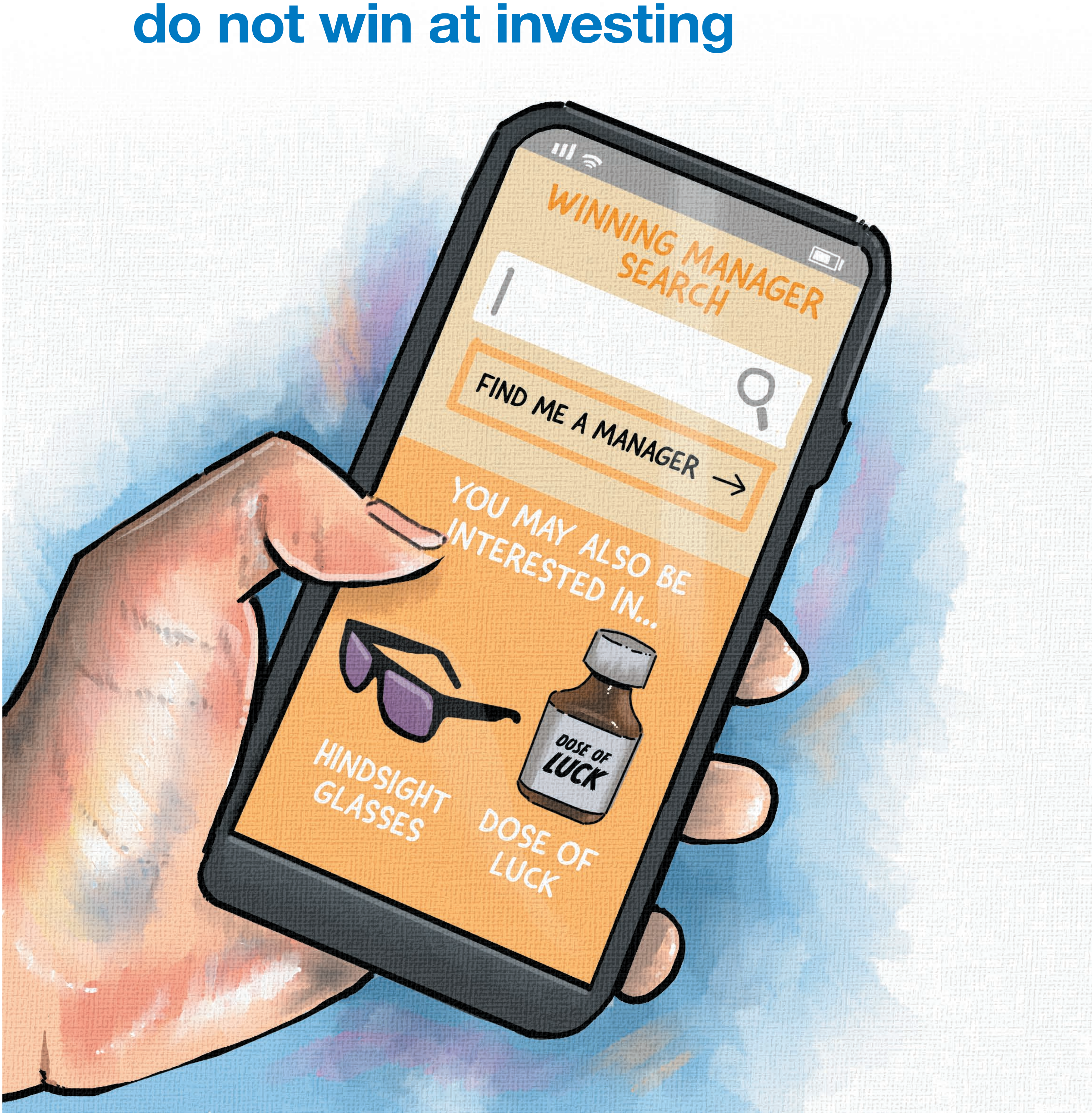
INSIGHT

THE GREATEST WEALTH IS **YOUR PEACE OF MIND...**

BARNETT RAVENSCROFT
WEALTH MANAGEMENT

The majority of fund managers do not win at investing



The majority of fund managers do not win at investing

Increasingly, investors are becoming aware that investing costs really matter. Perhaps fewer know that the majority of active fund managers who promise to beat the market fail to deliver on that promise[1]. Possibly even fewer still have wondered why this is so. A simple piece of logic can help. By definition, all investors represent 'the market'. Every sale of a company's shares needs someone else to buy them and vice versa. That makes a nonsense of the type of statement commonly made by some market pundits that 'there were more buyers than sellers' to explain price movements! The gross return of all investors must be the market return. And here is where costs come in; the net return of investors – what they actually receive in monetary terms - is the gross return less costs, which by definition will be below the market. These costs can be considerable, covering a fund manager's fees and the fixed costs of a fund, reflected in the Ongoing Charges Figure (OCF), as well as the costs that a fund incurs buying and selling securities. All of these costs are reflected in fund performance.

A quick way to see the impact of this zero-sum-game and costs at work is to look at the average return of all funds in a specific fund category, such as 'global equities', and how this peer group average has performed relative to the cost-free market return, or even an index tracker attempting to replicate this market return as closely as possible, being the natural alternative to choosing an 'actively managed' fund. It certainly does not make good reading for the highly paid fund management industry.

