Active vs. Passive Investing

DEMYSTIFYING THE DEBATE

In recent years, assets have poured into passive funds at the expense of their active peers. The dramatic shift in investor preference fueled a heated debate between the peddlers of both products. However, lost in this debate is the truth, as we see it, that there is a place for both active and passive management in a well-diversified portfolio.

DEBUNKING SOME COMMON MYTHS

There are some clear strengths and weaknesses of both active and passive approaches. But there are also a number of misunderstandings. As impartial consumers of both approaches, we highlight the major myths out there and attempt to shine a light on them.

MYTH 1: Passive investments have a better performance track record than active.

Reality 1: Truly active managers have been shown to outperform passive funds in some studies.

MYTH 2: Passive funds are lower risk.

Reality 2: Passive funds have a very unique risk: they have no means of avoiding company and market turmoil. The Dot Com crash is a great example.

MYTH 3: Passive investing is simple to implement.

Reality 3: No. In fact, there is no such thing as pure passive investing. All investing requires an active decision. Which of the thousands of passive investment options is right for you?

MYTH 4: The whole world should go passive.

Reality 4: Active investing is required for efficient market operation.

MYTH 5: Passive fees are lower than active fees.

Reality 5: There is a hidden cost to a blindly passive approach. Fund fees should not be considered in isolation.

To read more please visit: investstrategic.com/resources to find Doug's complete whitepaper on active vs. passive investing.

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