, Vanguard has more options than Fidelity.

If you would like more information on how we manage client assets, please contact Adviser Investments at (800) 492-6868 or info@adviserinvestments.com.

FIDELITY VS. VANGUARD - COMPARATIVE ANALYSIS

9/30/18

Fund Name	Ticker	Style	Manager	Tenure (Years)	2017 Rtn	2016 Rtn	2015 Rtn	3 Year	5 Year	10 Year	R Sq.	3 Yr Beta	MCL	Exp. Ratio
Fidelity Magellan	FMAGX	Large Cap Growth	Jeffrey Feingold	7	26.5%	5.2%	4.1%	17.8%	14.6%	11.3%	0.97	1.08	-65.0%	0.69%
Vanguard 500 Index	VFINX		Donald Butler/Michelle Louie	3	21.7%	11.8%	1.2%	17.1%	13.8%	11.8%	0.97	1.00	-55.3%	0.14%
Fidelity Trend	FTRNX	Large Cap Growth	Daniel Kelley	7	29.4%	4.6%	5.3%	20.0%	15.9%	14.8%	0.89	1.04	-56.3%	0.67%
Vanguard PRIMECAP	VPMCX		Kolokotronis/Fried/Mordecai/Ansari/Marchetti	33	29.5%	10.6%	2.6%	21.3%	17.2%	14.0%	0.89	1.11	-52.7%	0.39%
Fidelity Dividend Growth	FDGFX	Large Cap Blend	Gordon Scott	2	20.1%	8.0%	-0.6%	13.2%	10.7%	11.2%	0.94	0.92	-60.8%	0.50%
Vanguard Dividend Growth	VDIGX		Don Kilbride	13	19.3%	7.5%	2.6%	14.7%	12.1%	11.2%	0.94	0.84	-45.2%	0.26%
Fidelity Contrafund	FCNTX	Large Cap Growth	William Danoff	28	32.2%	3.4%	6.5%	19.3%	15.5%	13.3%	0.87	0.97	-49.2%	0.74%
Vanguard Adm. Tax-Managed Cap. App.	VTCLX		Donald Butler/William Coleman	3	22.4%	12.0%	1.7%	17.2%	13.8%	12.2%	0.87	1.01	-55.2%	0.09%
Fidelity Blue Chip Growth	FBGRX	Large Cap Growth	Sonu Kalra	9	36.1%	1.6%	6.3%	21.3%	17.6%	15.5%	0.96	1.05	-58.6%	0.72%
Vanguard Morgan Growth	VMRGX		Stetler/Marrkand/McCarragher/Knightly/Scarpa/Boyer/Guo	15	29.9%	3.3%	6.7%	19.0%	15.6%	13.1%	0.96	1.06	-53.4%	0.38%
Fidelity Disciplined Equity	FDEQX	Large Cap Growth	Alex Devereaux	6	21.5%	6.2%	0.1%	13.6%	11.7%	9.2%	0.86	0.97	-55.3%	0.54%
Vanguard U.S. Growth	VWUSX		Shilling/Bonavico/Ericksen/Prislin/Golan/Van Harte/Ricci/Boyer/McCarragher/Robinson/Slater	8	31.6%	-0.7%	8.5%	18.9%	16.1%	13.6%	0.86	0.98	-73.2%	0.43%
Fidelity Growth Company	FDGRX	Large/Mid Growth	Steven Wymer	22	36.8%	6.0%	7.8%	24.1%	18.4%	16.5%	0.91	1.24	-71.7%	0.85%
Vanguard Capital Opportunity	VHCOX		Kolokotronis/Fried/Mordecai/Ansari/Marchetti	21	29.1%	10.6%	2.6%	20.6%	16.4%	14.8%	0.91	1.16	-54.7%	0.44%
Fidelity Value	FDVLX	Mid Cap Value	Barwikowski/Bennett/Mundt/Buck/Friedman/Mirshekari/Riaz	8	15.7%	16.1%	-6.5%	11.7%	9.3%	10.4%	0.94	0.98	-66.9%	0.61%
Vanguard Selected Value	VASVX		Barrow/Giambrone/Smith/Greenberg/Rabinowich/Pzena/Flynn/Silver	20	19.5%	16.3%	-3.8%	11.2%	8.4%	11.4%	0.94	1.01	-55.7%	0.39%
Fidelity Equity Dividend Income	FEQTX	Large Cap Value	John Sheehy	2	14.1%	15.9%	-2.5%	12.8%	10.1%	8.9%	0.97	0.91	-60.8%	0.71%
Vanguard Windsor II	VWNFX		Davis/Lieberman/Lacey/Mahedy/Sanders/Stetler/Ganuchean/Fahrenbruch/Guo/Temple	15	16.8%	13.4%	-3.2%	13.7%	10.6%	10.1%	0.97	0.99	-57.5%	0.34%
Fidelity Equity-Income	FEQIX	Large Cap Value	Kramer/Morrow/Persaud	7	13.4%	17.4%	-3.5%	12.9%	9.1%	8.9%	0.93	0.94	-62.3%	0.63%
Vanguard Windsor	VWNDX		Mordy/Pzena/Silver/Flynn/Palmer	10	19.1%	12.5%	-3.3%	13.0%	10.3%	11.2%	0.93	1.07	-61.4%	0.31%
Fidelity Low-Priced Stock	FLPSX	Small Cap Value	Tillinghast/Mirshekari/Riaz/Peck/Hart/Chamovitz	29	20.7%	8.8%	-0.6%	11.3%	9.4%	11.9%	0.83	0.77	-54.8%	0.62%
