

Vanguard Loosens Frequent-Trading Policy

By Jackie Noblett, *Ignites*, September 17, 2015 [subscription only]

Vanguard is lowering the hurdles for investors trading in and out of its mutual funds, relaxing a frequent trading policy that has stood out for its restrictiveness.

Investors who have sold out of a mutual fund can now repurchase that fund after 30 days. Previously investors had to wait 60 days before repurchasing or exchanging into a fund they had just sold — also known as a round-trip purchase.

The policy extends across Vanguard’s mutual fund family — with the exception of its money market funds and short-term bond funds — which historically has restricted round-trip purchases. The policy change is effective immediately for Vanguard’s retail, intermediary and institutional investment-only clients. Vanguard’s defined contribution recordkeeping clients will be eligible for the shortened purchase block next year.

While the move comes amid a period of high market volatility and accelerated redemptions across the industry, Vanguard officials and analysts say it is designed to allow investors to easily perform normal account maintenance and not to encourage more frequent trading of its funds, the effects of which increase trading costs long-term shareholders must bear.

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Many firms put in place excessive-trading policies, such as repurchase blocks or redemption fees, a decade ago in the wake of the market-timing scandal. But much of the abusive trading fund firms seek to limit happens within hours or days, so few firms’ blackout windows extend past a month, says Niels Holch, executive director of the Coalition of Mutual Fund Investors.

“Vanguard has been concerned not just about frequent trading abuse, but frequent trading — shareholders changing their asset mix, going in and out of funds, things that have nothing to do with arbitrage,” Holch says.

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Meanwhile, Vanguard officials say the loosened policy should not adversely affect fund shareholders through churn-related trading costs — an assertion with which Wiener and Holch say they agree. But Jeff Keil of **Keil** Fiduciary Strategies expects some firms to move in the opposite direction, particularly in the face of prolonged market volatility, by reinstating redemption fees or more stringent frequent trading policies.

“Shareholders must realize that this apparent loss of flexibility is for their own collective good, helps to insulate PMs from volatile flows, and protects assets in general,” Keil says.