

Vanguard tackles democratizing direct indexing with its first acquisition

Article

The news: The global asset manager acquired **Just Invest**, an asset management technology provider that lets industry players offer direct indexing, [per](#) PR Newswire. This is **Vanguard's**

[first](#) ever acquisition.

What is direct indexing? Traditional index investing involves asset managers like [Vanguard](#) giving investors access to mutual funds or ETFs that replicate the performance of a specific index, like the **S&P 500** or **FTSE 100**.

But with direct indexing, investors own the individual stocks in the index outright rather than holding a fund's shares. As a result, investors can pick and choose stocks within the indices to more closely match their investment goals.

Why is it difficult to offer direct indexing? Direct indexing has [traditionally](#) only been available to the wealthy because they can afford direct, broad stock exposure and the increased fees associated with more customization.

But tech advancements like Just Invest's large-scale data analysis and quantitative algorithms automate this level of customization without increasing operational costs. This, in combination with fractional shares, makes it cheaper and easier to offer direct indexing to a wider pool of investors.

Why acquire direct indexing capabilities? Investors are increasingly [seeking](#) out more customizable offerings like direct indexing, creating user acquisition opportunities for incumbents.

Index investing has been a successful product for incumbents—Vanguard, **BlackRock**, and **State Street** control up to [90%](#) of the US indexing market. These players are now acquiring the tech to roll out direct indexing in hopes of cornering that market too, which is expected to become [widespread](#)—BlackRock bought direct indexing pioneer [Aperio](#) for **\$1.05 billion** in November.

The big takeaway: Moving into direct indexing enhances their value propositions in two key ways:

- **Greater personalization.** Using direct indexing, an investor could, for example, pick exposure to the S&P 500 but exclude any stocks within the index that go against their goals or ethics, such as corporations with large carbon footprints. This can help mitigate [greenwashing](#) seen with index investing, where investors leave it to asset managers' arbitrary views on what constitutes green stocks.
- **Tax optimization.** Investors can offset capital gains taxes from winning stocks by selling the individual losing stocks, also known as **“tax-loss harvesting.”**

THE US WEALTH MANAGEMENT ECOSYSTEM

Incumbent wealth managers	Vanguard	TD Ameritrade	Morgan Stanley	Goldman Sachs	citi	Bank of America
	Charles Schwab	Fidelity	CREDIT SUISSE	BARCLAYS	BNP PARIBAS FORTIS PRIVATE BANKING	Citizens Bank
	UBS	WELLS FARGO	DBS	HSBC Private Bank	FRONTIER	BBVA
	J.P.Morgan	GW&K	RIVER ROAD ASSET MANAGEMENT	YACKTMAN ASSET MANAGEMENT	TIMES SQUARE CAPITAL MANAGEMENT LLC	Santander
Startup wealth managers	wealthfront	personal CAPITAL	bloom	ELLEVEST	M1 Finance	SIGFIG
	Betterment	Wealthsimple	SoFi	acorns	wealthify	AXOS INVEST
	Interactive Advisors	MoneyLion	STASH	AssetBuilder	Elm	TWINE
	Wahed	OpenInvest	HEDGEABLE	TITAN	Zacks Advantage	SUSTAIN FOLIO
Vendors	Bloomberg	TEMENOS	Coforge	salesforce	SmartSearch///	iADVICENT
	MOODY'S	avaloq	REFINITIV	APIAX	FINANTIX	FIS
	investcloud	OBJECTWAY	EBIX CASH FINANCIAL TECHNOLOGIES	FNZ	Microsoft Azure	aws
	Forward Lane	MORNINGSTAR	Broadridge	NUCORO	Adviscent Investment Advisory	Appway

Note: This graphic is illustrative, not exhaustive.

INSIDER INTELLIGENCE