

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

Consistent, transparent style

Lower turnover = lower taxes

Based on basic arithmetic and historical evidence, likely to outperform comparable active management

Relatively few index funds or ETFs go out of business

Well-run index funds and ETFs will consistently capture the return of the asset class less fees

Broadly diversified, decreasing risk

Based on simple math and historical evidence, likely to outperform actively managed funds in both up and down markets

Hundreds of peer-reviewed articles in professional finance journals and other publications highlighting superiority

Increasing market share as investors become more educated

Endorsed by major business schools, Nobel Laureates in Economics, Warren Buffett, John Bogle, David Swensen, Charlie Ellis, Burton Malkiel and many others

Based on financial science

Attempts to beat the returns of an index through stock picking and market timing

Inconsistent style drift

Higher turnover = higher taxes

Based on basic arithmetic and historical evidence, likely to underperform evidence-based investment management

Too many active funds disappear as poor performance forces asset managers to liquidate or merge

Stellar performance does not persist, making selection of future top-performers very difficult

Not always broadly diversified, increasing risk

Based on simple math and historical evidence, likely to underperform comparable index funds in both up and down markets

Scant credible, peer-reviewed evidence (ask us about the coin-flipping exercise that helps understand active "outperformance")

Decreasing market share as investors become more educated to overhyped sales practices and failed promises

Primarily recommended by brokerage firms and the financial media

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.

DISCLAIMER: To the best of our knowledge (and that of some of the smartest people we know), the above statements are true.