ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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Double-Dip Fears Resurface

With the debt-ceiling drama finally behind us, economic pundits and other doomsayers are already looking for a fresh crisis (real or imagined) to drive ratings and readership higher. Therefore, don't be surprised to see a reprisal of the "double-dip recession" story in the days and weeks ahead.

Some observers are making the case that slowing GDP growth, along with government spending cuts and potentially higher interest rates, will lead to recession. You may recall that around this time last year there was also a lot of handwringing that the U.S. economy was on the verge of slipping into recession. Instead, fourth-quarter 2010 GDP growth came in at 3.1%. Since then, economic growth has indeed slowed. Second-quarter GDP growth came in at just 1.3% last Friday. In addition, final numbers for first-quarter GDP were revised downward from 1.9% to just 0.4%.

While the economy has indeed cooled, we believe this is a not-unexpected development during a maturing recovery, rather than proof that we're on the precipice of an impending recession. Recent lackluster GDP growth has been partly due to the fact that businesses have not needed to increase inventories. When overseas and domestic demand picks up, we expect businesses will again need to replenish inventories, which will spark GDP growth. It's also important to remember that overall, the nation's GDP remains just below its all-time high, recent slow growth notwithstanding.

Keep in mind that data from one month or one quarter does not equate to a long-term trend. For example, personal incomes and consumer spending hit highs in May 2008 and June 2008, respectively, and expectations were that they would continue expanding. Of course, that didn't happen, and personal income eventually bottomed out in March 2009, while consumer spending bottomed out in December 2008.

This week, a report showed that personal income rose just 0.1% in June and nominal consumer spending actually fell 0.2% (inflation-adjusted "real spending" was nearly flat in June, however). While this is not great news, you can't read too much into one month's results. Yes, personal income growth and consumer spending have been slowing over the last few months, but we saw a similar occurrence in June 2010. Both picked up a month later, so we'll take a wait-and-see approach before sounding the alarm. And, on a positive note, slower spending means consumers are taking the necessary steps to repair their balance sheets (or that they're getting the same goods cheaper), which may eventually lead to higher consumption in the months ahead.

Investors looking for additional positive signs should also consider the auto industry. Auto companies suffered through supply chain disruptions in the wake of the spring earthquake and tsunami in Japan, but they are now showing signs of strength. In a recent survey of auto executives, 62% said they expect to hire people in the coming year and 71% said they expect to increase capital spending.

Of course, autos alone won't be enough to drive the economy. Corporations will need to put some of their billions in cash to work hiring new employees and investing in expansion. The housing market needs to bottom out and start recovering. Consumers will eventually need to have more confidence and spend more. Until the economy is again firing on all cylinders, we expect more slow growth ahead, but not recession.

Vanguard Adds More Admirals to the List

Shareholders of a handful of Vanguard index funds received some good news last week when the firm announced that it was expanding its Admiral shares roster. Six funds are in line for promotion this September:

- Developed Markets Index
- World ex-US Index
- Mid-Cap Growth Index
- Mid-Cap Value Index
- Small-Cap Growth Index
- Small-Cap Value Index

Admiral shares are clones of Vanguard's investor shares, but with lower expense ratios. To qualify for the Admiral share class, however, you must have at least $10,000 invested in the eligible funds. If you currently own one of the funds above and maintain a balance of $10,000 or more, you will be automatically converted to Admiral shares later this year.

It's a victory for investors anytime fund companies make investing less expensive for their shareholders, and Vanguard's ongoing commitment to providing lower-cost share classes over the years has earned our respect (and our investment dollars). It's a simple concept, but one that many investors overlook when choosing funds for their portfolios: Over long periods, lower expenses can give a meaningful boost to your returns. So if you're planning to invest in one of the funds listed above and meet the minimum, there's no reason not to invest in the Admiral shares when they are introduced (the same goes for Vanguard's existing Admiral lineup).

However, we believe it's important to note something that Vanguard's announcement failed to mention: All of the funds listed above (with the exception of Developed Markets Index) are also available as exchange-traded funds (ETFs), which carry no investment minimum (nor brokerage fees, if you invest through Vanguard's platform). Vanguard's ETFs offer expense ratios that are considerably lower than the investor shares, but not quite as low as the Admiral shares, as you can see in the table below.

Fund	Investor Shares Expense Ratio	Admiral Shares Expense Ratio	ETF Expense Ratio
Developed Markets Index	0.22%	0.12%	–
World ex-US Index	0.35%	0.18%	0.22%
Mid-Cap Growth Index	0.26%	0.10%	0.12%
Mid-Cap Value Index	0.26%	0.10%	0.12%
Small-Cap Growth Index	0.26%	0.10%	0.12%
Small-Cap Value Index	0.37%	0.21%	0.23%

Source: The Vanguard Group.

If you cannot meet the $10,000 minimum for the new Admiral shares, the existing ETF shares offered for five of them are a solid option (and may be preferable to some investors who can meet the Admiral minimum but are not willing to make a $10,000 investment). Either way, the option to save money by investing in funds or ETFs with lower expense ratios is well worth investigating.

About Adviser Investments

Adviser Investments and its subsidiaries operate as an independent, professional money management firm specializing in Fidelity and Vanguard mutual funds. With 2,400 clients and over $2 billion under management, Adviser Investments is one of the nation's largest mutual fund research and money management firms. Our staff of 50 investment professionals focuses on helping individual investors, trusts, foundations, and institutions meet their investment goals. Our minimum account size is $350,000.

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