

We e-mailed Vanguard

Date: 27-Feb-98 - 4:05 PM
Subject: I e-mailed Vanguard
From: Ralph

As suggested by Bylo I e-mailed Vanguard asking them when they were planning to set up shop in Canada. The following is their reply:

Thank you for your e-mail to The Vanguard Group. I passed a copy of your message to our management team for their review. We do not have any immediate plans to make our funds available in Canada but your feedback on this issue is much appreciated.

If you have any questions, please feel free to e-mail us again.

*Michael J Bennese Communication Associate The Vanguard Group
online@vanguard.com*

Date: 27-Feb-98 - 4:22 PM
Subject: RE: I e-mailed Vanguard
From: Bylo

Some more responses to Vanguard fan mail...

Thank you for your recent communication with The Vanguard Group.

As you know, shares of the Vanguard funds are offered only for sale in the United States. While you may obtain prospectuses and other information about our funds at our website, our funds are not registered for offering in any other country. At present, we will only mail prospectuses and other information to U.S. addresses, and we will only accept new account requests which contain a U.S. address.

We appreciate your understanding in this matter. If you have any questions, please feel free to e-mail us again.

*Claudia S Alexander
Communication Associate
The Vanguard Group*

Thank you for your recent e-mail.

We are not registered for sale in Canada and such cannot sell our funds to those who reside in Canada. Your point regarding Waterhouse Securities is noted. However,

please note that Waterhouse Securities is based in New York and as such when they buy our funds we are selling them to a corporation located in the U.S and not Canada.

If you have any additional questions, please feel free to e-mail us again or call our Investor Information Department collect at 610-669-1000 and select option number one from the menu selection. An Associate will be pleased to assist you.

*Deborah Lyle
Registered Representative
The Vanguard Group*

Thank you for your recent E-mail.

Due to regulatory differences, Vanguard is unable to accept investments from investors residing in the country of Canada. In the U.S., each state has "blue sky" laws by which the state's securities commission registers and permits securities to be sold to its residents. If a state does not approve of an investment vehicle, it may not be sold to residents of that state. The Canadian provinces have similar registration requirements, and our funds are not registered for sale in any of the provinces.

Please E-mail us again if we can assist you further.

*Richard L Morgan
Registered Representative
The Vanguard Group*

Date: 27-Feb-98 - 4:57 PM
Subject: RE: I e-mailed Vanguard
From: Ralph

Bylo, could you hot link Vanguard's e-mail address like you did in another thread so that more participants of the FL can e-mail them?

It appears to me, from Vanguard's reply to my questions, that they are not insensitive to the prospect of selling their funds in Canada.

If they decided to move north, just think of the havoc they will create in the High MER Canadian MF market!

I hope more people will decide to e-mail them inviting them over. The benefit of having a Company like Vanguard here is just too great to ignore.

In case some of you didn't know about [VANGUARD](#) have a look at the way they operate and compare it with the way you have been treated by your Mutual Fund Companies.

Date: 27-Feb-98 - 5:37 PM
Subject: RE: I e-mailed Vanguard
From: Bylo
Submit your vote for lower MERs at Vanguard's online [suggestion](#) form, or by regular [e-mail](#).

Vote early! Vote often!

BTW, I just found this on their website:

Vanguard's headquarters is in Valley Forge, Pennsylvania, in the Philadelphia suburbs. We also have offices in Phoenix, Arizona, and Charlotte, North Carolina, **and have established an international presence in Melbourne, Australia.**

Haven't they noticed that Canada is a whole lot closer?

Date: 27-Feb-98 - 6:26 PM
Subject: RE: I e-mailed Vanguard
From: Ralph

Thanks Bylo for the links.

I've already replied to the form asking them why they are Down Under and not Next Door.

Date: 28-Feb-98 - 11:04 AM
Subject: RE: I e-mailed Vanguard
From: Bylo

Ralph, I beat you to it :-)

Thank you for your e-mail to The Vanguard Group.

We do not have any immediate plans to make our funds available to residents of Canada. I passed a copy of your message along to our management teams as feedback on this topic. More than a few of the funds and policies introduced over the years have their roots in suggestions like yours and we have certainly been receiving a lot of interest from Canada over the last two years.

Regarding our Australian office, we are attempting to make a foothold in corporate retirement plans there and in Asia. We have not made our funds available to individual investors.

If you have any further questions, please feel free to e-mail us again.

*Michael J Bennese
Communication Associate
The Vanguard Group*

Date: 28-Feb-98 - 12:13 PM
Subject: RE: I e-mailed Vanguard
From: Scooby

Here's what I got:

"Vanguard Message Number AVGI-3S55LY

Thank you for your recent suggestion in regards to investment opportunities in Canada. Your ideas have been forwarded to the appropriate department. We truly appreciate your recommendation. However, at this time we are not looking at opening an investment office in Canada.

Please feel free to post any other suggestions for our consideration as Vanguard is committed to offering the highest quality service to our investors. Suggestions for improvement are being continually reviewed in order to meet this goal.