Vanguard SmallCap Value Index	VISVX		Gerard O'Reilly/William Coleman	3	11.7%	24.6%	-4.8%	15.0%	11.3%	11.3%	0.83	1.02	-62.1%	0.19%
Fidelity OTC	FOCPX	Large/Mid Growth	Sonu Kalra/Christopher Lin	1	38.6%	3.1%	10.9%	25.1%	19.2%	18.3%	0.88	1.27	-70.1%	0.88%
Vanguard Capital Opportunity	VHCOX		Kolokotronis/Fried/Mordecai/Ansari/Marchetti	21	29.1%	10.6%	2.6%	20.6%	16.4%	14.8%	0.88	1.16	-54.7%	0.44%
Fidelity Small Cap Stock	FSLCX	Small Cap Growth	Kip Johann-Berkel	1	13.8%	12.9%	2.4%	13.1%	10.4%	10.6%	0.91	0.94	-61.2%	0.82%
Vanguard Explorer	VEXPX		Abrams/Stetler/Crane/Fitzpatrick/Schaub/Meade/Guo/Green/Angerame/Deutsch/Russell	25	23.0%	12.3%	-4.3%	20.0%	12.7%	13.2%	0.91	1.03	-57.3%	0.44%
Fidelity Equity-Income	FEQIX	Large Cap Value	Kramer/Persaud	7	13.4%	17.4%	-3.5%	12.9%	9.1%	8.9%	0.94	0.94	-62.3%	0.63%
Vanguard Equity Income	VEIPX		Reckmeyer/Stetler/Guo	15	18.4%	14.7%	0.8%	14.8%	11.5%	11.1%	0.94	0.88	-54.1%	0.26%
Fidelity Growth & Income	FGRIX	Growth and Income	Matthew Fruhan	8	16.9%	16.1%	-2.3%	15.5%	11.4%	9.7%	0.93	1.06	-67.0%	0.61%
Vanguard Growth & Income	VQNPX		Reynolds/Stevens/Stetler/Kearns/Guo	7	20.7%	12.0%	1.9%	17.0%	14.1%	11.5%	0.93	1.00	-56.8%	0.34%
Fidelity Puritan	FPURX	Balanced	Lank/Arani/Plage/Kelley	15	18.7%	5.0%	1.8%	12.3%	10.2%	9.8%	0.90	1.10	-40.9%	0.55%
Vanguard Wellington	VWELX		Bousa/Keogh/Moran/Stack	16	14.7%	11.0%	0.1%	11.1%	9.0%	9.4%	0.90	1.08	-61.9%	0.25%
Fidelity Convertible Securities	FCV SX	Convertible	Adam Kramer	2	9.7%	6.0%	-9.4%	8.0%	5.6%	9.0%	0.88	1.25	-58.8%	0.45%
Vanguard Convertible Securities	VCV SX		Ofer/Spangler/Latrille/Raketic/Watts	8	8.8%	6.6%	-1.4%	7.0%	5.0%	8.3%	0.88	0.77	-40.1%	0.35%
Fidelity Diversified International	FDIVX	International	William Bower	18	26.7%	-3.7%	3.1%	8.1%	5.4%	5.5%	0.93	0.88	-60.6%	0.94%
Vanguard International Growth	VWIGX		Anderson/Webber/Coutts	16	43.0%	1.7%	-0.7%	16.8%	8.4%	8.4%	0.93	1.09	-59.7%	0.45%
Fidelity Select Health Care	FSPHX	Sector - Health	Eddie Yoon	10	24.0%	-10.7%	6.6%	15.4%	17.5%	17.8%	0.90	0.92	-44.4%	0.73%
Vanguard Health Care	VGHCX		Jean Hynes	10	19.6%	-9.0%	12.7%	10.4%	14.7%	14.4%	0.90	0.89	-37.1%	0.38%
Fidelity Select Energy	FSENX	Sector - Energy	John Dowd	12	-2.6%	33.8%	-20.5%	11.4%	0.1%	3.0%	0.96	1.06	-69.2%	0.79%
Vanguard Energy	VGEXX		Stetler/LeBlanc/Guo	6	3.2%	33.1%	-21.5%	13.8%	1.1%	3.0%	0.96	1.00	-61.5%	0.38%
Fidelity Real Estate	FRESX	Real Estate	Steven J. Buller	21	4.3%	7.8%	6.0%	7.9%	9.5%	8.3%	0.99	0.62	-76.3%	0.76%
Vanguard Real Estate Index	VGSIX		Gerard O'Reilly/Walter Neiman	22	4.8%	8.3%	2.2%	6.9%	8.5%	7.4%	0.99	0.62	-73.1%	0.26%
Fidelity Capital & Income	FAGIX	High-Yield Bond	Mark Notkin	15	11.7%	10.7%	-0.9%	8.2%	7.0%	10.0%	0.82	0.21	-37.7%	0.67%
Vanguard High-Yield Corporate	VWEHX		Michael Hong	11	7.0%	11.2%	-1.4%	6.3%	5.1%	7.9%	0.82	0.49	-30.1%	0.23%
Fidelity GNMA	FGMNX	GNMA	Castagliuolo/Corcoran	9	1.7%	1.6%	1.2%	0.7%	1.8%	3.6%	0.99	0.60	-9.0%	0.45%
Vanguard GNMA	VFIIX		Michael Garrett	8	1.9%	1.8%	1.3%	0.9%	2.0%	3.4%	0.99	0.66	-14.6%	0.21%
Fidelity Short-Term Bond	FSHBX	Corporate Bond	Galuszka/Potenza	11	1.2%	1.5%	0.7%	1.0%	1.0%	1.8%	0.91	0.25	-5.9%	0.45%
Vanguard Short-Term Investment-Grade	VFSTX		Shaykevich/Martinez	1	2.0%	2.7%	1.0%	1.5%	1.7%	3.1%	0.91	0.42	-8.0%	0.20%

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