Perspective

Inflation

What Does It Mean, To Whom Does It Affect, and How does One Respond To It

Thomas Schneeweis

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One of the issues with the concept of Inflation, is that it has different meaning and impact on different individuals. In fact, an abstract of an article on inflation is in fact abstract itself in that there is no one direct meaning of the term.

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Inflation

In recent months, the evening news as well as a number of online and printed media have spent a considerable amount of time offering American's various reported estimates of "inflation". But what really is inflation. A simple definition of inflation comes from Wikipedia: I**nflation** is the decrease in the purchasing power of a currency. That is, when the general level of prices rises, each monetary unit we have can buy fewer goods and services. For a number of reasons, it would be nice to have a feeling for the potential change of the value of the dollars in our pocket, bank, investments etc. One of the most popular estimates for changing value of those dollars comes from the Bureau of Labor in the form of the CPI-U.

Because it is not practical to obtain prices for all consumer transactions in the United States, the CPI-U uses a carefully designed set of samples to estimate prices. These samples are the product of accepted statistical procedures to make the CPI-U representative of the prices paid for all goods and services purchased by urban consumers. Therefore, the CPI-U is an average based on many diverse households and not a reflection of any particular household. Moreover, there are a wide variety of indices such as the CPI-e which focuses on changes in the value of the dollar for the elderly (over the age of 62). Even the CPI-U has many issues. For instance, the CPI-U does not include the sales price of homes. Instead, it calculates the monthly equivalent of owning a home, which it derives from rents. That's misleading. Rental prices are likely to drop when there is a high vacancy rate. For particular people, particular versions of the CPI do have direct impacts on certain people in terms of how certain reported versions of the CPI are included in changes in people's salaries, social security payments etc.

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In short, certain versions of the CPI may mislead Americans as the changing value of the "Their" dollar. As important, reports on CPI values also may impact individual's impression of the current economic condition. Impressions of rising prices (regardless of the source of those impressions or the correctness of those impressions) may cause many Americans to change their purchasing or investing patterns. Impressions of potential higher prices may cause Americans to purchase certain goods today rather than in the future. Those purchases may result in a higher immediate demand for certain goods, which may lead to greater immediate profits for certain firms and stock values. At the same time those rising profits may result in demands for higher wages and find their way into higher corporate expenses, leading to lower profits and stock prices sometimes in the future. For others who do not wish the risk of the future changes of stock prices due to concerns over inflation, may move immediately into fixed payment contracts (bonds) from various governmental and corporate bodies. For these fixed contract payments, individuals may often demand payments (e.g., higher interest payments) which reflect their estimate of the increased cost of future external goods. If not high interest rate payments, why purchase bonds which do not offer any protection against these higher costs and instead put their money elsewhere. In short, feelings of high CPI also result in increased demands by investors for higher interest rates to cover those costs which also, unfortunately, lower the value of current bonds which currently offer lower interest rate payments.

In short there are no simple answers. Different people may be impacted differently and will react differently. Also unfortunately, the public media reports on CPI-U may be a poor source of the actual changing value of the dollar but they remain, for most Americans, their best access to their estimate of the future cost of many items

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What is an individual to do? We are prepared to help current and future investors in their efforts. We look foreword to seeing how changing economic values of many items due to inflation and its various measures directly impact their lives and how their investments (stocks, bonds and alternatives) may be used as a means to offset known or expected changes in the values of various assets within the economy as the result of various measures of inflation. The worst choice would be to do nothing.

Remember Schneeweis' First and Second Laws of Economics.

Schneeweis' First Law – We Have Simple Answers to Complex Problem

Schneeweis' Second Law – The First Law Does Not Work

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Perspective

Diversification in the Retail Investment Market

Thomas Schneeweis

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You have a Choice, but nothing comes for free

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Diversification in the Retail Investment Market

Traditionally, Wall Street firms have rolled out the red carpet for wealthy investors and shown a whole lot less interest in young ones who are just starting out. Small accounts have often been saddled with high fees or barred altogether by high minimums.

