8/13/24 - Will Vanguard CEO Salim Ramji Support a Crypto ETF?

Jeff Benjamin: Hey, folks, welcome to another episode of Advisor Upside, powered by etf.com dot. I'm Jeff Benjamin, wealth management editor here at etf.com.

DJ Shaw: I'm DJ Shaw, finance reporter at etf.com.

Jeff Benjamin: we are talking today with Jeff DeMaso, editor of the independent Vanguard Advisor newsletter. We're going to be talking about all the things going on at Vanguard these days, including the new CEO and crypto and one page financial statements. We're going to get right into it.

DJ Shaw: Hi, Jeff, how are you? Thanks for being here.

Jeff DeMaso: Hey, DJ, I'm great. thanks for having me and looking forward to talking all things Vanguard.

DJ Shaw: I'll go ahead and get started with our first question. Salim Ramji took over as the new CEO of Vanguard about a month ago. What are your expectations for this leadership transition?

Jeff DeMaso: Yeah, I'd say so far so good for Salim Ramji in the first month as Vanguard CEO. maybe you could say he's doing nothing, but he's saying the right things, he's listening, he's not rocking the boat. which is what we really wanted to see as, he came into the new firm. He's talked a lot about continuing on the mission that Jack Bogle set out. So that's all good.

In terms of transition and what we might see. It's going to be really interesting to see what direction he takes Vanguard in and where he tries to find pockets of growth. Under, Bill McNabb, ETFs really expanded under, his leadership, Tim Buckley, the prior CEO, the advice channel really started to take off Vanguard.

And so Ramji has mentioned that private markets might be something that he's able to help the firm grow in. They've already got a bit of a foothold there, but it hasn’t really taken off. So that's maybe something. Well, see, in terms of crystal ball, where does Vanguard go in the next several, quarters and years under Ramji?

Jeff Benjamin: Jeff, you and I have talked about this a bit already, and there is a lot of significance here in Ramji. I guess introduction to Vanguard. This is the first time in Vanguard's 49-year history that a CEO has come from outside and not up through the ranks under the Jack Vogel tutelage, if you will. Does this signal some kind of a change for Vanguard from your perspective?

Jeff DeMaso: I guess I don't want to waffle and kind of say yes or no, but on the one hand, yeah, it recognizes that, you know, vanguard saying, hey, we don't necessarily have a monopoly on talent. And now might be the time to bring in some fresh eyes on what we're doing and how we do it.

At the same time, I think that they're very protective of their culture. And Ramji's talked about, all the conversations with the board were about culture. And, look, an executive like Ramji doesn't come along all the time. He's clearly very, very talented. He's got relevant experience of leading the iShares unit at Blackrock. And even when he was at Blackrock, he sounded like Vanguard. If you'd heard an interview with him, he just sounded like he was a Jack Bogle disciple.

So in that regard, you've got someone, again, who's got the experience, who seems, to respect Vanguard, maybe already kind of drank a little bit of the Kool Aid, but has that outside perspective and says, hey, maybe we should be doing something a little bit differently here. And sometimes that's easier to do when you come from the outside.

So I'm actually pretty optimistic about Ramji and what he can bring to Vanguard and hopefully carry on this great company and move in the right direction.

Jeff Benjamin: It was six months ago that Tim Buckley announced his plans to retire. I know, I was surprised at how quickly they had a replacement in place in Ramji. But now that you've had time to study this a little bit, what do you think about Buckley's departure? I mean, was he forced out?

Jeff DeMaso: It definitely caught, I think, everybody by surprise. And that clearly had us asking this question about him being forced out. And look, I can speculate with the best of them, maybe there was forced out in, quote unquote, a bad way, or maybe it was forced, out because they saw Ramji as a free agent, wanted to bring him in because he left Blackrock at the beginning of the year.

That said, and that's just speculation, I'm inclined to assume, that Buckley and Vanguard are, quote unquote, innocent until proven guilty, really until we learn otherwise. But, yeah, definitely a big surprise. And certainly, as we said, a big step, hiring, the first outside CEO. but again, I think it might be time to get a little fresh perspective from someone who appreciates the culture.

