IGNITES

All that's hot in the mutual fund industry

A Financial Times Service

Print | Close Window

Vanguard Tops Fidelity in Investor Loyalty: Study

Article published on January 21, 2010
By Hannah Glover

As money moves back into the markets, the shops most likely to capture assets in flux will be those whose brands demonstrate strong performance and convey a sense of stability. That's according to a new report from **Cogent Research**.

Among mutual fund companies this year, **Vanguard** did the best job of cementing investor loyalty, moving up one and nudging **Fidelity** out of its top spot, according to the report, "Investor Brandscape 2010."

After the two direct-sold providers comes **American Funds**, which authors say has developed a brand that "transcends the advisor relationship," followed by **T. Rowe Price** and **TIAA-Cref**. Results are based on a survey of 4,000 U.S. investors with at least $100,000 in investable assets conducted in October. Scores are calculated based on brand equity, customer loyalty, market penetration, client mix and share of wallet.

But even for firms that scored relatively well, loyalties this year are more malleable than in the past. "This year, we see the mentality of investors stuck in neutral," says John Meunier, a principal at Cogent. Overall satisfaction has dipped and investors remain risk averse. "Despite the fact that portfolio performance has improved and balances are back to 2006 levels, satisfaction has not rebounded," says Meunier.

That dissatisfaction has also driven investors to different products and asset classes, according to the "Investor Brandscape" study. In fact, of the 4,000 investors surveyed, only 78% owned mutual funds, compared to 94% in 2006. Even among mutual fund owners, the proportion of the portfolio mutual funds command shrank to 44% in the most recent survey, compared to 53% in 2006.

Instead, investors allocated greater proportions to exchange-traded products, annuities and cash. While the shift to ETFs has been a long-developing trend — exacerbated by investors' preference for low-cost, index-based products — the shift to annuities, which have a reputation for being expensive and difficult to explain and sell to investors, signifies demand for the guarantees they provide, says Meunier.

Families That Win Investor Faith

10 Top-Scoring Firms

Fund Company	2009*	2008*	2006*
Vanguard	1	2	1
Fidelity Investments	2	1	2
American Funds	3	3	3
T. Rowe Price	4	4	6

TIAA-Cref	5	N/A	N/A
Franklin Templeton	6	7	19
Fidelity Advisor Funds	7	6	11
Oakmark	8	29	31
Morgan Stanley Inv. Advisors Funds	9	8	9
Schwab/Laudus Funds	10	5	5

** Dates investor survey conducted. Source: Cogent Research Investor Brandscape*

Vanguard's dominance in the traditional, open-end mutual fund index market may contribute to investors' positive perception of the brand, says **Financial Research Corp.** analyst Bridget Bearden. Vanguard controls 73% of long-term mutual fund index assets, compared to 11% for Fidelty, she says. In fact, Fidelity has been losing market share in both its active and passive products since 2004, she notes. As of November, Fidelity's active mutual fund products, including funds of funds, represented about 10% of the market, compared to 11.5% in December 2004, according to Bearden.

Meanwhile Vanguard has been boosted by not only its strong index presence, but also its array of ETFs, a product line Fidelity has virtually avoided.

Investors now scrutinize fund families' performance more stringently than in years past. Part of what may have pushed Fidelity from the top spot is that it has fallen from the list of top fund providers in performance. The number of investors who said they were "very satisfied" or "extremely satisfied" with Fidelity's mid- and long-term performance dropped 10 points, Meunier says. Meanwhile, strong performance, and attention from entities like **Morningstar**, helped push investor perception of the **Oakmark** brand to No. 8 this year, compared to 29th in 2008 and 39th in 2006, according to Cogent.

Likewise, **Franklin Templeton** has seen its brand perception rise from 19th place in 2006 to seventh in 2008, ending up in sixth place in this year's report.

Brands relatively new to top 10 lists have become more dominant in the past few years, says Bearden, citing Oakmark and the **Fairholme Funds**, which both benefit from star manager power. But that will not lead to the demise of blockbuster brands like Fidelity, Vanguard and American Funds, she says. "They have very active marketing departments, and are continually trying to keep their image up-to-date," she says.

When asked about distributor preference, Fidelity again lost its top standing to rival **Charles Schwab**, according to Cogent.

Fidelity, in particular, has been affected by market dynamics in the defined contribution market. In part, the firm's brand penetration has been affected by the double whammy of retirees' leaving the workforce without rolling their assets into Fidelity Individual Retirement Accounts (IRAs) and rising concerns about the economy and unemployment. Those concerns have caused workers to pull back from participating in defined contribution plans, says Meredith Lloyd Rice, an analyst with Cogent and author of the report. Fidelity also lost points for expenses and fees from direct investors, according to the Cogent report.

Schwab, meanwhile, has climbed up from No. 3 in 2006 to second last year. At the same time, Schwab has undergone certain fee reductions and led aggressive marketing campaigns touting those cuts.

Investors indicated that they consider financial stability of distributors critical. Such concerns in the wake of mergers between big banks following the financial crisis caused investor perception of top wirehouses to slip, according to Cogent. **Merrill Lynch** and **UBS**, which respectively ranked Nos. 1 and 2 in 2006, now rate fifth and seventh. Concerns about the stability of the bank-backed firms through the financial crisis likely eroded those brands in the eyes of investors, says Rice. Meanwhile, firms like **Edward Jones** and **Raymond James** have built greater brand equity. Edward Jones, for example, jumped 10 spots to fourth place between 2006 and the most recent report. “We think it has to do with the perception of independent financial advice,” says Rice.

As firms look to continue to build their brands and win the faith of still-unsettled investors, distributors and manufacturers must focus on building trust, says **Fuse Research Network** president Michael Evans. “The importance of trust is accelerated post-crisis,” he says. Firms cannot simply promote short-term performance in the asset grab that comes as investors begin moving out of strictly fixed-income strategies, he says.

Long-term loyalty depends on the firm’s ability to convey a strong culture, message and mission, he says. “It’s got to be top-down, in terms of commitment,” he says. That means delivering a consistent message and philosophy, from wholesalers to call centers to the way business units work together, he says. “That can be a really powerful tool.”

Distribution Leaders

10 Top-Scoring Firms

Distributor	2009*	2008*	2006*
Charles Schwab	1	2	3
Fidelity Investments	2	1	4
Morgan Stanley Smith Barney	3	N/A	N/A
Edward Jones	4	8	14
Merrill Lynch	5	4	1
Raymond James	6	5	10
UBS	7	9	2
Vanguard	8	6	6
Wells Fargo Advisors/Wachovia Securities	9	N/A	N/A
Ameriprise	10	11	12

**Dates survey was conducted. Source: Cogent Research Investor Brandscape*