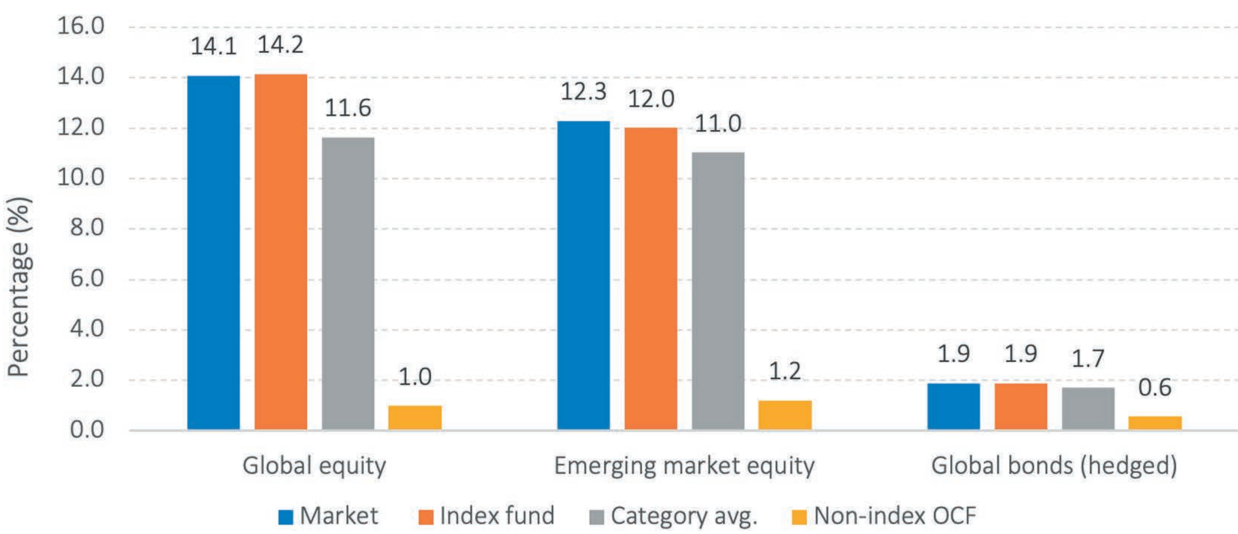


Figure 1: Costs result in the average fund being beaten by the market – 5 years to 30/6/2021[2]

Data source: Annualised returns from Morningstar Direct ©. All rights reserved. See end notes for details.

It is worth noting that the category average includes all the index funds in the peer group, which will bump up the sector average closer to the market. Remember that these seemingly small difference compound up over time into big differences in final financial outcomes, which impact real lifestyle choices for investors. Costs matter.

Some readers may be tempted to think that they, or their adviser, are able to avoid the losers and pick winning funds. Spoiler alert: without the benefit of 20/20 hindsight, or a large dose of luck, finding a winning manager is well-nigh impossible, as a vast body of empirical research suggests. Sorry to disappoint! As the legendary Jack Bogle used to say[3]:

> "Don't look for the needle in the haystack.
> Just buy the haystack [i.e. the market]'

Understanding why it is so difficult to pick a winning manager is for another day.

End notes

1.
For example: SPIVA US Scorecard 2021. http://us.spindices.com/resource-center/thought-leadership/spiva/

2.
Market return: global equities – MSCI World Index TR in GBP, emerging markets – MSCI Emerging Markets Index TR in GBP, global bonds – Barclays Global Aggregate (hedged GBP). Category average from Morningstar. Index fund example for illustrative purposes only – iShares Core MSCI World ETF, Vanguard EM Mkts Stk. Index, Vanguard Global Bond Index. Non-index OCF data as at 30/6/2021.

3.
John C. Bogle, The Little Book of Common Sense Investing: The Only Way to Guarantee Your Fair Share of Stock Market Returns

Other notes and risk warnings

Use of Morningstar Direct© data

Risk warnings

This article is distributed for educational purposes only and must not be considered to be investment advice or an offer of any security for sale. The reference to any products is made only to make educational points and must, in no circumstances, be deemed to be any form of product recommendation.

This article contains the opinions of the author but not necessarily the Firm and does not represent a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable but is not guaranteed.

Past performance is not indicative of future results and no representation is made that the stated results will be replicated.

Errors and omissions excepted.

Barnett Ravenscroft Wealth Management is a trading name of Barnett Ravenscroft Financial Services Ltd which is authorised and regulated in the United Kingdom by the Financial Conduct Authority FRN: 225634 and registered in England and Wales under Company No. 04013532.

The registered office address of the Firm is 13 Portland Road, Edgbaston, Birmingham, B16 9HN

INSIGHT

The majority of fund managers do not win at investing

BARNETT RAVENSCROFT WEALTH MANAGEMENT

Barnett Ravenscroft Wealth Management
13 Portland Road
Edgbaston
Birmingham
B16 9HN
UK

Tel: +44 (0)121 454 0910
Fax: +44 (0)121 410 5619
Email: info@brwm.co.uk
Web: www.brwm.co.uk