12/17/24 - Vanguard Squares Off With Financial Advisors

Jeff Benjamin: Welcome to the Advisor Insider podcast, powered by etf.com I'm Jeff Benjamin, wealth management editor here at etf.com and we're talking today about some big news out of Vanguard that has implications for financial advisors in the form of potential stiff competition that might start with pressure on advisory fees. They have announced the creation of the Advice and Wealth management division, which will likely include the four financial advisory services now at Vanguard overseeing more than $300 billion. To lead it, Vanguard has hired Joanna Rotenberg, who comes over from Fidelity, where she spent two years building out Fidelity's consumer investing, I guess, advice business. to break this all down and explain what it means for financial advisors, we've got Jeff DeMaso, editor of the independent Vanguard Advisor newsletter. I've known Jeff a long time. He follows Vanguard like nobody else. And, he knows. I don't know. He seems to have all the answers when I talk to him. Jeff, how you doing? We got two Jeff's today.

Jeff DeMaso: I'm good. Jeff, thanks for, having me back. Nice to speak with you again and, excited to talk, all things Vanguard.

Jeff Benjamin: Yeah, let's break this down. First of all, the. They announced it about a week ago, the Advice and Wealth management division. They already have, a financial advisory services there. Maybe we can start with that. What, what does Vanguard have? I know they got into the space in 2015 and in sort of the way it is now. Right.

Jeff DeMaso: Yeah. It's kind of curious of the timing just with Karen, Reese. they actually announced last week that she's a managing director at Vanguard and she was actually responsible for starting the advice channel at Vanguard in 2015. And, she announced that she's retiring at the end of the year. So we can kind of talk about that as well. But yeah, that channel has grown, as you said. It's called 300 billion-plus. So it's a large channel, but it's been housed within the broader personal investor division within Vanguard. And with this move there, they seem to be explicitly pulling those pieces out. So that's Digital Advisor, Personal Advisor, Personal Advisor select, and Wealth Management. They're different tiers. And as you said, they brought in Joanna Rotenberg from, you know, formerly at Fidelity, and she actually just effectively just did that at Fidelity. Kind of pulled their advice platform out of, out of another department. And it looks like they're tapping her to do the same thing here.

Jeff Benjamin: Yeah, I mean, sometimes you say the handwriting is on the wall. In this case it looks like a billboard in Melbourne, Pennsylvania. They're looks like they're really taking financial advice, I guess, serious or to the next level at Vanguard, would you think?

Jeff DeMaso: Yeah, look, it's. In some ways, this move is logical. As we said, it's $300 billion. It is a large division, giant RIA in itself. So it makes sense to pull it out and try and separate the do it yourself investors from the Vanguard investors who want some advice. that said, I think when Vanguard looks around and says, all right, where do we go from here? Where's the next trillion dollars come from? They got to think that advice could be it. I mean, on the mutual fund side, ETFs side, Vanguard has, rode the megatrend of ETFs and mutual and index mutual funds. And, they're 20, 30% of market share. The advice space, the RA space, is far more, fragmented. No one comes close to having that type of market share. And there's plenty of players out there trying to consolidate and grow assets through the merger and acquisition route. Vanguard is following their old playbook of coming in with low costs and pressuring people on that side. And I think they're probably looking around saying, hey, we can take market share in this space.

Jeff Benjamin: Yeah, let's go to that point right there. The fees, this is what I teased at the beginning. Their fee structure across those four platforms, that you, you kind of glossed over. They start, I think, 30 basis points for the all digital version, which is basically they put you into index models. Right. They go all the way up to. You get an actual, you're talking to an actual financial advisor assigned to you from Vanguard. I think you said the minimum there is 5 million. And that starts at 30 basis points. But the break points go down to 5 basis points. And then the two middle pieces, of their current financial advice platform, their fees are. Nothing is higher than 30 basis points. And the point there is that, you know, we use this average when we talk about financial advisors of charging 1% of assets under management. And I know, and I know you know, that that varies. Some charge more, some charge less, but everybody seems to be comfortable with the 1% figure. So if you coming in at 30 basis points off the top, even if nothing changes,

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Jeff Benjamin: when, they bulk up this advice and wealth management division like we all expect them to, that's a tough thing for financial advisors to face, isn't it? This isn't like, you know, some guy, you know, hanging a shingle in your neighborhood and say, I'm going to compete with you. This is Vanguard.