But the barriers to younger, poorer investors have been falling. Established firms and startups alike are coming up with cheaper ways to offer advice and investments to people who used to be turned away.

This month, for example, the online investing startup Wealthfront dropped the minimum amount to open an account from $5,000 to $500. It already charges no fee on the first $10,000 it manages.

It's a strategy inspired by other Silicon Valley startups, said Will Trout of research firm Celent: Get lots of customers in the front door with free services and then come up with ways to make money off them down the line. It's "predicated on the idea that the millennials of today are going to be the high-net-worth investors of tomorrow," he said.

So how does an ambitious novice investor get started?

We asked a variety of investing firms what they offer to investors who don't have much money yet. Many say they're happy to take even the tiniest accounts. But you need to be careful about extra fees on small accounts.

You also might not be able to access all the firm's offerings; many funds on offer will have their own minimum-investment requirements. A managed account, in which a firm puts together and manages a portfolio for you, often requires at least $10,000. For the privilege of hiring your own personal financial adviser, you may need hundreds of thousands of dollars or more. Advisers are often paid by a percentage of the assets they manage, and a typical fee is 1 percent per year.

Here are some of the options available at key investment firms.

AllianceBernstein

You'll need $2,500 to invest in an AllianceBernstein mutual fund. Subsequent investments must be at least $50. Funds purchased through financial advisers have no minimums.

Betterment

There's no minimum investment at Betterment, an online investing startup, or "robo-adviser," founded in 2010. A unique advantage of Betterment for small investors is its ability to sell

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fractional shares — down to one-millionth of a share — which makes it easier to spread small portfolios over several different exchange-traded funds.

But the service charges smaller accounts more than larger one. It charges a fee of 0.35 percent of assets per year for accounts of less than $10,000, if clients set up an automatic deposit of at least $100 into their account. Otherwise, Betterment charges small accounts $3 per month, which doubles the fee for a $500 account. From $10,000 to $100,000, clients pay 0.25 percent, and over $100,000 they're charged 0.15 percent.

Charles Schwab

You need $1,000 to open a brokerage account; that requirement is waived if you set up an automatic transfer of $100 a month or open a checking account. This year, the discount broker started up its own robo-adviser, called Schwab Intelligent Portfolios, which recommends and manages a portfolio at no charge. The minimum initial investment is $5,000.

E*Trade Financial

E*Trade requires $500 to open a self-directed brokerage account, but there's no minimum to open an individual retirement account, or IRA. If you have at least $25,000, you can sign up for E*Trade's managed accounts, in which the discount broker manages a portfolio for you.

Fidelity Investments

Clients must have $2,500 to open a retail brokerage account and invest in the markets. For a managed account through Fidelity's Portfolio Advisory Services, there's a $50,000 minimum.

Financial Guard

Financial Guard is a robo-adviser with a unique business model and pricing structure. It gives clients advice on their investments wherever they're held and charges them a flat fee of $16 per month, or $150 per year. President Kevin Pohmer argues it doesn't make sense to charge investors for advice based on how much money they have. It's like "going to a grocery store and having the checkout person asking me how much I have in my wallet before telling me how much each item costs," he said. Investors must have at least $1,000 invested to use the service.

JPMorgan Chase

You'll need $500 to open a investment account, either online or through a bank branch. That gets you a basic brokerage account through which you can pick your own mutual funds. To qualify for Chase's managed account portfolios, you'll need $50,000.

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Merrill Lynch/Bank of America

There's no minimum to open an investment account through the bank's discount Merrill Edge platform. As you gather more assets, you can move up to the firm's other offerings. Once you have $250,000 in assets, it may make sense to transfer to a Merrill Lynch adviser, said Aron Levine, head of Preferred Banking and Merrill Edge at Bank of America. At $3 million or more, you may want advice from U.S. Trust, BofA's private bank for the very wealthy. You may also want to open the window and scream, "YESSSSSS!"

Morgan Stanley

The minimum for managed account programs at Morgan Stanley starts at $10,000. The firm can handle accounts as small as $500 or less for a traditional brokerage or retirement account. But, unlike some competitors that offer online-only investment platforms, Morgan Stanley requires potential clients pick up the phone. To open an account or to get the details on which minimums apply to various types of accounts, you need to call a local adviser or the firm's 1-800 number.

