

Investors Moving Toward ETFs, Cogent Says

By Olivier Ludwig and Cinthia Murphy | January 24, 2011

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Investors are slowly moving away from mutual funds and are increasingly embracing ETFs in what appears to be a growing trend that is likely to continue in 2011, according to a study by Cambridge, Mass.-based business consultancy Cogent Research.

As of October of last year, 75 percent of retail investors owned mutual funds, a 3 percentage-point drop from a year earlier, and 19 percentage points below October 2006, Cogent said. Over the same four-year period, the proportion of investors reporting that they owned ETFs rose by more than 50 percent to 11 percent from 7 percent, Cogent said.

Total assets in U.S.-listed exchange-traded products crossed the [\\$1 trillion mark](#) in November of last year, almost 18 years since the first exchange-traded fund, the SPDR S&P 500 ETF (NYSEArca: SPY), was brought to market in January 1993. Total U.S. ETP assets have since grown to almost \$1.024 trillion. That compared with \$11.487 trillion in U.S. mutual fund assets as of the end of November, according to Investment Company Institute data.

"These numbers reflect a dramatic shift in preference among investors for both mutual funds and ETFs," Cogent Research Principal John Meunier said in a press release. "And while it's impossible to know exactly how things will play out, it's clear that a major realignment is underway."

"Traditional mutual fund providers are fighting tooth and nail for a shrinking piece of real estate, while established ETF providers face a different challenge; fending off a rush of new providers in a rapidly expanding marketplace," Meunier added.

Retail investors have not only been consistently using more and more ETFs instead of mutual funds as their investment vehicle of choice, but they have also been allocating more assets to these instruments, Meunier added in a telephone interview.

Since Cogent's annual Investor Brandscape Report first came out in 2006, through this last report, there has been a "significant move away from mutual funds," he said.

"We can no longer ignore that this shift is happening," Meunier said. "Retail investors have

embraced ETFs because of their simplicity, transparency and cost. The advisor-investor relationship has changed, and it's harder to justify the value of paying for the cost of active management in a mutual fund for broad strategies like the S&P 500."

Vanguard Shining

Amid the shift in preferences, Vanguard is outshining its competitors, Cogent's research also showed. The Valley Forge, Pa.-based money management firm leads other providers in terms of how much investors favor the Vanguard brand in both the ETF and mutual fund spaces. A bit more than half of all investors who were familiar with Vanguard preferred it, the research showed.

In the mutual fund space, the company's biggest competitors in "favorability" included RiverSource and Fidelity; while iShares, Invesco PowerShares and Guggenheim challenge Vanguard's dominance in the ETF market.

"These investor favorability scores not only reflect the strong positive net flows earned last year by Vanguard in both the mutual fund and ETF categories, more importantly, they suggest the company's momentum is very likely to continue in 2011," Meunier said.

Vanguard pulled in [\\$40.5 billion in new assets into its ETFs last year](#)—\$10 billion more than second-place provider, BlackRock, the parent of iShares, according to data compiled by IndexUniverse.com.

"To the consternation of some, Vanguard has a good cost-story to tell, even in the mutual fund side," Meunier said. "Not only in terms of brand health, but in terms of asset flows, the numbers show that the momentum is with Vanguard. It had the biggest flows in the ETF space in 2010, and the second biggest in the mutual fund space."

The Rising Star

Vanguard's rise to the top first became apparent when the company [outranked iShares](#) for the first time to become the most popular ETF provider in terms of advisor loyalty last fall, according to an earlier Cogent study.

The company was, in fact, the only top-five ETF provider to grow its market share among other ETF purveyors in much of 2010, according to Cogent's Advisor Brandscape report released in September. Vanguard also started chipping away at iShares' leadership in terms of [name recognition](#) among financial advisors last fall.

Last week, the \$45.48 billion Vanguard MSCI Emerging Markets ETF (NYSEArca: VWO) [eclipsed](#) the iShares MSCI Emerging Markets Index Fund (NYSEArca: EEM) as the biggest emerging markets ETF in the world.

