Active vs Passive Investing

Active Manager

Aims to outperform the bench-mark index for the sector in which it invests.

(Excess return known as Alpha)

Selects shares from the market.

May manage the portfolio to avoid risks and resulting losses.

May deliver a return well above the index or underperform the index

- If a manager outperforms consistently the compounded excess return over time can make a huge difference to your investment outcome
- It is difficult to identify managers who consistently outperform and underperformance also compounds

Charges higher fees including possible performance fees. Fees are a hurdle to performance and you need to find a manager who can outperform after fees

Can buy shares at low prices and sell when they are high

May follow an investment style

Passive Manager

Aims to deliver the performance of the benchmark index for the sector in which it invests.

(Return of the market known as Beta)

Invests in all the shares in the index

Gains and loses with the index

Offers returns consistently in line with the index but will always underperform the index slightly owing to fees and taxes

Charges low fees. The low fees are a certain saving that can compound over time

May buy high and sell low when a market capitalisation index is being tracked

May offer smart beta products that mimic an investment style

You don’t have to choose one or the other.

Active and Passive investments can be blended.