OppenheimerFunds

Most mutual funds are available for an initial minimum investment of $1,000. An IRA can be opened for $500. There are no additional charges for small accounts.

Personal Capital

You need $100,000 to invest with Personal Capital, an online investing start-up that hires advisers to work with clients over the phone. "When it comes to challenging questions and complicated situations, the human touch is irreplaceable," said Chief Executive Officer Bill Harris. The firm charges a fee of 0.79 percent per year on the first $3 million, with the fee gradually dropping the more money you put in. Over $10 million, it drops to 0.49 percent.

Raymond James

There's no minimum account size. The firm, which has 6,400 advisers, does charge an annual maintenance fee of up to $50. It can be waived or lowered for certain kinds of accounts, including IRAs and 529 college savings plans.

Scottrade

To open a brokerage account, you'll need $2,500. The firm increased the minimum from $500 in November. Retirement accounts, including IRAs, have no minimums.

TD Ameritrade

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There's no minimum balance to open a brokerage account with TD Ameritrade, which gives access to mutual funds and exchange-traded funds. The discount broker also will recommend a portfolio based on answers to an online questionnaire. This service, called Amerivest, requires a minimum investment of $25,000. The average fee is 0.8 percent per year.

T. Rowe Price

There's a $2,500 minimum to open a taxable account, and a $20 "low balance fee" on accounts under $10,000. The minimum initial investment for IRAs is $1,000, and subsequent contributions must be at least $100. The low balance fee can be waived on IRAs if clients receive statements electronically.

UBS

There's no minimum to open an investment account, but there is an annual $95 maintenance fee on accounts with less than $75,000.

Vanguard Group

With a minimum of $1,000, investors can buy one of 12 target-date retirement funds, which automatically spread assets across stocks, bonds, and international investments, and adjust risk as clients get closer to retirement. The fees on Vanguard's Target Retirement Funds are 0.16 to 0.18 percent per year.

Most other Vanguard funds have higher minimums. For example, the popular Vanguard Total Stock Market Index Fund requires a minimum investment of $3,000. Its regular fee is 0.17 percent per year, but clients with more than $10,000 in the fund can pay just 0.05 percent.

Wealthfront

The robo-adviser this month lowered its minimum from $5,000 to $500. It charges no fees on the first $10,000 invested, and 0.25 percent annually on assets over $10,000.

Wells Fargo

There's no minimum deposit to open an account through Wells Fargo's online platform, WellsTrade. The firm does charge a $25 fee on accounts less than $5,000, but that can be waived if you sign up for other Wells Fargo products.

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Perspective

Anno Domini

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'Anno Domini': Inscription at a cathedral in Carinthia, Austria.

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Anno Domini

The terms anno Domini[a][1][2] (AD) and before Christ[b][3][4][5] (BC) are used to label or number years in the Julian and Gregorian calendars. The term anno Domini is Medieval Latin and means "in the year of the Lord",[6] but is often presented using "our Lord" instead of "the Lord",[7][8] taken from the full original phrase "anno Domini nostri Jesu Christi", which translates to "in the year of our Lord Jesus Christ".

This calendar era is based on the traditionally reckoned year of the conception or birth of Jesus of Nazareth, with AD counting years from the start of this epoch, and BC denoting years before the start of the era. There is no year zero in this scheme, so the year AD 1 immediately follows the year 1 BC. This dating system was devised in 525 by Dionysius Exiguus of Scythia Minor, but was not widely used until after 800.[9][10]

The Gregorian calendar is the most widely used calendar in the world today. For decades, it has been the unofficial global standard, adopted in the pragmatic interests of international communication, transportation, and commercial integration, and recognized by international institutions such as the United Nations.[11]

