# **Active or passive investing - which is better?** -

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Saving and investing is a must for everyone. As inflation leads to a price rise of essential commodities, your kitty should also grow over time to keep pace with inflation. While investing either you can choose to be an active investor and expect more return than market average, or you can choose to be happy with lower returns.

As the name suggests an active investment management style involves hands-on approach. An investor or the fund manager is expected to pick and choose the right security, at the right time and at the right price. The portfolio comprises hand-picked investment opportunities. At times, the investor may take shelter in safe haven options such as cash and gold. The idea is to outperform returns that the market gives.

Of course, it comes with its own set of costs – higher fees and the possibility of underperformance to the market as the fund manager or investor may go wrong.

Fund managers of actively-managed mutual funds decide on which stocks and sectors they should invest in. Though such funds have benchmark indices, too, but they are not bound to mimic them. They are benchmark agnostic; some deviate vastly from where their benchmark indices invest.
Passive investment management expects investors to earn in line with the market average. The idea is to not take additional risk and instead just be in line with the index that your passive fund tracks. There is no fund manager risk involved and the buy and hold approach ensures minimal costs.

According to Value Research, actively managed funds with assets under management in excess of Rs 500 crore each charge 1.73% towards expenses. However, passively managed funds charged 0.12%. Effective April 1, 2019, expense ratio is capped at 2.25% for open-ended equity funds and 1% for index funds and ETF Funds. Earlier, these upper limits were set at 25 basis points more.

Though in developed markets, passive management is popular, in emerging markets (including India) there are many fans of active management due to paucity of information and imperfect markets. However, as technology catches up and market participants mature, the opportunities to outperform the market dry up, making investors consider passive investing.

According to SPIVA India Scorecard, as on June 30 2018, over a 10-year period, 63% large cap schemes underperform S&P BSE 100. Indian equity mid/smallcap funds also see similar returns. 50% mid/ smallcap funds underperformed S&P BSE 400 MidSmallCap Index over the 10-year period.
That has gradually made investors consider index or exchange-traded funds, at least when it comes to largecap funds where the outperformance is becoming tougher day by day. Index funds have also become cost-efficient wherein one can invest in CNX Nifty at an expense ratio of 0.05%.

SBI ETF Nifty 50 has assets under management of Rs 46,125 crore. Indian index investors now have options such as Nifty, Nifty Junior and Nifty Next 50. Also, the gold bugs can buy gold ETFs and sovereign gold bonds to earn returns in line with that offered by gold prices.
In the Indian context, actively managed investments still have a scope especially in the midcap space.