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 they 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."

5 reasons to consider active management

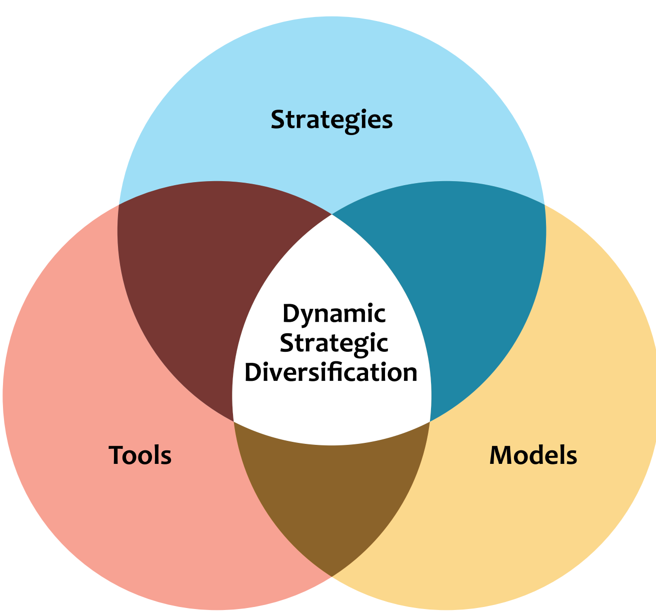
Buy-and-hold is dead(ly)—While bull market runs are impressive, history shows it is not a matter of "if" but more a matter of "when" for the next bear market. Investment expert Kenneth Solow sums it up: "Patiently waiting for stocks to deliver historical average returns does not rise to the level of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

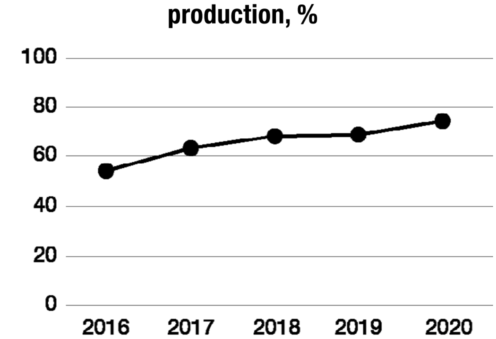
Does "set it and forget it" really make sense?—For retirees or those approaching retirement, the "sequence of returns" dilemma can have a devastating effect on future income needs. A portfolio including dynamic, risk-managed strategies offers a prudent path for retirees seeking to achieve the twin goals of asset preservation and compounded capital growth.



Fee-based revenues growing among advisors

According to data and analytics company PriceMetrix by McKinsey, "… more clients and their advisors continue to adopt the asset-based fee model. Revenues from fees now contribute almost three-quarters of overall gross production for financial advisors, up from 54 percent in 2016. Fifty-eight percent of client relationships now have fee-based accounts, up from 43 percent only four years ago."

Contribution from fee-based revenues to advisors' overall gross production, %



Source: PriceMetrix by McKinsey

Resources for Advisors

Websites

CMT Association: A global credentialing body dedicated to providing education for industry professionals. The Chartered Market Technician (CMT) designation promotes high standards for technical analysis.

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.

White papers

"Bucket investing with dynamically risk-managed portfolios,"
Flexible Plan Investments

"A comparison of ETFs and mutual fund ownership costs: The true cost of investing,"
Guggenheim Investments

"Are leveraged ETFs right for you?"
Direxion

"Elite marketing tactics: How elite RIAs market their businesses successfully,"
Axos Advisor Services

"The role of gold in investment portfolios,"
Flexible Plan Investments

"On the cusp of change: North American wealth management in 2030,"
McKinsey & Company