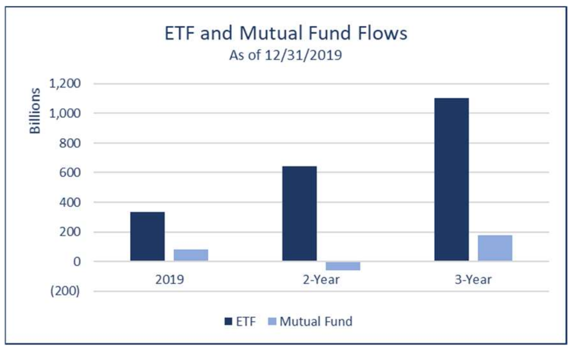
lower costs. better results.

Where Are Investors Going?

In recent years, there has been much ado about the transition of investor money from mutual funds to Exchange Traded Funds (ETFs). While that is clearly the case, we must consider why that is happening. In the charts below, we will demonstrate that the lion's share of this fundamental change is investors giving up on actively managed STOCK mutual funds and investing in passively managed stock mutual funds and ETFs. Note: passive includes any fund tracking an index, including smart beta or factor indexes. All data is sourced from Morningstar and is as of December 31, 2019.

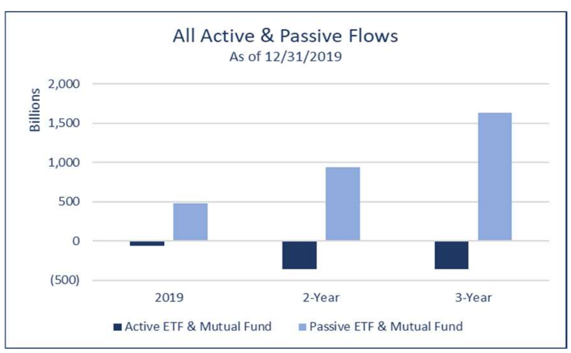
Mutual Funds vs. ETFs

Here we look at the broadest view of investor flows of money to all ETFs and mutual funds.



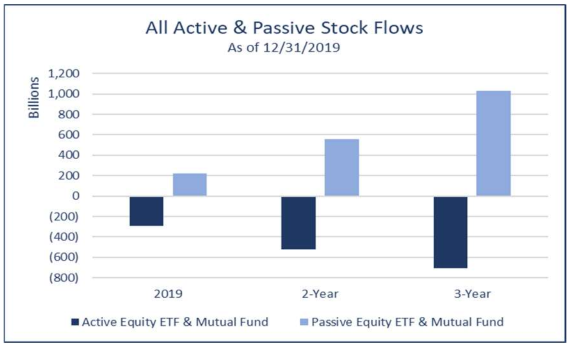
Active vs. Passive

Here we look at investor attitudes toward actively managed ETFs and mutual funds versus passive ones that just track an index.



Active Stock vs. Passive Stock

It is clear above that investors are leaving active in favor of passive. The chart below demonstrates how that is dominated by the divestment from actively managed stock funds.



Why Active Stock?

The trends are clear – money is leaving mutual funds for ETFs, it is leaving actively managed investments, and it is particularly leaving active stock for passive stock. So why that singular focus? There are a few reasons investors have spurned active equity and embraced passive equity. The chief reason is performance. The SPIVA study (Standard & Poor's Index Versus Active), which can be found at https://us.spindices.com/spiva/#/reports, demonstrates that, over the long term, the vast majority of active stock funds do not beat a simple benchmark. Another reason is cost. Passively managed funds are significantly cheaper to manage and therefore have a much lower cost to the investor. And finally, there is availability. Most of the product innovation and development in the financial industry has been with stock indexes as stocks are more liquid and visible than bonds. However, bond indexes are proliferating as well.

Disclosures