Traditionally, English followed Latin usage by placing the "AD" abbreviation before the year number.[c] However, BC is placed after the year number (for example: AD 2018, but 68 BC), which also preserves syntactic order. The abbreviation is also widely used after the number of a century or millennium, as in "fourth century AD" or "second millennium AD" (although conservative usage formerly rejected such expressions).[13] Because BC is the English abbreviation for Before Christ, it is sometimes incorrectly concluded that AD means After Death, i.e., after the death of Jesus. However, this would mean that the approximate 33 years commonly associated with the life of Jesus would neither be included in the BC nor the AD time scales.[14]

Terminology that is viewed by some as being more neutral and inclusive of non-Christian people is to call this the Current or Common Era (abbreviated as CE), with the preceding years referred to as Before the Common or Current Era (BCE). Astronomical year numbering and ISO 8601 avoid words or abbreviations related to Christianity, but use the same numbers for AD years.

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History[edit]

The Anno Domini dating system was devised in 525 by Dionysius Exiguus to enumerate the years in his Easter table. His system was to replace the Diocletian era that had been used in an old Easter table because he did not wish to continue the memory of a tyrant who persecuted Christians.[15] The last year of the old table, Diocletian 247, was immediately followed by the first year of his table, AD 532. When he devised his table, Julian calendar years were identified by naming the consuls who held office that year—he himself stated that the "present year" was "the consulship of Probus Junior", which was 525 years "since the incarnation of our Lord Jesus Christ".[16] Thus Dionysius implied that Jesus' incarnation occurred 525 years earlier, without stating the specific year during which his birth or conception occurred. "However, nowhere in his exposition of his table does Dionysius relate his epoch to any other dating system, whether consulate, Olympiad, year of the world, or regnal year of Augustus; much less does he explain or justify the underlying date."[17]

Bonnie J. Blackburn and Leofranc Holford-Strevens briefly present arguments for 2 BC, 1 BC, or AD 1 as the year Dionysius intended for the Nativity or incarnation. Among the sources of confusion are:[10]

In modern times, incarnation is synonymous with the conception, but some ancient writers, such as Bede, considered incarnation to be synonymous with the Nativity.

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The civil or consular year began on 1 January but the Diocletian year began on 29 August (30 August in the year before a Julian leap year).

There were inaccuracies in the lists of consuls.

There were confused summations of emperors' regnal years.

It is not known how Dionysius established the year of Jesus's birth. Two major theories are that Dionysius based his calculation on the Gospel of Luke, which states that Jesus was "about thirty years old" shortly after "the fifteenth year of the reign of Tiberius Caesar", and hence subtracted thirty years from that date, or that Dionysius counted back 532 years from the first year of his new table.[18][19][20] It has also been speculated by Georges Declercq[21] that Dionysius' desire to replace Diocletian years with a calendar based on the incarnation of Christ was intended to prevent people from believing the imminent end of the world. At the time, it was believed by some that the resurrection of the dead and end of the world would occur 500 years after the birth of Jesus. The old Anno Mundi calendar theoretically commenced with the creation of the world based on information in the Old Testament. It was believed that, based on the Anno Mundi calendar, Jesus was born in the year 5500 (or 5500 years after the world was created) with the year 6000 of the Anno Mundi calendar marking the end of the world.[22][23] Anno Mundi 6000 (approximately AD 500) was thus equated with the resurrection and the end of the world[24] but this date had already passed in the time of Dionysius.

Popularization[edit]

The Anglo-Saxon historian the Venerable Bede, who was familiar with the work of Dionysius Exiguus, used Anno Domini dating in his Ecclesiastical History of the English People, completed in 731. In this same history, he also used another Latin term, ante vero incarnationis dominicae tempus anno sexagesimo ("in fact in the 60th year before the time of the Lord's incarnation"), equivalent to the English "before Christ", to identify years before the first year of this era.[25] Both Dionysius and Bede regarded Anno Domini as beginning at the incarnation of Jesus, but "the distinction between Incarnation and Nativity was not drawn until the late 9th century, when in some places the Incarnation epoch was identified with Christ's conception, i.e., the Annunciation on March 25" (Annunciation style).[26]

Statue of Charlemagne by Agostino Cornacchini (1725), at St. Peter's Basilica, Vatican City. Charlemagne promoted the usage of the Anno Domini epoch throughout the Carolingian Empire.

