architas

Passive Funds: to be or not to be

The debates regarding the merits of passive versus active styles of fund management are a popular pastime which generates enthusiasm from the opposing protagonist's on-going theme. You will have seen articles in the broadsheet press outlining the issues. Let's consider some of the key issues if you were to adopt passive funds as part of your investment strategy approach.

Passive by name not nature!
It is important to ensure you are not misled by the name and to manage your expectations about performance delivery. Passive is about style not outcome.

Passive funds will be equally as volatile as the markets they track, if they are doing their job properly and reflecting the underlying market accurately. Which brings us to some important things to consider?

Costs and Charges and Tracking Error
The fund has to track its index accurately and constantly or it is failing to do its job. There are various methods of tracking and decisions have to be made about which one you might use. Is it a full replication or stratified sample for example?

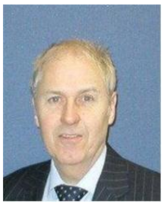
So which one then?
Well, do you want to rely on UK and the FT100/ All Share? Does the UK market give you enough international exposure? What about emerging markets? What about some Bond Indices trackers? What about property trackers?

FSA and the Fraud Squad
The growth of ETF use has played a big part in the growth of the use of tracking. Until recently they were seen as the way to go. However there has been much attention drawn to the possible contagion issues with Synthetic ETF. Recent investigations launched into the possible contagion of markets by the counterparty risk in Synthetics ETF have reached a level where the fraud squad has been involved.

If it doesn't seem as straight forward as it was…
Instead of trying to pick the right tracking vehicles and then trying to decide the asset allocation, why not try a different approach?

A different approach
Agree your risk profile using an Attitude to Risk (ATR) tool. Once you have selected the most appropriate Architas MAP Fund you can remain confident that we will manage the fund to stay within the range of volatility described at outset.

All this is done within a fund of fund so you have no capital gains tax implications to worry about whilst invested.



Martin Moore
Investment Development Manager
Architas