ACTIVE VS PASSIVE FUND MANAGERS THE LATEST SCORECARD

Twice a year Standard & Poor's releases the '***SPIVA Australia Scorecard***' that shows how active fund managers have performed against their respective benchmark indices, such as Australian shares, international shares, listed property etc.

In short, the scorecard shows that active managers still struggle to outperform their respective benchmarks. Or putting it another way, **how active managers generally underperform lower cost index funds, like those of Vanguard or iSelect**.

As shown in the table below, most Australian active funds were outperformed by their respective index benchmarks over one, three and five-year timeframes. In Australian equities (shares), 7 out of 10 active managers failed to beat their benchmarks over five years. And international equity and Australian bond managers were the worst performers, with the highest portion of funds underperforming their benchmarks.

The only category to buck the trend was Australian equity mid and small-cap funds, where there remains more opportunity for skilled active managers to outperform the index.

SPIVA Australia scorecard - percentage of funds outperformed by the Index…

Fund category	Comparison Index	1 Year (%)	3 Year (%)	5 Year (%)
Australian Equity General	S&P/ASX 200	52.60	54.61	70.96
Australian Equity Mid-Small-Cap	S&P/ASX Mid-Small Index	55.21	35.11	29.17
International Equity General	S&P Developed Ex-Aust LargeMidCap	67.31	85.15	89.55
Australian Bonds	S&P/ASX Australian Fixed Interest Index	100.00	82.35	86.27
Australian Equity A-REIT	S&P/ASX 200 A-REIT	92.75	88.16	81.01

Congratulations, you're on the right track…

For those clients using index funds (like Vanguard), well done! The above data should further validate your decision to invest the core of your portfolio in a diversified spread of index funds. Not only are you outperforming the average active investor, your fees are also **much** lower.

But this doesn't necessarily mean there's no place for 'active'.

Finding a place for 'active' (The 'core/satellite' approach)…

In fact, adding actively managed funds and/or individual shares can help 'tilt' your investment strategy in a particular direction, potentially boosting returns, but also giving you a greater sense of control over your affairs.

For example, while the **core** of your portfolio (say 80%-90%) might consist of a small number of index funds, adding a '**satellite**' or layer of individual shares or actively managed funds that have a specific purpose (ie healthcare, resources, ethical, high dividends) can be very effective, and satisfying.

A 'core-satellite' strategy is much less time consuming, less stressful, and less expensive than trading a share portfolio.

Setting the right parameters…

We know that good active managers are hard to find, and we also know that selecting stocks can be overwhelming. And at the same time, it's important to remain true to your emotional makeup – for example, embarking on an overly aggressive or complicated retirement strategy that causes sleepless nights is bad for your physical and financial health.

A good financial adviser can help design the right strategy for your particular aims and personality. So call us on 9382 8885 if you need to review your investment or retirement approach.