Jennifer Crowle Communication Associate The Vanguard Group"

Date: 28-Feb-98 - 4:37 PM
Subject: RE: I e-mailed Vanguard
From: Ralph

Keep sending those e-mails to them and we might get lucky!

Date: 28-Feb-98 - 8:40 PM
Subject: RE: I e-mailed Vanguard
From: Clint

Here is my theory as to why Vanguard is reluctant to open up shop in Canada (please be aware that what follows is simply an 'educated guess' not to be taken as fact - please correct me if you are 'in the know' re. how Vanguard operates):

As everyone knows, Vanguard is adamant about keeping costs to a minimum. However, even though they offer 'rock bottom' MERs on their products, they must still make money in order to remain profitable. Ways in which I heard they do this include:

- 1) unitholders must either meet the high minimum investment requirement (\$10,000 per fund?) or pay an annual service fee for maintaining a 'small' account.
- 2) when you sell units of a fund, a fee is charged to cover the cost of redeeming your units (ie, since you sold the units, you should bear the costs associated with the redemption).
- 3) There may be others....(anyone able to add to this list...?)

Now in my opinion, there's nothing wrong with operating like this: It appears that Vanguard makes their money in spite of such low MERs by maintaining a large asset base of sizeable accounts, and keeps costs to a minimum by asking those individuals who would potentially 'add cost' to the operation to bear the cost themselves for any action they wish to take (i.e., "If you want to redeem units, fine - you pay the cost for that redemption...don't make all the existing unitholders who don't wish to redeem pay for your request"; "You want to maintain a smaller account, fine - but realize that, due to our low MERs, an account of your size is, relatively speaking, more 'expensive' to maintain than a much larger account, so we'll ask you to make up this by paying an annual service fee"). The idea here is not much different than that of pooled funds or low cost Canadian fund companies (eg. PH&N, Mawer, Bissett) who try to keep costs low via insisting that

accounts be of a significant size if one wishes to deal with them.

This brings me to my point about why Vanguard may be reluctant to 'invade' Canada at the moment.

At this point in time, the majority of Canadian investors are not as knowledgeable as their US counterparts re. the impact of fees on one's long-term rate of return (though the media seems to be making consumers increasingly aware of the importance of this factor). Also, Canadians still seem to want/rely on financial planners who are not 'fee-for-service only' and thus wouldn't recommend funds such as Vanguard to clients.

I'm sure Vanguard has watched with interest over the past few years as Scudder, one of the most reputable, established fund companies in the US, entered the Canadian marketplace with low-MER funds with top-notch management, only to see assets under administration crawl upwards at a snail's pace. Even though Scudder now offers modest trailer fees and make their funds available through many discount brokers (while piling up some impressive returns in almost all fund categories in the interim), it's overall assets under administration still leaves it as a small fry in Canada (while new dealer-based fund families such as O'Donnell have piled up assets in spite of mediocre performance).

Simply put, Vanguard needs to see sound evidence that their type of 'no-frills' operation will appeal to a significant number of Canadian investors (Fund Library forum participants excluded, of course ;-)) before they consider setting up an operation in Canada. Canadians are learning about the importance of costs and how it affects their bottom line, but generally speaking, I think the 'do-it-yourself, entrepreneurial spirit' re. self-educated investors and fee-only financial advisors who cater to high net-worth individuals (ie, Vanguard's target market) is much more prevalent in the US than it is in Canada - and though there seems to be a number of such individuals who frequent this forum, I believe you ladies and gentlemen represent a VERY SMALL portion of the Canadian investing public - and I think Vanguard is smart enough to realize this.

Date: 28-Feb-98 - 10:02 PM
Subject: RE: I e-mailed Vanguard
From: Scooby

Clint,

Sadly, I believe your comments about Canadians being generally more ignorant of the effect of MERs on returns is correct. However, I feel this is changing as fees have been getting a lot of press lately, and I tried to indicate to Vanguard that Canada may now be ready for its "low-fees" message.

I also believe that the hassle of dealing with 10 provincial securities bodies instead of a national SEC has a lot to do with it. Wasn't Mr. Martin supposed to change this?

Date: 28-Feb-98 - 10:36 PM
Subject: RE: I e-mailed Vanguard
From: Ralph

Scooby, when would ten provinces agree on anything?

If both you and Clint are correct, then Canadian MF companies will keep on milking their unitholders for all they are worth for many years to come.

Not a happy thought (for us of course).

Date: 01-Mar-98 - 10:54 AM
Subject: RE: I e-mailed Vanguard
From: Hassie

Clint, you hit the nail right on the head.

I am one who feels to be "subsidizing" the smaller unit holders with the fees I am paying.

The fp can not start a new account and be properly compensated on a low \$ volume.

especially since the most work involved is setting up an account

but it probably evens out anyway since his larger accounts bring in the bread.

Can't wait for this vanguard to come in

Thanks from Hassie.

Date: 01-Mar-98 - 11:33 AM
Subject: RE: I e-mailed Vanguard
From: Bylo

Clint,

Thank you for your comments. In general I agree, however don't forget that the Canadian economy as a whole is larger than the economy of the state of California. We may be small compared to the US, but hey we're not inconsequential.

