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Vanguard's Commission-Free ETFs Are Gaining Market Share

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[Vanguard](#), known within the ETF and index fund industries for its rock bottom expenses, announced on Tuesday that it will begin offering commission-free trading on its ETFs. Vanguard brokerage clients will be able to make commission-free transactions in each of Vanguard's 46 ETFs. The company also announced that most Vanguard brokerage clients will pay either \$2 or \$7 to trade non-Vanguard ETFs.

For 35 years, Vanguard has been committed to reducing the cost of investing in mutual funds for our clients. Now, Vanguard is expanding our low-cost commitment to ETFs," said Vanguard CEO Bill McNabb. "Importantly, Vanguard offers a greater choice of ETFs with expense ratios that are among the lowest in the industry.

Vanguard's move comes after two of the firm's biggest competitors have rolled out commission free options. [Charles Schwab ETFs](#) can be traded commission free online through a Schwab account, while [iShares](#) has partnered with Fidelity to offer commission-free online trading in 25 iShares ETFs ([Fidelity](#) clients also get commission-free trading in ONEQ, the NASDAQ Composite Index Tracking Stock). Vanguard clients will have access to all 46 ETFs in the company's platform, making it larger in scope than either Schwab or iShares.

Forging Ahead



Vanguard's reputation as the low-cost provider has allowed the firm to steadily gain ETF market share. According to the company, the average expense ratio on Vanguard ETFs is just 0.18%, compared to an industry average of about 0.52%. At the end of April, Vanguard's ETF assets totaled \$108.8 billion, an increase of about 115% over the same period in 2009. Over that same time period, iShares and State Street ETF assets grew by about 52% and 42%, respectively. Vanguard is the third largest U.S. ETF issuer by total assets, representing about 13% of the market.

The appeal of Vanguard's low expense ratios is perhaps best demonstrated by the impressive growth of its Emerging Markets ETF ([VWO](#)). This ETF, which tracks the [MSCI Emerging Markets Index](#), has grown from \$6.6 billion in April 2009 to \$24.4 billion at the end of last month, making it the fifth-largest U.S.-listed ETF according to data provided by the National Stock Exchange. VWO is now nipping at the heels of the iShares MSCI Emerging Markets Index Fund ([EEM](#)), which tracks the same index as VWO but charges a higher expense ratio (EEM charges 0.72%, compared to 0.27% for VWO).

Disclosure: No positions at time of writing.