Jeff DeMaso: Yeah, yeah. Just one point of Correction that just the digital advisor, the robo, is actually at 15 basis points.

Jeff Benjamin: Oh, okay, sorry.

Jeff DeMaso: So that's even cheaper, right? Even cheaper there. but again, that one has a minimum of $100, so they're kind of targeting a different client.

Jeff Benjamin: Yeah, $100. There you go.

Jeff DeMaso: Yeah. and yeah, the 30 basis points comes in when they start introducing access to a human kind of their hybrid advisors. yeah, I mean, look, this is clearly they're coming for advisors. They want to take market share in this space. they're taking it seriously. 30, 30 basis points is incredibly competitive and I think there's probably been some pressure within Vanguard. that fee is a little hard to work with internally, to match up with the cost of providing a dedicated advisor. Trust services, wealth management services, estate planning, legacy planning, kind of all those pieces. And just for by way of example, if we look at one of their competitors, betterment charges, 25 basis points on the robo end, but if you go their personal advisor route, they're charging 65 basis points.

Jeff Benjamin: Okay.

Jeff DeMaso: so just as, you know, one example of, you know, one robo advisor says, hey, we're going to do this dedicated person. you know, they're coming at 65 and Vanguard's holding it at, ah, that, that top line around 30 basis.

Jeff Benjamin: Yeah. All right, so I think we already discussed this, you and I, a week or so ago about Vanguard likely to raise these fees. Right. Even if they get up to betterment, 65 is still. Yeah, I'm sorry, it's a long way from 1%, 65 basis points. So it is.

Jeff DeMaso: I, you know, that 1% number. I'd love to actually get a breakdown on it. I feel like we all kind of use it as a rule of thumb, but I do wonder if advisors have started, you know, wiggling that on the very least, you know, they've probably added some services to that one.

Jeff Benjamin: Well, they have to. That's the only, that's, that's what they can do. If they can't cut, you know, fees, they gotta, they got to, add services. I mean, it's all about that. That's the.

I know, I don't want to get off on a tangent here because we're tired of talking about Vanguard, but, in the financial advice industry, to me, that's the one area that has not felt the fee pressure that's been across the financial services industry. And they're the ones most directly. They're. I'm not most directly. They're directly dealing with the people paying all these fees all the way up the food chain. I don't know how financial advisors have maintained that, wall, but, and you know, I, I'm not kidding you, I talk to financial advisors that charge considerably more than 1% and are proud of it. financial advisors just are not interested in competing on price. I, I heard one advisor, I cannot, I wish I could remember who's told me this. It might have been Rick Edelman. Years ago. He said something like, if a client came to him and said, this guy down the street, is charging less money, why shouldn't I go to him? And Edelman told the client, nobody, knows that advisor's value more than he does.

Jeff DeMaso: Yeah, I mean, it's similar to a colleague who always used to say, cost is what you pay, value is what you get. and look, in many areas, the price tag does signal quality. If you're buying a coat or a T shirt or something, and one's $5 and one's $150, that should signal something about the quality of it. Vanguard, has kind of showed on the investment side of the world that that's not necessarily the case. price doesn't necessarily translate into, a higher quality investment product. actually, if anything, lower fees tend to translate into better returns for, ah, the ending shareholder. And I mean, look, this is Vanguard running kind of that playbook again, but in a different channel. targeting the advisor space. And to date, I mean, they've grown to 300 billion.

Jeff Benjamin: Right.

Jeff DeMaso: And that's been big. And that clearly has not hindered their ability to grow overall. Right. If anything, it's contributed to it. so for the time being, Vanguard's kind of had its cake and been able to eat it too.

