Evidence-Based or Actively Managed Funds?

(It's not really a question)

EVIDENCE-BASED INVESTMENT MANAGEMENT	TYPICAL ACTIVE INVESTMENT MANAGEMENT
Replicates the returns of asset classes	Attempts to beat the returns of an index through stock picking and market timing
Consistent, transparent style	Inconsistent style drift
Lower turnover = lower taxes	Higher turnover = higher taxes
Based on basic arithmetic and historical evidence, likely to <u>outperform</u> comparable active management	Based on basic arithmetic and historical evidence, likely to <u>underperform</u> evidence-based investment management
Relatively few index funds or ETFs go out of business	Too many funds disappear as poor performance forces asset managers to liquidate or merge
Well-run index funds and ETFs will consistently capture the return of the asset class less fees	Stellar performance does not persist, making selection of future top-performers very difficult
Broadly diversified, decreasing risk	Not always broadly diversified, increasing risk
Based on simple math and historical evidence, likely to <u>outperform</u> actively managed funds in both up <u>and</u> down markets	Based on simple math and historical evidence, likely to <u>underperform</u> comparable index funds in both up <u>and</u> down markets
Hundreds of peer-reviewed articles in professional finance journals and other publications highlighting superiority	Scant credible, peer-reviewed evidence (ask us about the coin-flipping exercise that helps understand active "outperformance")
Increasing market share as investors become more educated	Decreasing market share as investors become more educated to overhyped sales practices and failed promises
Endorsed by major business schools, Nobel Laureates in Economics, Warren Buffett, John Bogle, David Swensen, Charlie Ellis, Burton Malkiel and many others	Primarily recommended by brokerage firms and the financial media
Based on financial science	Premised on speculation and guesswork

SOURCES: The Wall Street Journal; Morningstar; www.Dalbar.com; SPIVA (https://us.spindices.com/spiva); "The Arithmetic of Active Management" William F. Sharpe; "What Fund Investors Really Need to Know" Jason Zweig; "Mutual Fund Performance and Manager Style" James L. Davis; Winning the Loser's Game, Charles Ellis; The Intelligent Asset Allocator, William Bernstein; Beating the Street, Peter Lynch; Common Sense on Mutual Funds, John C Bogle; Capital Ideas, Peter L Bernstein; Unconventional Success, David F. Swensen; Random Walk Down Wall Street, Burton G. Malkiel; The Prudent Investor Act: A Guide to Understanding, W. Scott Simon; Financial Analysts Journal Volumes 53-75; The Journal of Portfolio Management; Berkshire Hathaway Annual Letters.

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