Fidelity Launches Two More Zero-Expense Funds

By Editorial Staff *Thu, Sep 13, 2018*

Fidelity now offers four zero expense ratio index funds: Zero Large-Cap Index, Zero Extended Market Index, Zero Total Market Index and Zero Total International Index funds.

The Empire in Boston strikes back again—betting that it can regain mutual fund leadership by following (and one-upping) the indexing leaders.

Fidelity Investments has doubled its stable of zero expense ratio mutual funds by launching Fidelity ZERO Large Cap Index Fund (FNILX) and Fidelity ZERO Extended Market Index Fund (FZIPX).

Individual investors can buy the two new funds with no investment minimums starting September 18, 2018. The large cap index fund is comparable to an S&P 500 index funds and the extended market index fund buys mid-cap and small-cap company shares.

Fidelity's first two zero expense ratio funds, ZERO Total Market Index Fund and ZERO International Index Fund, appeared August 2 and have since grown to more than $1 billion in assets. Together, the four Fidelity zero-expense ratio equity funds provide market exposure to over two-thirds of industry index assets.

For several years, index funds (including exchange traded funds), primarily from Vanguard and BlackRock iShares, have captured most of the net fund flows at the expense of traditional actively managed fund specialists like Fidelity and Franklin Templeton.

Managers of index funds try to replicate the performance of the stocks or bonds that are included in specific indexes, which represent all of the assets within a certain market segment, such as large-cap stocks, value stocks or high yield bonds.

Active fund managers try to beat the performance of specific indexes by choosing specific stocks or overweighting in stocks with specific characteristics. Because actively managed funds can have higher much higher fees than index funds, active managers must overcome a performance handicap in order to beat the performance of a closely-related index fund.

In the year ending July 31, 2018, Vanguard funds attracted more than $226 billion in net flows and BlackRock iShares attracted $122.3 billion. Fidelity attracted just over $42 billion for the year. In July alone, Vanguard index funds attracted $16.4 billion, SPDR State Street

Global Advisors ETFs attracted $10.4 billion ($6.6 billion into its S&P 500 Index ETF SPY alone), and Fidelity index funds attracted $6.9 billion.

A chart provided by Fidelity compared its two new funds favorably with the Vanguard 500 Index Fund, which charges 14 basis points (0.14%) per year, and Vanguard Extended Market Index Funds, which charges 21 basis points (0.21%) per year. Both funds require a minimum initial investment of $3,000.

All of Fidelity's stock and bond index funds and sector ETFs have total net expenses lower than all of Vanguard's comparable funds, according to the Fidelity release.

Fidelity recently announced zero minimums for account opening, zero investment minimums on Fidelity retail and advisor mutual funds and 529 plans, zero account fees, zero domestic money movement fees and significantly reduced index pricing. The firm also cut index mutual fund pricing by almost 50%.

In the release, Fidelity also touted its no-annual-fee 2% cash back credit card; free debit card and ATM fee reimbursement, free check writing and bill pay; free portfolio review at any Fidelity investor center; free asset allocation models for diversified and income portfolios; and transparent bond pricing at $1 per contract.

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