Retirement Income
JOURNAL

Few active managers beat indices: S&P

By Editor Test *Wed, Mar 14, 2012*

In the two true bear markets the SPIVA Scorecard has tracked over the last decade, most active equity managers failed to beat their benchmarks, Standard & Poor's said.

Findings released today by S&P Indices for its full year "2011 S&P Indices Versus Active Funds Scorecard" (SPIVA) show that approximately 84% of actively managed U.S. equity funds underperformed their relative S&P benchmark in 2011. Over the previous three-and five-year periods, approximately 56% and 61% of actively manage equity funds underperformed their benchmark.

Bear markets should favor active managers. Instead of being 100% invested in a market that is turning south, active managers have the opportunity to move to cash, or seek more defensive positions. Unfortunately, that opportunity does not translate to reality. In the two true bear markets the SPIVA Scorecard has tracked over the last decade, most active equity managers failed to beat their benchmarks.

SPIVA reports on the performance of actively managed U.S. funds corrected for survivorship bias and shows equal and asset-weighted averages. The complete SPIVA scorecards for the U.S., Australia, Canada and India is available at www.spindices.com/spivaresearch .

Drilling down to style categories, the SPIVA scorecard shows that approximately 69% of large cap funds, 70% of mid cap funds and 51% small cap funds failed to beat the S&P 500, S&P MidCap 400 and S&P SmallCap 600 respectively over the previous three years. The results are similar over the five-year period and more dramatic over the one-year period for 2011.

A table showing the percentage of U.S. equity funds outperformed by their benchmarks can be found on the RIJ homepage, March 14 issue.

The script was similar for non-U.S. equity funds, with indices outperforming a majority of actively managed non-U.S. equity funds over the past three- and five-years with approximately 69% and 55% of global equity funds failing to outperform the S&P Global 1200.

While the active versus passive debate gets less play for bond market funds, S&P Indices has seen similar results over five-year horizons in this asset class. In most bond fund categories, benchmark indices have outperformed a majority of active managers.