In Defense of Managed Funds

- Every investor should stay within their zone of comfort and knowledge, even at the risk of passing up profitable opportunities. Investors who venture beyond their zone of comfort are increasing the risk of succumbing to emotion in volatile markets, which can easily lead to buying high and selling low. Emotion is the bane of individual investors.

- There's no right way or wrong way to invest. The choices are many (individual stocks, managed funds, index funds, exchange traded funds, target-date funds, etc.). Each individual investor learns where their optimum comfort zone lies with experience gained over time. But, there is no valid reason for excluding managed funds for those who favor them.

- Managed funds are not for everyone. There are thousands from which to choose. They defy generalization. Only a minority deserve consideration. Many deserve the bad reputation that the managed fund business has acquired. In broad terms, managed funds suffer from too little talent and too expensive fees. However, managed funds are run by humans who are susceptible to human frailty. For those who cannot accept this, the digital age offers numerous alternatives.

- But, there are also many managed funds that have earned noteworthy long-term records of performance. With the investment tools available from such sources as Morningstar and Kiplinger, just to name two prominent sources, finding managed funds that are worthwhile investments is not difficult.

- It is common for managed funds to be compared with some appropriate index of performance. The S&P 500 Index is commonly used for such purposes. For those investors who regard the 500 Index as their gold standard of performance, an index fund is an attractive investment. It ensures avoiding disappointment.

- But, outperforming an index is not the objective of all managed funds. Some state that their goal is capital preservation or steady reliable income through good times and bad. Knowledgeable investors buy a particular fund for a particular reason.

- Finally, investors can best judge their satisfaction with a particular fund only after holding it through a full market cycle. Questions such as how well did the fund match the performance of the broad market on the upside and how well did it protect assets on the downside? Finally, how quickly did it recover after a market setback?

References

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