ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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At the beginning of July, Fidelity announced that U.S. investors living overseas would no longer be able to purchase or trade any mutual fund shares (Fidelity's or other fund families') on its brokerage platform starting August 1. While there is no specific regulation that prevents U.S. citizens living abroad from holding U.S. mutual funds, the move appears to be in anticipation of tightened financial regulation both here and internationally.

Investors affected by the new policy will not be forced to sell anything they currently own, although those with automatic investment plans will have any future cash channeled into a money market fund or another permissible investment. The new restriction applies only to investing new money in mutual funds (although reinvestment of distributions will still be allowed) and does not affect funds held in employer-sponsored retirement plans like 401(k)s. Contributions to traditional and Roth IRAs (individual retirement accounts) are part of the ban, however. Fidelity has said that depending on which foreign country U.S. investors are living in, they may still have the ability to invest in individual securities or exchange-traded funds.

Fidelity is not the only fund company to tighten up its policies on ex-pats and U.S. investors with foreign mailing addresses —Putnam Investments has done the same, and Vanguard said its funds are generally only available to people living in America. But if one of the largest mutual fund and brokerage providers in the country is making this move, it seems likely that more firms will follow.

As mentioned above, these restrictions may be a result of various regulatory hurdles for the financial industry. In 2010, Congress passed the Foreign Account Tax Compliance Act, which is designed to make sure U.S. citizens with foreign financial holdings are paying all taxes due, and will begin to be enforced in the next year-plus (it has ruffled some feathers in the international banking community due to required disclosures to the U.S. government and potential fines for failing to make them). Sections of the Patriot Act also deal with international finance and transfers of money, which can add a layer of complication to transactions for U.S. citizens living abroad.

If you think you may be subject to the new rules, we recommend that you contact your representative at Fidelity or money manager to find out how you can access and trade your account going forward. If you have an alternate U.S. mailing address that you can set as the primary address on your account, that may enable you to continue to use Fidelity's brokerage platform, but again, you should speak to a representative before making any changes. And if you find you are barred from U.S.-registered mutual funds, you may be able to find offshore alternatives depending on where you live and local regulations, but be aware that they are subject to different and higher taxes than domestic mutual funds for U.S. citizens.

While this is an unfortunate rule change for Americans living overseas, Fidelity says it will only affect a relatively small number of its account holders. But it is definitely a setback for those whose jobs, family or wanderlust has taken them beyond our shores and will now be forced to seek alternative and potentially more expensive investments for their portfolios.

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