DJ Shaw: Jeff, can you talk about some of the biggest issues, facing Vanguard?

Jeff DeMaso: Yeah. the big one is their technology and service. you know, just for example, on Monday, when the markets were going, you know, I don't want to say off the rails, but they're showing a lot of volatility. The Nikkei fell 12% in a day. The vix was spiking. Vanguard's website went down.

Now, in fairness, Vanguard wasn't alone. Fidelity, schwab, other big brokerage platforms also had trouble. But that was the latest misstep in a long line of missteps of tech and service issues at Vanguard. So I think that's kind of big issue number one.

Number, two is, what's next? Where does Vanguard grow from here? I, already mentioned private markets as a place they might grow. another example that's maybe worth talking a little bit about is the overseas experience, our overseas expansion.

Vanguard's been starting and stopping that for several years now. and on the one hand, it makes sense, right? If you're Vanguard as a normal company, it's always, all right, we got to be growing or we're dying. And we've achieved this great success, 20% plus market share in the US. We got to expand overseas.

it sounds logical, but at the same time, Vanguard isn't your typical corporate company. owned by the mutual fund shareholders. They like to tout that being owned by our investors. And I always sit here and say, okay, I own a handful of vanguard mutual funds and ETF's. Why do I want Vanguard to expand overseas? How does that benefit me? what are the risks of them growing overseas and getting bigger and bigger and bigger?

so I think that's kind of one question for Vanguard. Where do we go from here? Where should we go from here? And then, how patient should we be in terms of trying to pursue those growth opportunities?

DJ Shaw: Are the technology and customer service issues you mentioned as bad as, people are saying?

Jeff DeMaso: Short answer, yes. frankly, my take is that it's actually starting to do a little bit of damage to the brand. But let me give you a little bit more kind, of a rounder answer on that.

You know, two caveats, or things to be aware of, is people don't say anything when tech works, but they kind of scream bloody murder when it doesn't work. For example, I wrote about Vanguard's website going down on Monday. I did not send an article on Tuesday saying, vanguard's website working as usual. so that's just the nature of this.

additionally, I also write a newsletter on vanguard funds and ETF's. so no one is ready to tell me that they are fed up with fidelity or Schwab or E trade. I really only hear about Vanguard.

So, that said, let me read you a Wall Street Journal headline. Customer service suffers as investors pour into Vanguard. When do you think that article was written 2004. point being, that's 20 years ago. It could have been written yesterday. so this is not a new problem. It kind of comes with the territory of being the low cost provider. It usually comes out somewhere, and that's really been on the tech and service side for years.

but as I said at the beginning of this, response is that, ah, my sense is that tech is starting to do some damage to the brand. I regularly hear from subscribers and readers of the newsletter saying, I've been a longtime vanguard investor since the eighties. I'm thinking about leaving due to the technology and service. and that's pretty remarkable.

And I think the thing to keep in mind here is that the competitive landscape has changed from 2004, particularly if you're an index investor. fidelity, Schwab, ishares, they all have index funds that are, on equal footing when it comes to cost with Vanguard, if not lower cost. So I think people are sitting here and saying, hey, I can go to fidelity, buy my no cost to low cost index fund, get the same thing in terms of an investment experience, but get better service, why not? And it's a fair question.

Jeff Benjamin: Yeah, I mean, a couple of points of clarification here. Jeff, you made a few references to Monday, that is for our audience. That's Monday, August 5. That was the day of the big market, disruption, to be fair on, the vanguard kind, of tech disruption. and DJ, you wrote about this, it was also included. It involved Schwab, I think, and fidelity, didn't it? Other platforms?

Jeff DeMaso: Oh, yeah, no, it definitely wasn't just vanguard. I completely agree on that one. but it is not the first time on a volatile day Vanguard's tech has gone down.

Jeff Benjamin: Yeah. Okay. let's talk about cryptocurrencies. Okay. If you want to hear more analysis and expert opinion about what's going on in the markets and the world of ETFs, make sure to also subscribe to and follow exchange traded Fridays, brought to you by ETF.com dot. Morgan Stanley just came out saying that they're going to allow their, their wealth advisors, to sell two of the nine spot bitcoin, ETFs, the BlackRock version, and the fidelity version to their, advisory clients that have at least 1.5 million in net worth. So there are a few hoops to jump through, but it is an opening up of access. And this is something that Vanguard said right from the jumpstart, that they are not allowing bitcoin ah, ETFs to be traded on their platform. What's up with vanguard and cryptocurrencies? and when, Jeff, do you see this wall starting to come down? It doesn't seem to me like they can hold off forever.