Jeff Benjamin: Yeah. Well, what, let's talk about the potential competition. And it's not even potential because at 300 billion they're already competing with advisors. But as they build this out, it becomes more of a frontline facing division. It's got an official name and everything. Now what does, what do financial advisors do when they're buying products from Vanguard and they're also competing with Vanguard?

Jeff DeMaso: Yeah, I mean you're going to face the same thing. Fidelity has their own Advisor Services, Schwab does. They've got their intelligent portfolios. So if you're.

Schwab's got less of the mutual fund ETF offerings, but they do have some. I mean, yeah, look, it's, it's again, it's the world that we've lived in though for the past decade. Now, where Vanguard's been competing, Vanguard still has

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Jeff DeMaso: cost, they still have named brand, they still have quality products. There's a lot of really good reasons for advisors to use Vanguard mutual funds and ETFs within their practice. it's just going to force advisors to better to find their value, better to demonstrate their value. and if they can't do that, yeah, they're probably gonna, gonna lose some clients to Vanguard over this.

Jeff Benjamin: Yeah, confirms like Vanguard. I know obviously that it's, it's not a new thing that, firms have these, what looks like they're competing with financial advisors while providing service products and services to financial advisors. But it's unavoidable, isn't it? Vanguard's not going to just sit there and say, yeah, we'll take all your, you know, your, your ETF and mutual fund assets, but we're not, we're not going to touch that big shiny apple hanging up there in the tree, right?

Jeff DeMaso: No, I mean, it's, look, it's a fruit they're already reaching for. And yeah, it's always, what, what's next for Vanguard? they could just sit and say, hey, look, we're happy just to do mutual funds and ETFs, and we'll, we'll just do that and we'll be a large player in it. And that's fine, that's enough. But clearly they've been looking for avenues of growth. Whether that's the advice channel, whether that's, ah, they've rolled out some private equity funds, they've been trying to expand overseas. so there is an element of we gotta be looking for the next thing, we gotta be growing. And you could point to that with ETFs, they were late to the game and they've clearly become a really, really big player in it. but yeah, we could have been looking here, just call it 20, 25 years ago when, Vanguard finally joined the ETFs game. Geez, that's a long time. We got to stop calling ETF's new things. but, but people go like, man, why is Vanguard joining these, these ETFs, their mutual fund shop, they should just focus on that. And that would have been, you know, a missed opportunity for Vanguard. And again, they were late, but they managed to, to succeed.

Jeff Benjamin: Let's talk a little bit about this division. We've kind of glossed over it a little bit, but advice and wealth management, they're, bringing on Joe. Joanna Rotenberg, what do you expect from this? Do you think that these four, I guess platform or four services within the platform, the existing platform are going to be folded in? Will everything be renamed and repolished? Is it, do you, what do you anticipate? And I know we're just completely speculating because Rotenberg doesn't start until I think January. And you know this is a giant ship to move. So we don't expect on February 1st to see everything in perfect shape.

Jeff DeMaso: No. And so let me answer that a couple of different ways. So one is both Salim Ramji, the CEO and Rotenberg in the have been quoted saying one of the goals is to enhance or expand Vanguard's offerings. So I guess we should expect to see more some changes here. Well it's kind of, you mentioned them earlier but kind of quickly run through those four channels.

Jeff Benjamin: Okay.

