There are generally two forms of investing. Active management seeks to beat the market by trying to find undervalued securities that the rest of the market has missed. They also try to protect their investors from market downturns. Passive management argues that security prices already reflect all available information and therefore are neither overpriced or underpriced. Rather, they are correctly priced given the available information and investors are better served by holding a portfolio of low cost "index funds". Index funds simply buy and hold the entire market or sections of it. They don't try to beat it.

Passive investing is low cost at about 0.05% to 0.15% (that's $5 to $15 per $10,000 invested per year). Active investing costs four to seven times as much.

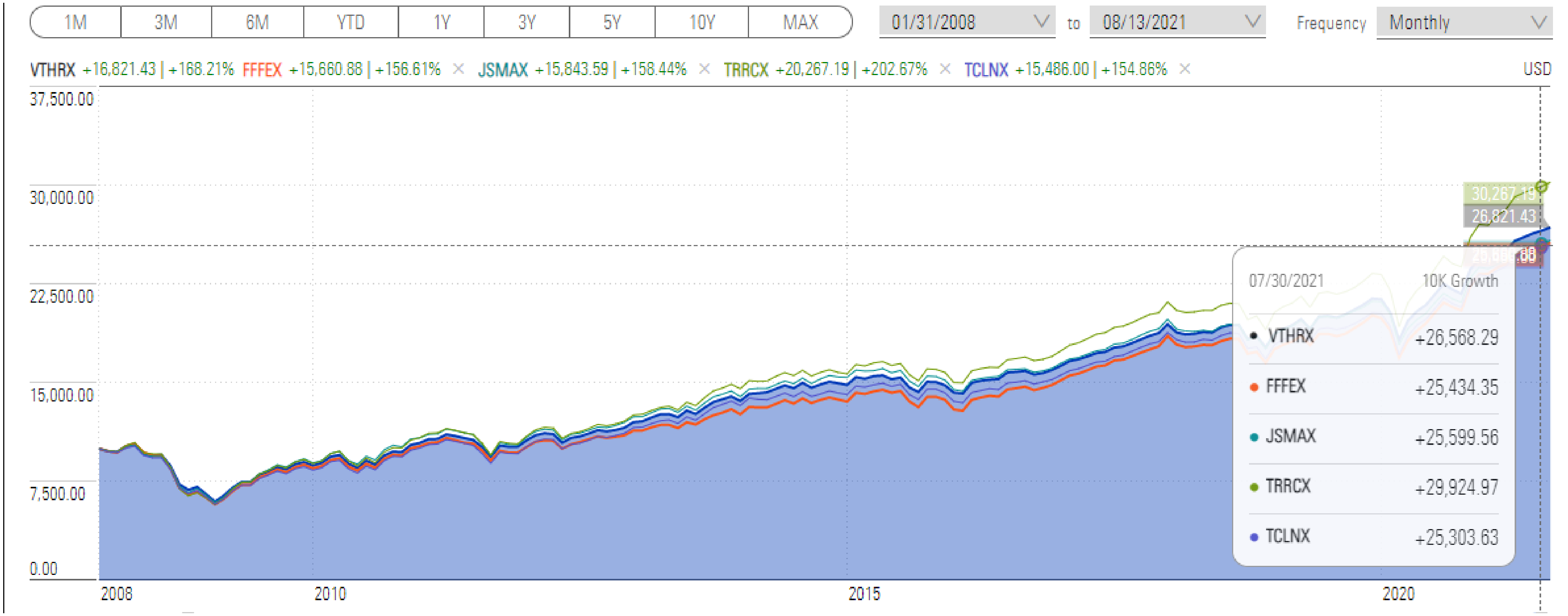
Do you get your money's worth out of active management? Let's see. Below is a graph showing the performance of Vanguard's 2030 target date retirement fund. Its ticker symbol is VTHRX and its expense ratio is 0.14%. The fund is passively managed by holding essentially all of the world's tradable stocks and bonds. It doesn't attempt to beat the market. Like all target date funds, it seeks to maximize returns and minimize risk for an investor planning to retire by the target date. I've chosen the Global Financial Crisis of 2007 – 2008 as period for comparison with actively managed funds. This crisis was a train wreck that played out in slow motion (fourteen months peak to trough) unlike the COVID-19 sudden crash. Note that a $10,000 investment declined to $5300 and didn't recover until 2011. Arguably, there was time for active management to mitigate investment declines.

The graph below adds four actively managed target date 2030 fund to the passive Vanguard fund. The fund providers, ticker symbols and expense ratio (cost) are:

- Fidelity, FFFEX, 0.67%
- JP Morgan, JSMAX, 0.86%
- T Rowe Price, TRRCX, 0.58%
- TIAA CREF, TCLNX, 0.67%

Not surprisingly, active management did no better. In fact, the passive Vanguard fund (VTHRX) declined the least.

Below is performance of all five funds to July 2021. Note that the passively managed, low cost, Vanguard fund returned more than all but the T Rowe Price fund.



There's nothing new here. There's an enormous body research showing that active management doesn't work. From time to time a lower cost actively managed fund may outperform but it's usually short lived and the overperformance was not statistically significant (attributed to luck and not skill). Intuitively, this makes sense. It's very difficult for a small group of money managers to out think the consensus of all the worlds money managers which is what you get by holding a broad market index fund.   It's even harder when they have their higher cost to overcome.