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#### **Fidelity's John Carlson Is Morningstar's Fixed Income Manager of the Year**

We're not big fans of mutual fund management or performance-based awards, especially for time periods as short or arbitrary as one calendar year. At times, these awards draw attention to funds that may have excelled over a short period, but are not ideal long-term investments for a majority of investors. Or, when the rankings companies get it right and identify a top manager, as happened this year, investors will often flood the award-winning fund with assets, making it more difficult for the manager to continue his or her winning ways. Nevertheless, we won't begrudge Fidelity's John Carlson for getting the recognition he has long deserved.

Carlson has done an admirable job at New Markets Income, which he has managed since its inception in June 1995. He has also managed Global High Income since May 2011 and the new Total Emerging Markets, which launched in November 2011.

To qualify for Morningstar's award, a manager's funds must not only have posted impressive returns for the year, but must also have a record of delivering outstanding performance over the long term and aligning with shareholder interests. Carlson has been doing just that during his New Markets Income tenure--let's hope he can keep it up!

#### **Vanguard's International Bond Layover**

Vanguard recently announced it was delaying the launch of the two international bond index funds and ETFs it had planned to open in January. Why the delay? Vanguard did not provide any specific reasons, but it seems that the firm is letting fear trump reason.

Vanguard's decision is at odds with its stated position that "a strategic allocation to hedged international bonds in the range of 20% to 40% of the fixed income portion of a portfolio represents a reasonable starting point to

- Fixed Income Manager of the Year Vanguard's
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improve diversification." Without these new funds, investors interested in following that advice will continue to be forced to look to the firm's competitors for suitable international bond investments.

Could it be that concerns about the potential impact of euro-zone problems on these funds' returns caused enough doubt in Vanguard headquarters to put off their introduction? We wouldn't be surprised--it's not the first time the fund giant has tabled funds on the eve of their planned opening. Around this time last year, Vanguard aborted its introduction of three municipal bond index funds and ETFs. At the time, speculation about a predicted wave of catastrophic defaults was roiling the muni market and Vanguard said it preferred to wait for the market to stabilize.

With 20/20 hindsight, this turned out to be a bit of poor market-timing, as investors mostly ignored the negative predictions and municipal bonds rallied in 2011. Vanguard also missed a big opportunity to demonstrate how ignoring short-term market noise can lead to long-term investment gains, a philosophy we firmly embrace at Adviser Investments. Vanguard never caught up and, more than a year later, those muni indexes and ETFs have yet to launch.

The "old" Vanguard, led by founder Jack Bogle, didn't let a little short-term market noise get in the way of new funds it thought could benefit investors. One can envision Bogle, with his nautical allusions at the fore, screaming, "Damn the torpedoes--introduce 'em!"

That's exactly what happened in February 1994. That was when the Federal Reserve began its long campaign to raise interest rates, with their first hike of 0.25% on February 4, 1994. Vanguard didn't flinch, and introduced its first three bond index funds just weeks later, in March 1994.

Vanguard knew the time was right for bond index funds, and they went against the grain of the market and made them available to investors. While the short-term and intermediate-term funds quickly gained assets (Intermediate-Term Bond Index broke the billion-dollar barrier in 1998), it wasn't until almost a decade later that Long-Term Bond Index grew to more than \$1 billion in assets.

Is the "new" Vanguard risk-averse? We believe many investors would love to get their hands on and their money into international bond index funds and municipal bond index funds run in Vanguard's traditional, plain-vanilla, low-cost style. For now, however, we will just

have to wait and see if the "old" Vanguard spirit will return.

### **About Adviser Investments**

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