Fidelity Preps Free ETF Screening Tool

By Hannah Glover June 30, 2010

Fidelity has upped the ante in the ongoing exchange-traded fund wars, announcing that it plans to add a new feature to its brokerage platform that will help investors examine and compare exchange-traded products.

The feature, available free on Fidelity's public website starting next month, will allow users to compare up to five products at once based on a series of criteria. The database will include over 1,000 exchange-traded notes and funds. Investors will be able to choose funds using more than 100 criteria. Investors can conduct their search by using characteristics as broad as category, sponsor or net assets, or narrow it with such criteria as premium/discount over a one-month period, volatility or leverage. Users can whittle down their selection based on more than one of these options. Investors can also assign a weighting to each criterion, according to their own objectives.

"We want to make sure our customers have the data points they want," says Steve Deroian, director of index and ETF solutions at Fidelity.

The aim of Fidelity's new resource is to help increase investors' ability to look across these products, which on the surface can look similar, and see the nuances between them.

"One of the key challenges was being able to show the [product] both as a trading vehicle and as an investment vehicle," says Franklin Gold, VP in Fidelity's retail brokerage business.

In a preview of the new tool, one side of the screen displays portfolio characteristics, such as expenses, sector and industry exposure, performance and investment style, while the other side displays bid/ask spread, volatility risk, tracking error and other features more important to those who use the products as active trading vehicles. "Understanding how it trades might affect whether it is a good investment [for a particular customer]," he says.

The launch comes as brokerage clients continue to gravitate toward ETFs. In fact, in a poll of about 110 attendees of the Fidelity Traders' Summit in Austin last week, 79% of investors said that they plan to invest more in ETFs over the next 12 months. That is up from 65% one year ago. (Attendees each make about 120 trades per year.) At the same time, Fidelity is locked in a tug-of-war for market share and investor attention in the ETF market, particularly with Vanguard and Schwab. The war has involved a flurry of new low-cost products and services.

The new Fidelity screening program also comes as ETF providers struggle to articulate the differences between their products to investors. "It's an ongoing battle, and these are kind of opening skirmishes," says Scott Burns, director of ETF analysis at Morningstar. "There is a race, and I think ETF providers are going to have a challenge demonstrating their value beyond just price."

Just as mutual fund investors had to be educated about loads, share classes and 12b-1 fees years ago, retail investors need help understanding how the products work and what the impact of tracking error can be. Investors should also understand that some indexes may be managed differently than others, and the differences between those tactics can impact tax efficiency, for example. “These aren’t commodities,” says Sue Thompson, national sales manager for the registered investment channel at BlackRock/iShares. “Structure matters, and it matters tremendously.”

While rivals **Vanguard** and **Schwab** each have ETF screening tools on their sites, the soon-to-be-launched Fidelity tool delves somewhat deeper, showing full portfolio holdings rather than just the top 10. The site also shows the top 10 institutional holders of each product, historic trading events over different time periods and volatility measurements. In addition to the trading characteristics, the Fidelity site also includes third-party research from **Marco Polo XTF**, Morningstar, Standard & Poor’s, Ned Davis Research and Sabrient Systems.

Using the Fidelity tool, if an investor selects a product to examine, the program will automatically pull up funds deemed to have similar strategies. Those funds are selected based on a series of algorithms developed by Marco Polo XTF that include, among other things, the underlying indexes and investment strategies of the products.

Last week Vanguard announced it is prepping its largest product launch yet, with 20 new ETFs in registration. The product push is an effort to broaden the number of index providers it offers investors. Many of the new funds use indexes similar to those used by competing BlackRock iShares products. The forthcoming Vanguard line is also aggressively priced.

Vanguard, the third largest ETF provider, with about $103 billion under management, has been nipping at the heels of **State Street Global Advisors** and industry leader iShares in an effort to steal market share, according to data from **the National Stock Exchange (NSX)**.

Schwab, meanwhile, has launched a series of broad index ETFs and lowered costs to move up on Vanguard. Schwab has attracted $1.15 billion to its line since launching last fall, according to NSX data.

Fidelity has only one proprietary ETF, but it inked a deal with iShares earlier this year and distributes 25 ETFs commission-free on its advisor and retail platforms. Both Schwab and Vanguard likewise offer their products commission-free to brokerage clients. At Fidelity, other online ETF trades cost $7.95, undercutting Schwab by $1. The new tool will designate any of the 26 ETFs that trade free on Fidelity’s platform with a green check. Vanguard charges $7 per trade for **most** trades of customers with $500,000 or less.