



ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



February 13, 2015

Fidelity Launches Real Estate ETF

Last week, Fidelity debuted its twelfth passively managed ETF, Fidelity MSCI Real Estate Index ETF, trading under the ticker FREL.

In the year-plus since Fidelity launched 10 sector ETFs (which we discussed in a [previous issue](#)), they've proved to be popular investments, drawing more than \$2 billion in assets under management since their inception in October 2013.

Like its other sector ETFs, FREL carries an annual expense ratio of 0.12%, is sub-advised by BlackRock, and will trade commission-free on Fidelity's brokerage platforms. Fidelity's newest ETF is slightly more expensive than its rival Vanguard REIT ETF, which costs 0.10% and is the biggest REIT ETF on the market.

While the two ETFs may compete for investors' dollars, it should be noted that they track two slightly different MSCI indexes. Vanguard's ETF attempts to mimic the returns of the MSCI US REIT index, which is focused on real estate investment trusts (companies that own real estate properties and generally pay out regular income), while the FREL tracks the MSCI USA IMI Real Estate index, which is composed mostly of REITs, but can cast a wider net and owns some real-estate-related common stocks as well. So while both ETFs are tracking a fairly thin slice of the U.S. stock market, their portfolios and performance will likely be somewhat different month to month.

Real estate mutual funds were at an all-time high in assets at the end of 2014 as people seeking higher-yielding alternatives to bonds flocked to the sector, which may have been the impetus for Fidelity to make its ETF entrance into this space (the fund giant already has nine other index and actively managed real estate funds on its roster).

Adviser Investments' stance on real estate and other niche sector funds is that buyers should beware. Narrowly focused investments like these can have periods of strong outperformance over the markets such as REITs did in 2014, when Vanguard's REIT ETF

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gained 30.3% compared to the S&P 500's 13.7% return for the year. However, that potential return goes hand in hand with significant risk. During the financial crisis, Vanguard REIT ETF plummeted 68.2%, a very difficult ride for investors who owned the fund at that time.

Our approach to sector investing is to let the active managers we invest alongside to set the exposures within their diversified portfolios. This way we gain access to their top picks in a sector without making a big bet that could come back to harm our overall portfolio. We think this is the best path for most investors to follow.

New Vanguard Bond Fund Debuts

On February 9, Vanguard launched its Ultra-Short-Term Bond fund. The fund, which we touched on in our [Dec. 5, 2014 issue](#), provides a money-market alternative for investors who can withstand some volatility in their share price, and is likely to be a welcome new option for people who have substantial sums tied up in money funds that pay out 0.01%.

Vanguard has wavered on whether the fund is or isn't officially a money-fund replacement, but as they've written, it should act to "earn a better return than the near-zero yield of a money market fund without losing the ability to access your money."

Vanguard is not yet reporting a yield for the fund, but Ultra-Short-Term Bond's Investor (VUBFX) and Admiral (VUSFX) shares will have minimums of \$3,000 and \$50,000, respectively, and charge 0.20% and 0.12% in annual expenses. The fund is managed by Greg Nassour and David Van Ommeren.

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 2,600 clients and more than \$3 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. Adviser Investments was recently named to *Barron's* list of the top 100 independent financial advisers nationwide and its list of the top advisory firms in Massachusetts. We are also recognized on the *Financial Times* 300 Top Registered Investment Advisers list.

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

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