Investors in low-cost funds are keeping more of what they pay for

The message from investment research is clear: Don’t assume that you’ll get more if you pay more. You can’t control the markets, but you can control the amount you pay to invest. Lower costs allow you to keep a greater share of an investment’s return.

Over the ten-year period ended December 31, 2018, low-cost funds outperformed high-cost funds. So it’s not surprising that investors frequently say that fees are an important consideration when buying a mutual fund.

Note: Data are as of December 31, 2018.
Source: Vanguard.

For more than ten years, investors have been favoring low-cost equity funds

Investors are increasingly gravitating toward low-cost options. The equity funds with expense ratios in the lowest quartile attracted $1.25 trillion over the last 15 years, while funds with higher expense ratios suffered net outflows.

Notes: Expense-ratio quartiles were calculated annually. Equity funds are represented by Morningstar U.S. equity category. Each quartile represents 2018 asset-weighted average expense ratios, determined by multiplying annual expense ratios by year-end assets under management and dividing by the aggregate assets in each quartile. Data are as of December 31, 2018.
Source: Vanguard.

Investors’ preference for low-cost bond funds is clear

Nearly 100% of net cash flows into taxable bond funds went to low-cost options.

Clearly, the low-cost message has been received by investors in both equities and bonds.

Notes: Expense-ratio quartiles were calculated annually. Fixed income funds are represented by Morningstar’s investment-grade U.S. fixed income categories. Each quartile represents 2018 asset-weighted average expense ratios, determined by multiplying annual expense ratios by year-end assets under management and dividing by the aggregate assets in each quartile. Data are as of December 31, 2018.
Source: Vanguard.

Notes:
Data are as of December 31, 2018.
Source: Vanguard.
More about Vanguard’s cash flow research.

The focus and efforts of the Vanguard Advisor’s Alpha® Research team are centered on the value of advice and advisors, which requires an in-depth knowledge of investor behavior. The team has long tracked industry net cash flows to develop insights into what investors, collectively, are doing with a substantial portion of investable assets. The goal is to provide insight on the actual behavior of investors (individuals, households, committees, financial advisors, and consultants) that can help improve investor decision-making and outcomes. The findings have been leveraged in our research, beginning with our seminal piece, Vanguard Advisor’s Alpha, and including The Evolution of Vanguard Advisor’s Alpha: From Portfolios to People and Vanguard’s risk speedometers.

1 According to data from Morningstar, Inc., assets under management for U.S. open-end mutual funds, money market funds, and ETFs totaled $20.0 trillion as of December 31, 2018.

Connect with Vanguard® > vanguard.com

Vanguard Advisor’s Alpha® research team
Francis M. Kinniry Jr., CFA
Donald G. Bennyhoff, CFA
UK-Europe
Georgina Yarwood
Americas
Michael A. DiJoseph, CFA
Yan Zilbering
Christopher Celusniak

All investing is subject to risk, including the possible loss of the money you invest.

CFA® is a registered trademark owned by CFA Institute.