

Lowly Analyst Free Newsletter

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Security of Your Personal Information

The risk of unauthorized access to your personal information increases when using mobile devices to access your info, electronic statements, electronic bill payment, or shopping on line. Apple is about 30% more secure than Microsoft.

The Market

The sharp run-up in US Treasury yields temporarily halted the bull market rally. Emerging markets are dampening their booming economies, while the US is expanding government. Europe is freeing its markets. There is still no sign of inflation despite US debt and its ever increasing trade deficits. The dollar is strong.

Currencies. March, Canada up 4%, Mexico 4%, Switzerland 2%, China 0%, Dollar 0%, Euro 0%, Britain 0%, Sweden 0%, Japanese Yen down 5%.

Asset Classes. March, Sml Value up 9%, Micro 8%, Sml Growth 8%, Mid Value 8%, Lrg Value 7%, Mid Growth 6%, Lrg Growth 6%.

Sectors: March, Steel up 15%, Real Estate 11%, Metal & Mining 11%, Global Energy 10%, Gaming 10%, Gbl Material 9%, Lumber 9%, Fin Srv 9%, Aerospace 8%, Base Metals 8%, Regional Banks 8%, Private Equity 8%, Telecom 8%, NASDAQ 100 8%, Cnsmr Srv 8%, Coal 7%, Silver 7%, Biotech 6%, Gbl Infra Strctr 6%, Tech 6%, Intrnl Real Estate 5%, Agric 4%, Gold 0%, Cmmdities down 1%.

Foreign Investments. March, S Africa up 13%, Russia 11, Emrg Europe 11%, S Korea 10%, Mexico 10%, Malaysia 9%, India Earnings 9%, Germany 9%, Australia 8%, Emrg Markets 8%, BRIC 8%, Canada 8%, China Sml Cap 8%, Brazil 8%, Asia-J 8%, US 8%, Emrg Latin Am 8%, Frgn Sm Cap 8%, RAFI Dev Mrkt 7%, Latin Am 7%, Intrnl Sml Cap 7%, Dvlpd Growth 7%, Taiwan 7%, China 6%, Euro 50 6%.

Fixed Income. March, Floating Rate up 5.0%, Emrg Mrkt Gvrnt 3.3%, Real Estate Income 3.1%, Utilities 2.9%, Financial Preferred 2.8%, Hi Yld 2.6%, Intrntl Gvmt Infl Protected 2.3%, Covered Calls 2.2%, Emrg Mrkts 2.1%, Preferred 1.4%, Absolute Strategies 1.1%, Munis 0.3%, 1-3 Mo Treas 0.0%, Intrntl Treas 0.0%, Intrmd Cred 0.0%, Mortgage Bonds down 0.2%, 3-7 Yr Gvmt -1%, 7-10 Yr Gvmt -1.3%, 10-20 Yr Gvmt -1.5%, 20+ Yr Gmt -2.4.

Actively vs. Passively Traded Funds

1. Introduction

We are showing some amazing results in the performance of actively traded funds when compared to passively traded ones. We show comparative data for ten sectors for the last 9 years.

2. Active vs. Passive

There is much evidence that the longer the time frame, passive index funds outperform actively traded funds in efficient markets. For markets to be efficient there must always be an informed buyer and an informed seller, information must be freely available, and trading volume must be substantial. Index funds are very tax efficient, particularly most ETFs. Vanguard ETF's do not share in the efficiency of ETFs since they are clones of their index mutual funds. But all index funds are more tax efficient than actively managed funds.

Emerging markets and microcap stocks are sectors that are often not efficient since trading volumes are small, information is sparse, and insiders are a large factor.

As investors we cannot always wait for the long term. As we show below, in the short term indexes can underperform for years.

Active investors include sophisticated investors that invest in hedge funds that at times show spectacular results. Allegedly hedge funds on the average show superior results, but this is not clear. One of the big problems is selection bias. A hedge fund that performs poorly goes out of business and is removed from the statistics.

There are also legendary investors like Warren Buffet. But Warren buys whole companies or takes a substantial stake in them. Thus his superior performance is in large part due to his management skill.

Active managed funds have higher expenses than index funds. These expenses include fund manager cost, trading costs, bid and ask spread (the price difference between buying and selling a stock), and higher taxes.

3. Examples

Below we provide graphs showing how active and passive funds compared over the last 9 years. Index fund data was available only for 9 years and for only a few funds. The active data is SPIVA index of actively managed funds for the sectors. Total return is share price plus dividends.

Amazingly, the graphs show that for the last 9 years no index fund outperformed the average of the actively managed funds consistently.

Of course one cannot yet invest in an index of actively managed funds. Thus the active investor must select an active fund that performs well. Since a fund's performance depends on the manager, purchasers must also hope that the manager stays with the fund. As expected only major sector indexes like large cap, mid cap, small cap, financial, real estate, and energy, show superior performance at times.

4. Bottom Line

- Actively managed funds can outperform index funds for years.