On the continent of Europe, Anno Domini was introduced as the era of choice of the Carolingian Renaissance by the English cleric and scholar Alcuin in the late eighth century. Its endorsement by Emperor Charlemagne and his successors popularizing the use of the epoch and spreading it throughout the Carolingian Empire ultimately lies at the core of the system's prevalence. According to the Catholic Encyclopedia, popes continued to date documents according to regnal years for some time, but usage of

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AD gradually became more common in Roman Catholic countries from the 11th to the 14th centuries.[27] In 1422, Portugal became the last Western European country to switch to the system begun by Dionysius.[28] Eastern Orthodox countries only began to adopt AD instead of the Byzantine calendar in 1700 when Russia did so, with others adopting it in the 19th and 20th centuries.

Although Anno Domini was in widespread use by the 9th century, the term "Before Christ" (or its equivalent) did not become common until much later. Bede used the expression "anno igitur ante incarnationem Dominicam" (so in the year before the incarnation of the Lord) twice. "Anno an xpi nativitate" (in the year before the birth of Christ) is found in 1474 in a work by a German monk.[29] In 1627, the French Jesuit theologian Denis Pétau (Dionysius Petavius in Latin), with his work De doctrina temporum, popularized the usage ante Christum (Latin for "Before Christ") to mark years prior to AD.[30][31][32]

New year[edit]

Further information: New Year

When the reckoning from Jesus' incarnation began replacing the previous dating systems in western Europe, various people chose different Christian feast days to begin the year: Christmas, Annunciation, or Easter. Thus, depending on the time and place, the year number changed on different days in the year, which created slightly different styles in chronology:[33]

From 25 March 753 AUC (today in 1 BC), i.e., notionally from the incarnation of Jesus. That first "Annunciation style" appeared in Arles at the end of the 9th century, then spread to Burgundy and northern Italy. It was not commonly used and was called calculus pisanus since it was adopted in Pisa and survived there till 1750.

From 25 December 753 AUC (today in 1 BC), i.e., notionally from the birth of Jesus. It was called "Nativity style" and had been spread by Bede together with the Anno Domini in the early Middle Ages. That reckoning of the Year of Grace from Christmas was used in France, England and most of western Europe (except Spain) until the 12th century (when it was replaced by Annunciation style), and in Germany until the second quarter of the 13th century.

From 25 March 754 AUC (today in AD 1). That second "Annunciation style" may have originated in Fleury Abbey in the early 11th century, but it was spread by the Cistercians. Florence adopted that style in opposition to that of Pisa, so it got the name of calculus florentinus. It soon spread in France and also in England where it became common in the late 12th century and lasted until 1752.

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From Easter, starting in 754 AUC (AD 1). That mos gallicanus (French custom) bound to a moveable feast was introduced in France by king Philip Augustus (r. 1180–1223), maybe to establish a new style in the provinces reconquered from England. However, it never spread beyond the ruling élite.

With these various styles, the same day could, in some cases, be dated in 1099, 1100 or 1101.

Birth date of Jesus[edit]

See also: Date of birth of Jesus, Nativity of Jesus § Date of birth, and Chronology of Jesus § Year of Jesus' birth

The date of birth of Jesus of Nazareth is not stated in the gospels or in any secular text, but most scholars assume a date of birth between 6 BC and 4 BC.[34] The historical evidence is too fragmentary to allow a definitive dating,[35] but the date is estimated through two different approaches – one by analyzing references to known historical events mentioned in the Nativity accounts in the Gospels of Luke and Matthew, and the second by working backwards from the estimation of the start of the ministry of Jesus.[36][37]

Other eras[edit]

Further information: Calendar era

During the first six centuries of what would come to be known as the Christian era, European countries used various systems to count years. Systems in use included consular dating, imperial regnal year dating, and Creation dating.[citation needed]

Although the last non-imperial consul, Basilius, was appointed in 541 by Emperor Justinian I, later emperors through Constans II (641–668) were appointed consuls on the first 1 January after their accession. All of these emperors, except Justinian, used imperial post-consular years for the years of their reign, along with their regnal years.[38] Long unused, this practice was not formally abolished until Novell XCIV of the law code of Leo VI did so in 888.

