Active Management 101

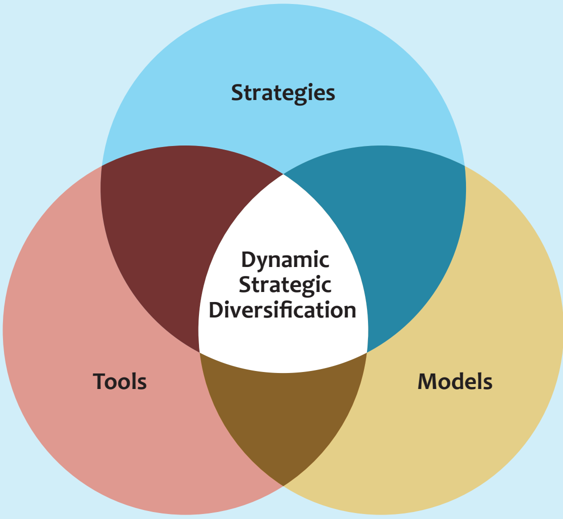
There is a great deal of confusion surrounding the term "active management" created by the business press. When one reads a headline in any given year that "active managers" are underperforming or overperforming their benchmarks, this typically is referring to "active" managers of a mutual fund—who are being measured against a specific index or competing funds within that style.

Within the field of true active *portfolio* management, this narrow and misleading definition really has little significance.

Active investment management is not about exceeding a specific benchmark or "beating the market." Active management seeks favorable risk-adjusted returns in any market environment, generally employing sophisticated algorithms and models to capture gains and protect against losses in a wide variety of sectors, asset classes, and geographies.

It is about controlling risk in the markets, finding new ways to dynamically diversify, and smoothing out the long-term volatility typically found in any asset class. Active managers tend to rely on quantitative approaches for asset allocation, exposure to the market, and adjustments to portfolios based on current market conditions. When it comes to evaluating returns, they generally will not compare to the S&P 500 or global total market indexes, but are far more interested in risk-adjusted returns and in meeting their portfolio objectives.

In theory, it is fundamentally about a long-term approach to portfolio management that is diametrically opposed to "buy-and-hold."



Fee-based revenues remain strong among advisors

	2012	2013	2014
Fee-Based Assets (% of Total Assets)	28%	31%	35%
Fee-Based Revenue (% of Total Revenue)	45%	47%	53%
Average Fee Accounts per Advisor ($000s)	$258	$293	$293
Average Assets of New Client HHs ($000s)	$475	$477	$538

Source: PriceMetrix Insights – The State of Retail Wealth Management 2014 – 5th Annual Report (Aggregated data representing 7 million retail investors and over $3.5 trillion in investment assets.)

5 reasons to consider active management

Buy-and-hold is dead(ly)—While bull market runs are impressive, history shows it is not a matter of "if" but more a matter of "when" for the next bear market. Investment expert Kenneth Solow sums it up: "Patiently waiting for stocks to deliver historical average returns does not rise to the level of an investment strategy."

Bear market math is daunting—It takes longer than most investors think to recover from bear markets—a gain of 50% is needed to overcome a 33% portfolio loss.

Risk first: Always—As one prominent active manager has said, "No one would ever jump into a car without brakes, so why would investors even consider having an investment strategy that did not have a strong defense?"

Active management aligns with investor psychology—Behavioral finance studies have documented the tendencies of investors to operate on the destructive principles of "fear and greed." Disciplined active management takes emotion out of the equation.

Does "set it and forget it" really make sense?—For retirees or those approaching it, the "sequence of returns" dilemma can have a devastating effect on future income needs. Active management offers a prudent path to achieving the twin goals of asset preservation and compounded capital growth.

Resources for Advisors

Websites

Proactive Advisor Magazine: Active investment management's weekly magazine, providing advisor perspectives, topical issues in active management and commentary on strategy and tactical tools. www.proactiveadvisormagazine.com

Market Technicians Association (MTA): Leading national organization of investment analysts, stock market analysis professionals and certified market technicians. www.mta.org

Advisor Perspectives: Audience-generated and vendor-neutral forum where fund companies, wealth managers and financial advisors share their views on the market, the economy, and investment strategy. www.advisorperspectives.com

White papers

"Bucket Investing with Dynamic Risk-Managed Portfolios," Flexible Plan Investments
goto.flexibleplan.com/download/whitepaper-bucket-investing.pdf

"Comparison of ETFs and Mutual Funds—The True Cost of Investing," Guggenheim Investments
guggenheiminvestments.com/rydex

"Understanding Leveraged Exchange Traded Funds," Direxion Investments
www.direxioninvestments.com

"Small Accounts, Big Opportunities," Trust Company of America
www.trustamerica.com/resources

"Why Gold? Seven Enduring Reasons," Flexible Plan Investments
goldbullionstrategyfund.com

"The State of Retail Wealth Management, 5th Annual Report," PriceMetrix
www.pricemetrix.com