

Difference Between Fidelity and Vanguard

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Key Difference - Fidelity vs Vanguard

Investment management through financial advisors has become increasingly popular during recent times where investment companies manage a large number of financial assets under them. Fidelity and Vanguard are two pioneer financial service companies in the United States. Both companies provide a number of services, ranging from retirement services to wealth management. The key difference between Fidelity and Vanguard is that **Fidelity offers investment products, mainly with a high risk- high return philosophy which is more suited for aggressive investors** whereas **Vanguard focuses on providing a low cost investment portfolio better suited for conservative investors**. Both companies offer a wide range of investment options to their clients.

What is Fidelity?

Fidelity Investments is an American multinational financial services company based in Boston, Massachusetts and had 2.13 trillion USD under assets under management as of 2016. Fidelity offers a wide range of investment options ranging from managing mutual funds, life insurance, retirement services to investment advice. Fidelity operates a number of divisions to deliver various services, and some of the most revenue generating funds are mentioned below.

Fidelity Contrafund (FCNTX)

Contrafund is the largest equity mutual fund of Fidelity among 452 mutual funds and managed to offer a return of 8.69% for its investors. This return is greater than the S&P 500 return of 7.41%. (S&P 500 is a stock market index that calculates the overall return of a fund portfolio. If an individual fund provides a return that exceeds the return of the fund portfolio the respective fund is performing well).



Figure 1: Fidelity head office in Boston

Fidelity OTC Portfolio (FOCPX)

This is another fund that has outperformed NASDAQ Composite return of 9.68% by earning a sound return of 12.45%. FOCPX invests in over-the-counter stocks that are highly speculative.

Fidelity operates with three models of income-generating portfolios namely conservative income, balanced income, and growth income. Among various asset allocations, a Target Asset Mix (TAM) is decided for equity bonds and short-term investments.

TAMs for Fidelity Fund Portfolios	Equity	Bonds	Short term
Conservative income	20%	50%	30%
Balanced income	50%	40%	10%
Growth income	70%	25%	5%

Fidelity has a significant reputation as a firm suitable for aggressive investors, depending on the investment portfolio they offer. As evidenced by the returns of FCNTX and FOCPX, majority funds in Fidelity generate favorable returns. However, since high returns have to be supported by high risks, the investment portfolio of Fidelity may not be suitable for conservative investors. Further, the fees and expenses charged by Fidelity are also higher, in order to compensate for the inherent risk.

What is Vanguard?

Vanguard is an American investment management company based in Malvern, Pennsylvania and operates with over \$4 trillion in assets under management. Mutual funds and exchange

traded funds are the main two types of funds provided by Vanguard while brokerage services, asset management, and trust services are also provided. Vanguard offers two classes for most of its funds: investor shares and admiral shares. Admiral shares have relatively lower expense ratios but require a higher minimum investment, between \$10,000 and \$100,000 per fund.

Vanguard is a popular investment choice for investors who prefer to take a conservative approach with their portfolios. This is because Vanguard offers a relatively low risk portfolio since the company offers a number of mutual funds and exchange traded funds (ETFs) that are oriented toward fixed income. Vanguard’s philosophy holds true throughout its investments, as lower expenses lead to better overall returns.

Operating with over 320 funds, Vanguard is also known for its low cost investment management with an average expense ratio (cost incurred by an investment company to manage a fund) of 0.18%. Examples of expense ratios of some popular funds of the company are as follows.

Fund Name	Expense Ratio
Vanguard 500 Index Fund Admiral Class (VFIAX)	0.04%
Vanguard California Long-Term Tax-Exempt Fund Investor Shares (VCITX)	0.19%
Vanguard Balanced Index Fund Admiral Shares (VBIAX)	0.07%



What are the similarities between Fidelity and Vanguard?

- Both Fidelity and Vanguard are large scale investment corporates based in the United States.

- Mutual funds are one of the major product categories in both Fidelity and Vanguard.

What is the difference between Fidelity and Vanguard?

Fidelity vs Vanguard	
Fidelity offers investment products mainly with a high risk- high return philosophy which is more suited for aggressive investors.	Vanguard focuses on providing a low cost investment portfolio better suited for conservative investors.
Suitability	
Fidelity is a more appropriate investment option for aggressive investors.	Vanguard's fund portfolio is more suitable for conservative investors.
Cost and Returns	
High cost in asset management, supported by above the average return is the investment strategy in Fidelity.	Vanguard offers low cost investments with low expense ratios to provide favorable results.
Fund Types	
Most of the funds in Fidelity are mutual funds.	Vanguard offers both mutual funds and exchange traded funds in its portfolio.

Summary - Fidelity vs Vanguard

The difference between Fidelity and Vanguard is mainly attributable to the investment approach either company is adopting; Fidelity takes more risks with the expectation of generating high returns while Vanguard takes a more conservative approach since their investment strategy is suitable for risk-averse investors. However, both companies are immensely successful and can help investors to build and manage wealth by adding value.

References:

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