



7 Best Low-Cost Index Funds

Low-cost index funds can help investors hold on to more of their money.

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By Debbie Carlson

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Index funds hold certain advantages.

One of the best ways to get a higher investment return is to pay fewer fees. Index funds offer diversified holdings and help investors keep more money so their earnings can compound faster. Index funds "are a great option for any investor and are particularly suitable for smaller retail investors," says John Ingram, chief investment officer and partner at Crestwood Advisors. Many of the lowest-fee index funds follow large-cap stock indexes in part, and some index funds follow niche sectors. Those funds can be one of the best, low-cost ways to invest in those areas. Here are seven of the top low-cost index funds.



1. Vanguard Total Stock Market ETF (VTI)

Don Bennyhoff, investment committee chairman and director of investor education at Portfolio Solutions, recommends VTI as a "keystone investment for nearly every investor" who holds U.S. equities. As the name implies, VTI holds all the stocks in the equity markets, so it offers investors broad diversification, and VTI's annual expense ratio of 0.03%, or \$3 for every \$10,000 invested, makes investing extremely inexpensive. VTI seeks to track the performance of the CRSP U.S. Total Market Index. "If Leonardo da Vinci was right and 'simplicity is the ultimate sophistication,' then the Vanguard Total Stock Market ETF should be considered one of the most sophisticated investments offered," Bennyhoff says.

2. iShares MSCI USA Minimum Volatility Factor ETF (USMV)

USMV tracks the MSCI USA Minimum Volatility Index and invests in U.S. large-cap stocks with lower volatility. "The fund's strategy is intended to avoid 'hot' stocks which are removed as their stock price fluctuates too much," Ingram says. "During market downturns, USMV tends to outperform as investors dump these 'hot' stocks." Because it avoids the "hot" stocks, it can lag behind the broader market when equity prices are in a strong bull market, but the fund tends to perform well over a market cycle. "If you are looking for an (exchange-traded fund) that has a history of performing relatively well in bear markets, you may appreciate USMV," he says. USMV has a 0.15% expense ratio.

3. iShares Core S&P Small-Cap ETF (IJR)

Investors should consider some exposure to small-cap stocks as part of their core holdings, Ingram says, and he suggests IJR, which follows the S&P Small Cap 600 index. This fund and the index it follows keep out the unprofitable small-cap companies, and it has historically outperformed the Russell 2000 index, a much-broader small-cap index. "Small-cap stocks tend to be more economically cyclical than large-cap stocks and would be supported by the continued economic recovery," he says. Small caps have struggled compared to large-cap stocks lately, but they are off to a strong 2021. IJR is up about 25% over a one-year time frame, and the fund has a 0.06% expense ratio.

4. Vanguard Total World Stock ETF (VT)

Robert Johnson, professor of finance at Creighton University's Heider College of Business, recommends VT for a low-cost index fund that holds both U.S. and international equities. The fund tracks the performance of the FTSE Global All Cap Index, which covers both well-established and developing markets. Johnson says the expense ratio of 0.08% is very low for funds containing non-U.S. equities. It currently has an allocation of 59% North America, 17% Europe, 12.5% Pacific, 11% emerging markets and 0.2% Middle East. "It is a solid choice for investors who want a predominance of U.S. equities but seek to diversify their holdings globally," Johnson says.

5. Franklin FTSE Japan ETF (FLJP)

[Daniel Garza](#), research analyst at [Intercontinental Wealth Advisors](#), says investors interested in targeted exposure to Japanese equities could choose the low-cost FLJP index fund, which has a fee of 0.09%. The fund tracks large-cap and midcap Japanese firms via a market cap-weighted benchmark index, which Garza says works well in an efficient market. "Although it could underperform other indices that have (smaller-cap) stocks, we invest in this ETF based on the fact that we believe that the large-capitalization firms tend to reflect more information, have more liquidity and are more efficiently priced," he says. Garza says a popular competing Japanese ETF, the iShares MSCI Japan ETF (EWJ), has a much higher fee.

6. iShares Core MSCI Europe ETF (IEUR)

IEUR is a broad-based European index-based ETF, which follows the MSCI Europe IMI index. Garza picks it because of its low-cost 0.09% expense ratio and its highly diversified holdings across all 11 sectors. "It is also market-cap weighted and includes approximately 75% in large-capitalization firms, which we like in an index fund," he says. This fund also rates highly in MSCI's ESG ratings, receiving a score of 7.71 out of 10, which makes it an above-average fund based on long-term risks and opportunities arising from environmental, social and governance factors.

7. SPDR Blackstone/GSO Senior Loan ETF (SRLN)

Investors looking for a fixed-income alternative to U.S. Treasuries could look at SRLN. Ingram notes the fund buys floating-rate bonds that will increase interest payments as interest rates rise. People worried about future inflation due to recent monetary and fiscal stimulus action should consider SRLN. "Inflation erodes bond returns, so owning bonds that adjust their coupon as rates increase may prove beneficial," he says. "Floating-rate loans do have higher credit risk than high-quality bonds, so investors should realize that these bonds have some default risk." With higher risk, the fund offers a higher yield of 4.4% compared to the U.S. Aggregate Bond Index's yield of 1.2%. SRLN has an expense ratio of 0.7%.

Seven low-cost index funds to consider:

- Vanguard Total Stock Market ETF (VTI)
- iShares Minimum Volatility Factor ETF (USMV)
- iShares Core S&P Small-Cap ETF (IJR)
- Vanguard Total World Stock ETF (VT)
- Franklin FTSE Japan ETF (FLJP)
- iShares Core MSCI Europe ETF (IEUR)
- SPDR Blackstone/GSO Senior loan ETF (SRLN)

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