



faith . discipline . patience

Should you invest in actively managed mutual funds or passively managed index funds?

Standard & Poor conducted a survey last year of US equity managers over the prior 1, 3, 5, 10, and 15 years to see how many of them performed better than their benchmark. The results were not encouraging for champions of active management.

Over the prior year 37% of large cap managers were able to outperform the S&P 500 index. Over five years the number dropped to 22%. For ten years it was 18%, and over the prior fifteen years only 13.1% earned more than the index.

For small cap funds the numbers were only slightly better. Over the prior year 53% did better than the small cap index but over five years the number dropped to 33%, and down to 25% for ten years, and 19% for fifteen years.

Some may think the job then becomes to figure out which actively managed funds could beat the index going forward.

Good luck with that.

I don't think anyone is able to discern in advance which funds will do better over the next long period. If we could, then wouldn't other funds use similar discernment and reduce the advantage of the funds we selected in the first place?

All this said, as much as I think this 'active or passive' debate matters I think it is of secondary importance.

I expect, over the long run, stocks will do better than fixed income investments like bonds, CDs, and money market funds.

Therefore, I think the more important decision is to determine whether to own stock funds of either kind.

I liken it to driving to the beach. You'll likely get there whether you drive the speed limit or a few miles above the limit.

But if you decide to ride a 'bond-bicycle' you may never get there.

Good luck.

Jorgen Vik, CFP®

CERTIFIED FINANCIAL PLANNER™

Partner

SKV Group, LLC

Wells Fargo Advisors Financial Network did not assist in the preparation of this report, and its accuracy and completeness are not guaranteed. The opinions expressed in this report are those of the author(s) and are not necessarily those of Wells Fargo Advisor Financial Network or its affiliates. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy.

Asset allocation and diversification are investment methods used to help manage risk. They do not guarantee investment returns or eliminate risk of loss including in a declining market.

This information is hypothetical and is provided for informational purposes only. It is not intended to represent any specific return, yield, or investment, nor is it indicative of future results.

1405 Rolkin Ct., Suite 202
Charlottesville, VA 22911
toll free 844.391.3610
tel 434.328.8040
fax 434.234.3789
www.skvgrp.net