

CFA Trending Topics

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The shift to low cost investment services continues

Key takeaways:

- Investment companies such as Fidelity, Vanguard, and Charles Schwab continue to compete as low cost index-fund providers, with recent announcements for zero expense ratio funds.
- For companies, the continued trend toward passive ownership could put more power in the hands of more vocal institutional investors.

As 41% of all U.S. stock investments are now in low-cost passive index funds, investment companies like Fidelity, Schwab, and Vanguard have taken proactive measures to solidify the lowest cost structure for investors. In August, Fidelity Investments became the first investment company to offer two zero expense ratio funds, seeing an inflow of over \$1bn in its first few months since inception. Over the past decade, the S&P 500 has seen a 10% increase in passive ownership, bringing aggregate market cap ownership to 14%, according to the J.P. Morgan Portfolio Trading desk estimates. Companies across all sectors will need to remain vigilant as the demand for investment funds, coupled with the evolving low/no rate fee environment, drive more investors to passive strategies, potentially putting more power in the hands of a vocal minority including hedge funds and activists.

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