Jeff DeMaso: And we can kind of point to where we think there might be some changes. So again we mentioned it. At the low end there's digital advisor, $100 minimum, roughly 50 basis points in fees. And that is just ah, your Robo advisor, it's really only investment management. they've got ETFs based portfolios, ESG and index and active portfolios. the next step up is Personal Advisor and that's got 50 thousand dollars minimum, again about 30 basis points in fees. The main difference is that you get access to an advisor. You don't have a dedicated advisor. You'd be kind of calling into the desk and someone will pick up your phone, be able to pull up your account and take a look. But you don't have dedicated advisor. You get that at the next tier up which is personal advisor. Select 50 or 500,000 again no more than 30 basis points. That's where you get the dedicated advisor, you get some trust services and then the top end wealth management, 5 million and above. Again kind of a tiered fee schedule starting at 30bps. Again you get the dedicated advisor, you get the trust, but you also get wealth and estate planning, legacy planning, you get access to Vanguards private equity funds if that's something you're interested in. So those are the four tiers that relatively recently Vanguard kind of shifted to. Without a lot of fan fear, fanfare. It seems hard to imagine that at the low end there's a lot that they can really do. I mean particularly if you're only charging 50, 15 basis points. for someone with you know, under, under 50,000 that's probably not a lot of wiggle room for Vanguard to work with. Again it's that higher end where again, maybe there's something they could do on fees, even if not, do they introduce more private equity, more private credit, kind of more offerings that, ah, quote unquote, enhance the outcomes, but also are something else that Vanguard charges a fee on, so thereby kind of boosting their revenue from, those clients without explicitly raising costs. so maybe there's something they do kind of on that side of it. but that's kind of why I think there's probably more wiggle room, more changes we'll see at the higher end, ah, than we would at the digital and personal advisor end of the spectrum.

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Jeff Benjamin: What kind of strengths do you see a company like Vanguard having? 8.7 trillion in total assets under management? Obviously it's a big shop, 2.6 trillion in ETF assets. So you're looking at a behemoth here. What kind of strengths do you see them having that would give them just tremendous advantage over financial advisory firms, even large financial advisory firms? Because financial advisory firms for the most part, don't manage any, mutual funds or ETFs that are sold outside of their own client base. So they're, you know, they're really just doing that thing. And I'm not saying financial advice is just one little thing. You know, it's, it's full service. They're giving everybody estate, planning and financial planning and tax management, all that good stuff, investment management. But they're still not a company like Vanguard. And again, I don't want to overstate this because we know that first of all, Vanguard's been in this advice business, in a pretty good way since 2015. And pretty much every other large asset manager, or custodial platform has something that competes with advisors as well. But we're talking about Vanguard. So. So where is, Jeff, do you see Vanguard's, you know, some of their strengths that would, you know, make them just cast a shadow over the independent financial advisors out there?

Jeff DeMaso: Yeah, I mean, look, the big advantage they have is they, they're Vanguard. They have the, they have the brand, they have the name, they have the story. And I think that's where, you know, a lot of advisors, particularly if it's trying to go it on their own, is how do they tell the story, how do they differentiate, how do they attract clients? So frankly, that's where kind of Vanguard has the biggest advantage. I think, you know, the flip side of that is kind of pitch against it of like, okay, yeah, it's, it's big, but that means it's going to be impersonal, and 30bps is great, but what kind of value are you getting for that? What's the quality of the advice you're getting from that? So there's kind of ways that I think people will try and sell against Vanguard in that light. but otherwise, yeah, Vanguard gets to talk about having the full resources that come with being a 8, 9, $10 trillion asset manager. They get all of the research, they get, they've got plenty of scale. They can speak to all those points. But again, I just think their biggest advantage is just that they've got the brand and that makes it easier for them to tell the story. And any calls they make are quote, unquote, then a warm call in some regard.

Jeff Benjamin: Guard.

Jeff DeMaso: Yeah, well, that's their big advantage.

Jeff Benjamin: This is going to be a, an interesting story to watch unfold. We'll see how advisors react once, this division is, is up and running, and we'll see what it really looks like. I'd love to get Joanna Rotenberg on this podcast, if you're listening. I. I hope you're listening. so we can get, your perspective on this, a better, a better take on what you have in mind once you're on board there. But, in the meantime, I appreciate this, Jeff. I appreciate your time and all your help always. I want to thank our audience for listening and, for financial advisors out there, go to etf.com and check out the Advisor Center. We've got everything there is for you folks. And, contact me directly. I'm always looking for sources and story ideas. Jeff, Benjamin@, etf.

Jeff DeMaso: Com.

Jeff Benjamin: Jeff, thanks a lot for being here.

Jeff DeMaso: All right, thanks for having me, Jeff, and happy holidays.

Jeff Benjamin: Happy holidays.

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