Another calculation had been developed by the Alexandrian monk Annianus around the year AD 400, placing the Annunciation on 25 March AD 9 (Julian)—eight to ten years after the date that Dionysius was to imply. Although this incarnation was popular during the early centuries of the Byzantine Empire, years numbered from it, an Era of Incarnation, were exclusively used and are yet used, in Ethiopia. This accounts for the seven- or eight-year discrepancy between the Gregorian and Ethiopian calendars. Byzantine chroniclers like Maximus the Confessor, George Syncellus, and Theophanes dated their years from Annianus' creation of the world. This era, called Anno Mundi, "year of the world" (abbreviated AM), by modern scholars, began its first year on 25 March 5492 BC. Later Byzantine chroniclers used Anno Mundi years from 1 September 5509 BC, the Byzantine Era. No single Anno Mundi epoch was

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dominant throughout the Christian world. Eusebius of Caesarea in his Chronicle used an era beginning with the birth of Abraham, dated in 2016 BC (AD 1 = 2017 Anno Abrahami).[39]

Spain and Portugal continued to date by the Era of the Caesars or Spanish Era, which began counting from 38 BC, well into the Middle Ages. In 1422, Portugal became the last Catholic country to adopt the Anno Domini system.[27]

The Era of Martyrs, which numbered years from the accession of Diocletian in 284, who launched the last yet most severe persecution of Christians, was used by the Church of Alexandria and is still used, officially, by the Coptic Orthodox and Coptic Catholic churches. It was also used by the Ethiopian church. Another system was to date from the crucifixion of Jesus, which as early as Hippolytus and Tertullian was believed to have occurred in the consulate of the Gemini (AD 29), which appears in some medieval manuscripts.

CE and BCE[edit]

Main article: Common Era

Alternative names for the Anno Domini era include vulgaris aerae (found 1615 in Latin),[40] "Vulgar Era" (in English, as early as 1635),[41] "Christian Era" (in English, in 1652),[42] "Common Era" (in English, 1708),[43] and "Current Era".[44] Since 1856,[45] the alternative abbreviations CE and BCE, (sometimes written C.E. and B.C.E.) are sometimes used in place of AD and BC.

The "Common/Current Era" ("CE") terminology is often preferred by those who desire a term that does not explicitly make religious references.[46][47] For example, Cunningham and Starr (1998) write that "B.C.E./C.E. …do not presuppose faith in Christ and hence are more appropriate for interfaith dialog than the conventional B.C./A.D."[48] Upon its foundation, the Republic of China adopted the Minguo Era, but used the Western calendar for international purposes. The translated term was 西元 ("xī yuán", "Western Era"). Later, in 1949, the People's Republic of China adopted 公元 (gōngyuán, "Common Era") for all purposes domestic and foreign.

No year zero: start and end of a century[edit]

Further information: 0 (year), Astronomical year numbering, Millennium, and Century

In the AD year numbering system, whether applied to the Julian or Gregorian calendars, AD 1 is preceded by 1 BC. There is no year "0" between them, so a new century begins in a year which has "01" as the final digits (e.g., 1801, 1901, 2001). New millennia likewise are considered to have begun in 1001 and 2001. This is at odds with the much more common conception that centuries and millennia begin when the trailing digits are zeroes (1800, 1900, 2000, etc.); for example, the worldwide celebration of the new millennium took place on New Year's Eve 1999, when the year number ticked over to 2000.[9]

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For computational reasons, astronomical year numbering and the ISO 8601 standard designate years so that AD 1 = year 1, 1 BC = year 0, 2 BC = year −1, etc.[d] In common usage, ancient dates are expressed in the Julian calendar, but ISO 8601 uses the Gregorian calendar and astronomers may use a variety of time scales depending on the application. Thus dates using the year 0 or negative years may require further investigation before being converted to BC or AD.

