My Views
By Victor Didkowsky, CFP

Is there a difference?

The debate over actively versus passively managed funds has been going on ever since the French mathematician Louis Bachelier came up with his "Theory of Speculation" in 1900. A more recent example (1965) is Eugena Fama's doctoral thesis on market efficiency, which stated "actual prices of individual securities already reflect the effects of information based both on events that have already occurred and on events which, as of now, the market expects to take place in the future". In other words, the efficiency of the market.

So let's take a look at some historical numbers.

From August 1982 to March 2000, seventeen years and eight months, the longest bull market in history, the S & P 500 Index's price rose by a factor of thirteen. Prior to that, from 1966 to 1982, that same index lost an average of 1.6 % per year for sixteen years. Thanks to some astute media coverage back in 1979, the cover of Business Week's August edition headline read "The Death of Equities". For a couple of years between 1979 and 1982 they looked like geniuses, but after that, ***did they get that one wrong!***

Since many of us are visual learners, let's take a look at some numbers to gain a better understanding of the comparison in respect to volatility.

	Std Dev * 1 Year	Std Dev 3 Years	Std Dev 5 Years	Std Dev 10 Years
Average Canadian Equity Fund	7.92	11.65	12.41	13.43
S&P/TSX Total Returns CDN Index	9.54	13.21	17.16	17.11

* Standard deviation is a measurement of volatility, the swings that a portfolio would experience in a given period of time. **The lower the number, the less of a rollercoaster ride you had.**

During the period of July 31, 1994 to July 31, 2004 the average Canadian Managed Fund captured 78 % of the S & P/TSX Index's upside, but only 66 % of its downside. ***In other words, managed money, if structured properly, is designed to under perform the index on the upside and over perform it on the downside; thereby demonstrating superior capital preservation in declining markets.***

What this boils down to is a smoother ride in the short term, and over the long term superior returns are generated by actively managed – pension style managed portfolios. All of this analysis does not include the additional value that I provide in rebalancing the asset allocation, structuring the holdings, monitoring them on an ongoing basis and being the steward of your family's financial dreams.

Regards,

Victor