"they must still make money in order to remain profitable"

True, but as a "mutual mutual" fund company their shareholders are the unitholders of their funds.

Vanguard sometimes charges some small additional fees, but they are designed for the benefit of unitholders. I for one don't mind paying such fees if they help keep the MERs at 0.20%

From a Vanguard prospectus:

Some of Vanguard's index portfolios charge a transaction fee on purchases of portfolio shares to offset the higher costs of trading certain securities, particularly small-company and international stocks. The transaction fee ensures that these higher costs are borne by the investors making the transactions--and not by shareholders already in the portfolio. In addition, most of Vanguard's index portfolios charge an account maintenance fee [a

modest \$10] on accounts under \$10,000 [so? Bissett's minimum is also \$10K, PH&N's is \$25K (\$5K RRSP), GBC's is \$100K, ABC's is \$150K] to divide the costs of maintaining accounts equitably among shareholders.

At Vanguard, all fees are paid directly to the portfolio itself (unlike a sales charge or load, which--for many fund companies--ends up in the pocket of the sponsor, adviser, or sales representative). Without transaction fees, an index portfolio would have trouble tracking its target index.

True, marketing works (for the MF industry -- not for the investor). But I'm convinced there is a market for no-frills, frugal investing in Canada. Just look at the success of companies like PH&N and Bissett, despite (my guess only) that their combined annual marketing budget is less than what Jim O'Donnell spends on a single sales rally.

Also don't underestimate the size of the fee-only and investment counsel industry.

It's been demonstrated time and again that costs matter, especially over the long term. That message is slowly getting through to the public (e.g. Chevreau's articles in the FP.) Even the MF industry (e.g. Trimark's Krembil) acknowledge that costs have to come down. It'll take time (and maybe a market correction), but the word will get through.

Finally, even if Vanguard doubled their MERs to compensate for the higher costs of the Canadian market (i.e. 0.40% to 0.50%) they'd still be charging half of what the current lowest cost funds charge.

Date: 01-Mar-98 - 11:39 AM
Subject: RE: I e-mailed Vanguard
From: Bylo

Forgot to add Vanguard's response to your comment that "they must still make money in order to remain profitable".

The Vanguard Group provides management, administrative, and marketing services to the Funds on an "at cost" basis. Thus, Vanguard is the industry's only mutual mutual fund firm - returning all profits to its mutual fund shareholders.

The quote is from [A Unique Corporate Structure](#)

Date: 01-Mar-98 - 2:54 PM
Subject: RE: I e-mailed Vanguard
From: Ralph

Bylo, if Canadians could also purchase MFs from a *true mutual fund company*, the direct and indirect benefits for all of us would be immense.

We must continue to **flood** Vanguard with e-mails to get their attention.

Date: 03-Mar-98 - 6:07 AM
Subject: RE: I e-mailed Vanguard

From: Joe

Readers of Fund Library: Here is the stereotyped response from Vanguard to me:
Vanguard Message Number AVGI-3S6RJ5 Thank you for your recent suggestion in regards to invest opportun in Canada. Your ideas have been forwarded to the appropriate department. We truly appreciate your recommendation. Unfortunately, at this time Vanguard does not have any plans to open an invest office in Canada.....
Jennifer Crowle, Communic Associate, Vanguard Gp Don't give up, readers of Fundlibrary. Let us keep writing to Vanguard to urge them to come to Canada. Write to: online@vanguard.com

Date: 10-Mar-98 - 12:42 PM

Subject: RE: I e-mailed Vanguard

From: Ed

I have sent off my email to Vanguard. The comparison with Canadian fund Co.'s is just too differentially extreme . We should form our own collective mutual fund and contract out the admin. , mgt. , etc. to Vanguard . It could be the CANVAN Fund . Who wants to join? Set up a web site etc. with links from these threads , we should have a few hundred million\$ in no time !!! Ed (PIE IN THE SKY ??)

Date: 11-Mar-98 - 7:16 AM

Subject: RE: I e-mailed Vanguard

From: sjp

Would it be possible to open a brokerage account in the US and purchase the Vanguard (or other) mutual funds through this broker?

Is there another (legal) way? I thought I read a thread somewhere that talked about this.

Date: 11-Mar-98 - 7:32 AM

Subject: RE: I e-mailed Vanguard

From: Bylo

Yes you can, it's legal and you read about it [on the Buying US Mutual Funds from Canada threads...Bylo].

BTW, I've switched from JW&Co to Waterhouse (owned by TD Bank.) Lower fees, better service and online trading. FWIW, Waterhouse is now trying to buy JW&Co so the distinction may soon become moot.

Date: 16-Mar-98 - 2:37 PM

Subject: RE: I e-mailed Vanguard

From:

For more information about Vanguard.....

[costs DO matter](#)

Date: 16-Mar-98 - 3:10 PM
Subject: RE: I e-mailed Vanguard
From: Ralph

Bylo, you forgot to write your name. Who else (other then Gummy, of course) could perform such wizardry?

The only thing missing is the music ;=)

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