Jeff DeMaso: Well, I don't really expect it to come down anytime soon. maybe they can't hold off forever. but this is typical vanguard behavior, in terms of looking at some products and saying, we don't think these are appropriate for investors. We're going to be a little big brother, if you want to call it, or we're going to look out for investors and we're going to say, you can't trade this.

They've done this with leveraged ETF's, years ago, and haven't made any moves to bring those back onto the platforms. so it seems as long as they continue to see crypto as being inappropriate for investors or not fitting in a portfolio, then they won't have it.

And at least so far in his initial comments, Ramji has more or less said he's not touching it. He says he understands why Vanguard made the decision and that it fits with Vanguard. so for the time being, I guess I'm sorry to disappoint the crypto enthusiasts that are looking to invest at Vanguard, but I don't see it happening.

Jeff Benjamin: Anytime soon, because initially, with the announcement of Tim Buckley's departure, and I think that came in March, his announcement, there was speculation that the crypto resistance was one of those kind, of final, straws for Buckley. And I think you and I even talked about that a little bit, and it looked like Ramji, this, you know, kind of different voice from a different place, coming from black rock, was. But, you know, what you're saying now is that maybe this is going to be, you know, where vanguard digs in their heels.

Jeff DeMaso: Yeah, I mean, it felt like a strange thing for Ramji to come in and immediately, you know, about face on, I think had that happen, we'd all kind of sit here and go, oh, he's from outside, he doesn't get vanguard. So it'd kind of be, ah, just from a leadership standpoint, it'd be a pretty big expenditure to go out and reverse course on that. Even if that's something that he's eyeballing and would like to do, I think he's kind of right to slow pay it. But again, I just don't see it happening anytime soon.

I know it's easy to point that decision on Buckley but I, Greg Davis, the firm CIO, would have been heavily involved in that decision as well. Again, even in a recent interview at, ah, Bloomberg, Ramji discussed this term that he heard at Vanguard called does it load? now, I thought it was a little ironic. He was talking about that the same day Vanguard's website wouldn't load. but he was just talking about it in reference to, assessing new investment products and saying, does it load? And does it fit inside of an investors portfolio?

And so far, Vanguard has been very consistent in saying that these don't, fit in an investment portfolio. and I think they're going to be very slow in changing their mind on that, even if it is kind of like how Morgan Stanley just did it with a bunch of hoops to jump through to get there.

DJ Shaw: Let's talk about Vanguard's recent, SEC filing warning of ownership risk because of its growing size. Can you break that down for us?

Jeff DeMaso: I'd be happy to. So this is a unintended consequence of the popularity of index investing.

so the idea here is that if you own a large stake in a company, and let's use, utilities as an example, as it's kind of where this first came about. but if you want to have a large stake in utility, 5%, 10%, then the regulators are going to want to know who you are. And, to a point, may be able to limit your ability to purchase more of, that company's stock.

And Vanguard, given its size and the nature of index funds, is a large owner of utilities. and the same applies to Blackrock, state Street and some other companies. but Vanguard in the past would have to apply for approval to, ah, ferc, which is the Federal energy regulatory commission, saying, hey, we're a passive investor. you know, we're not going to agitate for changes at the board. We're not going to tell you how to run the company. so please let us buy 5, 10 plus percent of, the outstanding shares of this company.

And in the past, I, don't want to say it's been a rubber stamp, but they've gotten approval to do that. And then last December, a number of state attorney generals sued FERC, saying Vanguard shouldn't get approval for this exemption because they are not a passive investor, in particular because they are members of some of these ESG related organizations like the Net Zero Asset manager alliance.

Ultimately, Vanguard did get approval, but that wasn't quite the end of the story. Ah, as, the FDIC has also been looking at Vanguard and its ownership of financial companies and banks. And to try and take this long story and make it a little shorter, the short answer is that the days of getting a regulatory free pass for index funds are over, and that Vanguard is taking this risk, very seriously.

