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Fidelity Seeks Wider Index Audience

Fidelity wants more investors to buy its index funds. The firm will be making its 16 index funds available to investors outside of its own brokerage and retirement savings platforms beginning this month. This includes the Spartan funds, which for more than 25 years had been available exclusively through Fidelity.

As part of the move, the Boston-based fund giant is also doing away with the Spartan label, rebranding 14 funds to just carry the Fidelity name.

Fidelity has long prided itself—with good reason—as a leader in the actively managed space, but has also expanded its index fund presence to respond to increased competition, most notably in its decade-long “fee wars” with Vanguard, which [we’ve covered extensively](#).

In fact, despite its active management reputation, the \$208 billion currently invested in its index-tracking funds make the company the second largest index-fund provider in the industry, according to Fidelity.

The battle to provide the lowest fees on index funds began in 2004, when Fidelity slashed costs on key index funds to less than Vanguard was charging for similar offerings. The two fund titans’ efforts at outflanking their foremost competitor has continued with numerous feints and jabs since. In May 2010, Vanguard made investing in its ETFs commission-free for all brokerage clients, and later that year sent shockwaves through the ETF industry when it launched 17 ETFs in rapid succession.

Fidelity’s index-fund offerings give investors the basic tools to invest in the total U.S. stock and bond markets, or to slice and dice a little more finely among U.S. stocks of various sizes, international markets and Treasury bonds of varying durations. But compared to Vanguard’s lineup, which includes a full range of stock market sector and style (dividend stocks, growth and value sub-indexes, etc.) options, as well as corporate, municipal and international bond indexes, one might recast Fidelity’s lineup as a starter kit. One place where Fidelity has gotten it right from an investor perspective is on costs—in the table below, you can see how the firm is competitive on price with comparable Vanguard funds (and in a number of cases, offers a lower fee).

The increased availability, Fidelity says, is a response to investor demand, and not a rejection of the active management that built its reputation. “We still strongly believe in the power of active management,” a spokesman said.

At Adviser Investments, we share that belief—we’ve build our reputation

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on being able to identify active managers to partner with for the long term. That said, there will always be an appetite for index funds, and Fidelity's move should keep the pressure on Vanguard and other index-fund providers to keep fees low, allowing investors to keep more of their earnings. As an independent investment adviser with no rooting interest other than the continued success of our clients, more options and lower costs are a good thing in our book.

Fidelity's Index Funds vs. Vanguard Counterparts

Fidelity Index Fund	Expense Ratio	Fidelity Fund Benchmark	Comparable Vanguard Fund	Expense Ratio
500 Index	0.10%	S&P 500 Index	500 Index	0.16%
Total Market Index	0.10%	Dow Jones U.S. Total Stock Market Index	Total Stock Market Index	0.16%
Extended Market Index	0.10%	Dow Jones U.S. Completion Total Stock Market Index	Extended Market Index	0.22%
Mid-Cap Index	0.33%	Russell Midcap Index	Mid-Cap Index	0.20%
Small-Cap Index	0.36%	Russell 2000 Index	Small-Cap Index	0.20%
International Index	0.20%	MSCI EAFE (Europe, Australasia, Far East Index)	Developed Markets Index	0.20%
Global ex-U.S. Index	0.34%	MSCI ACWI (All Country World Index) ex USA Index	FTSE All-World ex-U.S. Index	0.26%
Emerging Markets Index	0.46%	MSCI Emerging Markets Index	Emerging Markets Stock Index	0.33%
U.S. Bond Index	0.22%	Barclays U.S. Aggregate Bond Index	Total Bond Market Index	0.16%
Short-Term Treasury Index	0.20%	Barclays 1-5 Year U.S. Treasury Index	Short-Term Government Bond ETF	0.10%
Intermediate-Term Treasury Index	0.20%	Barclays 5-10 Year U.S. Treasury Index	Intermediate-Term Government Bond ETF	0.10%
Long-Term Treasury Index	0.20%	Barclays Long Year U.S. Treasury Index	Long-Term Government Bond ETF	0.10%
Inflation-Protected Bond Index	0.20%	Barclays U.S. Treasury Inflation-Protected Securities (TIPS) Index	Inflation-Protected Securities (non-index fund)	0.20%
Real Estate Index	0.33%	Dow Jones U.S. Select Real Estate Securities Index	REIT Index	0.26%

Nasdaq Composite Index	0.42%	Nasdaq Composite Index	N/A	N/A
Four-in-One Index	0.24%	Combines 500, Extended Market, Int'l and U.S. Bond Index	N/A	N/A

Note: Expense ratios as of 5/26/2016. Fees are for investor-class shares, except where Vanguard ETFs are used. In some cases, Vanguard funds listed may track different indexes than the corresponding Fidelity fund.

Sources: Fidelity and Vanguard.

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