



KORBITZ FINANCIAL PLANNING

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VANGUARD

To my clients and friends: Vanguard has sent a series of emails and letters to their clients concerning the change from the old “mutual fund platform” to the newer “brokerage platform.” I have gotten several emails about this, so I want to address all clients concerning this issue.

First, some background. If all you ever had at Vanguard were mutual funds (no stocks or ETFs) you probably have (or had) a “mutual fund” account. If you hold stocks or Exchange Traded Funds (ETFs) or have previously transitioned your account, you have a “brokerage” account. The brokerage account would be identified by the word “brokerage” in the account title. I have in the past preferred the mutual fund account over the brokerage account for reasons that have to do with the View Only access that I have to certain accounts, as well as the simple quarterly statements.

Vanguard for several years has been trying to encourage clients to move to the “brokerage” account platform. I have in the past told clients to simply ignore this message. Vanguard says this change will cut down on their costs, which will cut down on your costs. Up until recently, the encouragement has been subtle, and without consequences. Now, they are imposing economic consequences for staying on the mutual fund platform, in the form of a \$25 **per fund** holding charge. This will start in September or early October if you have a mutual fund account and do not transition by September 1st. Due to these charges, I no longer recommend the mutual fund account over the brokerage account, given the economic consequences to you, my clients.

Second, what should you do? That is simple, “transition” any mutual fund accounts you have to the newer brokerage account. There is no point in paying fees to Vanguard that you can otherwise avoid.

Third, how do you do it? This, unfortunately, is more complicated.

I attempted to “transition” an account in my name, and kept getting an error message that said “Sorry, something has gone wrong. Please try again later.” I tried again later, and ultimately had to call Vanguard to have them do the “transition.” Thus, your first option with respect to this process is to call Vanguard at 800-345-1344. Once you are connected to a “crewmember” they can walk you through the steps. You will need to log into your Vanguard account to electronically sign the brokerage application. They will ask you several required questions about your income, your assets, your employment, etc. These are required by industry regulators.

If you are comfortable going through the process online, and do not have the error message I noted above, then you can do the “transition” online, through Vanguard.com. If you elect to do this online, please read this entire article BEFORE you start the process. If you see a “button” next to the account title which says “Transition this account” then you can click on that button and follow these steps to transition the mutual fund account to a brokerage account:

1. Click on the “Transition this account” button.
2. Click on the “Transition now” button.
3. Verify your account details and your investment objectives (most clients objective will be growth, or growth and income. How you answer this question will NOT change your investments.)
4. Verify personal information and provide some regulatory information.
5. Sign the forms electronically.
6. Your account should be changed to a new brokerage account within 1-2 business days.

Caution: You need to be careful that you are **NOT** clicking on a button that says “Convert to Roth IRA” which looks very similar to the “Transition this account” button. Doing so could result in huge tax implications!

Please also note that there are automated transactions that you may have on your accounts that will not continue after the transition. This, I believe, is because you will have a new account number for the brokerage account, which will be different from your mutual fund account number. I urge you to read the Vanguard articles titled:

- “Why are we asking?”,
- “How does this affect me?” and
- “What I need to do?”

These articles are available through the Vanguard website when you begin the transition process.

For example, Vanguard has indicated that if you have a direct deposit on your Vanguard mutual fund accounts you will need to CHANGE that information with your bank in order to give them the new Vanguard brokerage account information. If you are making automatic investments to your Vanguard mutual funds, this will also have to be re-established. Otherwise, the direct deposit will go to your “settlement fund” which is another name for the money market account associated with your new brokerage account.

Any check writing that you have on your old mutual fund account will also not carryover. You will need to re-establish this with Vanguard for the new brokerage account.

I have been recommending Vanguard to clients for years. They offer one of the widest selection of low cost mutual funds anywhere, and for years their customer service was above average. The first statement is still true, but unfortunately the Vanguard customer service experience has declined to less than average. I have most of my personal accounts at Vanguard and do not plan to change that.

If you are able to conduct most of your business with Vanguard via the website, the less than stellar customer service is not that big of an issue. If on the other hand you call Vanguard frequently, you have probably been frustrated of late. Transferring your accounts to another institution is an option, but will likely involve some time, frustration and possibly higher taxes.

Hopefully Vanguard will improve the customer service experience, but my guess is that they will continue to rely on technology more and on people less going forward.

I have now transitioned all of my personal accounts to the Vanguard brokerage platform in order to avoid the new Vanguard fees. I recommend that you do the same.

I hope this has been helpful in explaining what Vanguard is doing, and what you should do. Please let me know if you have any questions.

Eric

Eric S. Korbitz CPA/PFS, CFP®