See also[edit]

Ante Christum natum

Holocene calendar

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a.Jump up ^ The word "anno" is often capitalized, but this is considered incorrect by many authorities and either not mentioned in major dictionaries or only listed as an alternative. Wikipedia's manual of style also prescribes lowercase.

b.Jump up ^ The word "before" is often capitalized, but this is considered incorrect by many authorities and either not mentioned in major dictionaries or only listed as an alternative. Wikipedia's manual of style also prescribes lowercase.

c.Jump up ^ This convention comes from grammatical usage. Anno 500 means "in the year 500"; anno domini 500 means "in the year 500 of Our Lord". Just as "500 in the year" is not good English syntax, neither is 500 AD; whereas "AD 500" preserves syntactic order when translated.[12]

d.Jump up ^ To convert from a year BC to astronomical year numbering, reduce the absolute value of the year by 1, and prefix it with a negative sign (unless the result is zero). For years AD, omit the AD and prefix the number with a plus sign (plus sign is optional if it is clear from the context that the year is after the year 0).[49]

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Perspective

Active versus Passive Investment

The Wrong Debate

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Active versus Passive Investment

Few areas of investment are so hotly debated as the benefits of Active versus Passive investment. Given the amount written on the subject, it is obvious that, absent some "Costless Hidden Truth that Rises Somehow From its Well Nailed Coffin", that the brief comments that follow will not put a final nail in the coffin of the debate (for those who wish a simple discussion of the issue just google the father of CAPM etc. "William Sharpe" and read anything by him – Including the 1991 FAJ article. In brief, Bill Sharpe points out". It follows (as the night from the day) that the return on the average actively managed dollar must equal the market return. Why? Because the market return must equal a weighted average of the returns of the passive and active segments of the market. If the first two returns are the same, the third must be also". Fine, the returns should be the same (and after costs, the high cost product should offer a lower net return). But Sharpe continues, "It is perfectly possible for some active managers to beat their passive brethren, even after costs." I emphasize the some. In fact one would hope that as in any poker game with a fixed pot of money, that old players would take money from new players trying to enter the game. The higher return to the expert players is a return that newer players are willing to pay for the chance of getting to the other side of the table (Dissimilar utility functions with some willing to pay for the positive skewness). In short, while the market return is average, the players and the various reasons for their entering the market are not 'on average' the same. (The classic case is in futures markets where arbitrage insures that FP = SP* (1+(r-d)) however, there are individuals who own just the FP (why the individuals who buy/sell futures do so to hedge their market positions and if there are not

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enough of natural hedgers (Long and Short) to meet the relative hedging demand then the equation must be adjusted by give a return to the non-hedger for the risk of holding a standalone positions.

In short there is risk in holding any portfolio and as of yet we have no way of adequately measuring the risk that any individual has in holding a portfolio so there is no way of really of comparing Active versus Passive Investing since the return to risk tradeoff of any portfolio is not strictly comparable to the Active versus Passive Investing space of any other individual (note: taxable versus non taxable, cost of trading, the fallacy of historical data in providing tests of performance (markets change, assets change, …..).

In short, enough of the "bullshit" that one can really test the active versus passive debate. If two identical assets (see forward versus cash investments) – futures don't count since they require cash investment - are very liquid, with costless private information etc. then a simple passive approach (algorithmic based investment) should equal that returns of the same investment with active oversight (e.g., investment decisions that are inconsistent with the algorithmic investment model). Of course, if the two investments are not identical (typical passive versus active) – all bets are off and no "strict comparisons can be made" since the risks are different and we have no way of determining the proper risk comparisons. At this point we are at the "number of angles who can dance on the head of the pin". So let us ask the real question" Why does this "Great Debate/Non Debate Continue" if it is truly unanswerable or at least unmeasurable.