They've pulled out of the net zero asset manager alliance. They've written to regulators with suggestions to make it clear what it means to be a passive investor in these companies. And again, most recently, as just mentioned, the question, they've updated their legal documents to prospectus to say, hey, the regulators might limit our ability to buy banks or utilities or some other specific stocks.

And if they do that, then that's going to impact our ability to manage our funds, and we might have to come up with some ways to get around it. In particular, they mentioned, using total return swaps. So kind of effectively going to someone like Goldman Sachs, another large investment firm, and saying, hey, for a fee, will you give us exposure to utility stocks or banks or whatever it may be? and so that's kind of where Vanguard is today.

And look, I think the regulators should ask these questions again. This is kind of an unintended consequence, this concentration of ownership in just a few companies.

Jeff Benjamin: What does it all ultimately mean to vanguard investors, though?

Jeff DeMaso: Well, so for the moment, it means nothing, right. No one has ruled against Vanguard. They can still buy stocks in the amounts that they want, when they want.

Should they get, you know, the handcuffs put on them, a limitation on what they can buy. it then means that either and, or, it'll become more difficult to run the funds. So if you're an index fund, it will be a bit harder to track the index. So you may get tracking error introduced. it may also have some negative tax consequences. M it also may just in general increase the cost of running these funds.

So, this is where I've kind of said that regulators should be a little bit careful. I mean, yes, ask the question, but also recognize that indexing has been a clear good for investors, saves investors a lot of money, put more money in investors pockets, and that needs to be weighed against, the cost of this concentrated ownership. And that cost isn't quite clearly as defined, and it's a little bit harder to pin down.

Jeff Benjamin: Okay. All right, Jeff. And finally, I want to ask you about this summer. We saw the first example of Vanguard's new one page financial statement for its funds. This is kind of interesting. You showed me a little bit of this, a, week or so ago. I think it was a Wellington fund, went from 72 pages to one, which I think people should like, because who reads those 72 pages anyway? But what's the backstory on this and where does it go from here?

Jeff DeMaso: Yeah, so the backstory is that this was really in response to a, 2023 ruling from the SEC, and it's called the tailored shareholder reports. and it had an 18 month transition period, and we're kind of running up on the end of that.

So, in terms of where does it go from here, I think we're going to see, more of these streamlined annual reports and semiannual reports, at Vanguard and across the industry.

But, yeah, briefly, the idea was to give, like, the term retail investors, but quote, unquote, retail investors, your mom and pop individual investors, an annual report that is much more accessible, has some very specific key points of information in them. And then you separate out the financial statements, the holdings, some more of the nitty gritty on the funds that, really bulked out those 72 pages. You still report those, but they're just going to be pulled out into a separate report, that those who are interested in will have to, hunt down, but the information will still be there.

So, yeah, I think for the average investor, having one page, two page report that they're actually going to look at is better than 72 pages that they don't open or just drop in the recycling bin. but, yeah, that does also create a few more hoops and things to step through for people that are looking to get into the weeds bit.

Jeff Benjamin: Okay. and finally, Jeff, where, can people go to, find some of your research if they want to know more about what's going on with the independent vanguard advisor newsletter?

Jeff DeMaso: Yeah, the best place to find us is at our website, independentvanguardadviser.com dot, spelled with an ER. you can find everything we do there. I also post articles to LinkedIn and Facebook, as well. And any of those avenues will work. We try and be pretty responsive to all of them.

Jeff Benjamin: Okay. On that note, I want to thank you, Jeff DeMaso, editor of the independent Advisor newsletter, on behalf of my colleague and co host, DJ Shaw. I want to thank you all for listening to the Advisor Upside podcast powered by eTF.com. dot. Go to eTF.com for all of your financial research and, ETFs needs. We've got all, everything there. Check out the advisor center. It's, designed specifically for financial advisors. And reach out to us if you see something you want us to write about or you want the answer to? I can be reached at jeff benjamin@etf.com on twitter. My handle is at benjiwriter. So until next time, thanks for listening, folks.

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