Vanguard fires another shot in ETF fee war

To launch short-term TIPS fund later this year at half the cost of iShares

By Jason Kephart InvestmentNews

July 24, 2012

Vanguard Group Inc. will be the first to tell you that it isn't in the midst of an ETF fee war, but to its competitors it sure must feel that way.

Vanguard filed with the Securities and Exchange Commission on Tuesday to offer a short-term Treasury inflation-protected securities exchange-traded fund. It will track the Barclays U.S. Treasury Inflation-Protected Securities 0-5 Years Index, which also happens to be the underlying index for the $358 million iShares Barclays 0-5 Year TIPS Bond ETF (ticker: STIP).

To the surprise of no one, the Vanguard version will carry a much lower expense ratio of 0.10%; the iShares ETF has an expense ratio of 0.20%.

Vanguard's low-cost approach to investing has been a home run with investors since the financial crisis. Over the past five years, Vanguard's assets have grown 40% to almost $1.7 trillion, as of June 30. Meanwhile, overall industry assets have grown just 10% over the same time period.

The dominance of Vanguard has been particularly vexing to BlackRock's iShares, which has been losing market share for more than two years to Vanguard's ETFs. Since 2010, Vanguard's ETFs have had inflows of nearly $100 billion, while iShares, the largest ETF provider with $482 billion in assets, has taken in $56.7 billion.

On BlackRock's second-quarter conference call this month, chief executive Laurence D. Fink acknowledged the struggles iShares is having in core U.S. equity products, which Vanguard considers its sweet spot. “Without going into much detail, we believe we have a plan to address it over the coming months. And it is a big issue, and I have to give a lot of credit to Vanguard, they are a trustworthy brand and they have taken market share from BlackRock in the U.S. core type of equity products," Mr. Fink said.

A Vanguard spokesman declined to comment.

Canary in the coal mine? TIPS dip to record low yield

Fears of inflation on the rise -- even if prices aren't

March 22, 2012 2:19 pm ET

The U.S. sold $13 billion in 10-year Treasury Inflation Protected Securities at a record low negative yield with investors willing to pay a premium to guard against the threat of rising consumer prices.

The TIPS were auctioned at a so-called high yield of negative 0.089 percent, the Treasury said today. The U.S. first sold the 10-year securities at a negative yield in January. Five-year TIPS have also been sold at negative yields.

"We are continuing to see inflation expectations gather steam," said Aaron Kohli, an interest-rate strategist at BNP Paribas SA in New York, one of 21 primary dealers that are required to bid at the sale. "With energy prices running hot the market has priced in inflation over the next 10 years."

The bid-to-cover ratio for the notes, which gauges demand by comparing the amount bid with the amount offered, was 2.81, compared to an average of 2.74 at the past 10 auction of the securities.

Indirect bidders, a category of investors that includes foreign central banks, bought 40.4 percent of the securities, compared to an average of 41.6 percent at the past 10 auctions.

--Bloomberg News--