Well as you learned in Economics 101 that given similar utility functions (leave out those who are willing to hold or sell assets as a means of getting to heaven, etc.) for a topic to receive such intense debate there has to be an economic reason. In short, there must be a lot of money to be made (and lost) from trying to answer the pros and cons of Active/Passive debate even if we agree to the WIKI

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definitions: **Wikipedia: Active management (also called *active investing*) refers to a portfolio management strategy where the manager makes specific investments with the goal of outperforming an investment benchmark index. In passive management, investors expect a return that closely replicates the investment weighting and returns of a benchmark index and will often invest in an index fund.** So again, absent the ability to measure the differential expected risk characteristics of either approach (and given our inability to capture all risks (see Black Swans or the inability to ever forecasts those risk), we are left with the knowledge that any attempt at "full" Active/Passive comparison is futile – Why the journey on the Great Debate. Let us review a few:

For Academics, articles on "Active versus Passive Investment" find a ready "journal" market (FAJ, JOF, …..) where an accepted article is the basis for tenure and a long term annuity – In short the active/passive debate benefits the "active" academic who uses his personal talents (Blind Referred articles) to outperform the passive academic who favors the passive benchmark approach to education (textbooks, dated articles).In short, going forward there will always be enough Academics with "Skin" in the game to 'Make Sure" the debate continues. As a sidebar for those Academics who fail in the Active/Passive Academic Battle there is always the riskier and more lucrative world of "consulting". Now one's consulting fees are based primarily on the return of one's suggestions, it should surprise no one that those academics who have entered the world have generally entered it on the side of the Active Approach (Fame, … and Smart Beta). For those who have entered it on the side of the Passive Approach (Siegel, Stocks for the Long run – Wisdom Tree etc.) there is adequate payback from supporting that approach.

Of course, academics or ex-academics or consultants are not the only individuals who have seen the economic benefit of the debate. Investment firms push the Hope of Active versus the accepted

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failure of Passive (and at least Active offers Hope). Again nowhere is the difference in risk mentioned for the relative cost of services provided for each and what the return should be. It is a fact that many of the students who at major academic institutions are paying the fees required for the future degree are doing so with the hope of entering the investment field and so with the unspoken belief in the Active approach (the fees hence salary are too low in the strict passive model - Unless they are in the active passive area of dynamic algorithmic modeling which is active asset management through high frequency processing). Even the cost of investment education is indicative of the relative benefits of active investment (big name schools charge more since they should offer one greater access to financial institutions who can use the student's contacts to gather costly private information and charge the appropriate "fee" on that information). In short the very fact that students are taking the "active investment" class is indicative of the known (in an informationally efficient world) benefit of active over passive investment. Still, one must expect the debate to continue. There is just too much money invested in the debate for it to stop at this stage. But remember, the Goldman Sachs, Stanford's should outperform on a gross basis. They have greater access to the best, the brightest and pay for that access. After covering all those costs, they should also cover the greater risks of that approach. What is not surprising is that after those costs must eventually adjust such that the ex post risk adjusted return to those institutions is somewhat similar to the lesser institutions.

One can continue and continue but if active investment did not outperform simple passive, where do all the Yachts, all the first class lounges, the private clubs come from. Are investors that dumb or are this distribution of equity, fixed income, real assets so different that traditional discussions which focus on equities just to limiting. Even if active investment comes from Hope over experience, does not the implied distribution of the hope portfolio permit the higher charge for access. So the real issue is not

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active versus passive, it is a proper presentation of the relative risks and the resultant potential benefits. The debate should not be about the return of active versus passive but the relative risks of both and the cost of the insurance for making sure that the risk of the investments are similar. But then again what is the fun in that and given the costs (corporate and individual) of entering that part of the investment/risk management industry, who is going to market "that debate": Active versus Passive Risk Based Portfolios. At the very least – Bring on the Pundits.

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He has more than forty years of experience in asset management including President of a firm (Schneeweis Partners) which specialized in 'bespoke' structured finance as well as Director of Research at Ursa Capital, LLC which managed an approximately $4 billion hedge fund managed account platform. He has been managing partner of a managed futures fund (White Bear Managed Futures Fund) as well as an equity long short hedge fund (White Bear Equity Long-Short Fund) and President of an approximately $1 billion commodity-based investment firm (Alternative Investment Analytics). For over forty years, he also was on the Board of Trustees of the AMG Funds (a retail distribution arm of Affiliated Managers Group, Inc., a world's leading provider of boutique investment management expertise to institutional and individual investors).

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