VIDEO

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Focus on Funds: The Latest Trends in Blending Active and Index Investment

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Americans who invest in mutual funds and exchange-traded funds (ETFs) are served by a large, thriving marketplace. In the November 10, 2017, edition of *Focus on Funds*, ICI Senior Director for Industry and Financial Analysis Sean Collins discusses how investors and financial advisers are using a wide range of active and index funds to meet their savings needs.

Transcript

Stephanie Ortbals-Tibbs, ICI director, media relations: The mutual fund and ETF industry continues to undergo rapid change. Recently, I talked with Sean Collins about what the trend lines tell us about where money is going, and just how active and passive management are working together.

Sean Collins, ICI senior director of industry and financial analysis: There is lots of choice out there for investors. We have over 10,000 mutual funds and exchange-traded funds [ETFs] in combination. There are about 7,000 actively managed mutual funds, 450 index mutual funds, 1,800 exchange-traded funds—there is a wide range of choices within each of those categories.

Ortbals-Tibbs: Sean, a lot of people look at the data and the trend lines going on in the market and they say that active management is on its way out, and passive is going to continue to take over. What do you see in the data?

Collins: No, not at all. Active management is going to be with us always. What we're seeing now is an increase in the demand for index mutual funds and index ETFs. That doesn't mean that there is not active management—there is.

What's going on is that there is a migration of active management from inside of funds to outside of funds. So, for example, an adviser might help you pick a bundle of ETFs that are passively managed, give you an initial asset allocation—that's active management, because you're making choices about what you're going to do—and then the financial adviser would work with you, so that over time, perhaps you rebalance your allocations in each one of those ETFs according to changing market circumstances, according to changing personal circumstances. Like, you could be getting older, and you want to put more money into fixed-income as you grow older, generally. So all of those things are active management—it's just occurring outside of the fund, as opposed to inside the fund.

Ortbals-Tibbs: Sean, the other thing people may not realize is that passive management is growing in particular categories at a rapid clip, but there are others where it still seems that active is really where investors are gravitating more.

Collins: Most of the passive management to date has been primarily in equity, and primarily in US domestic equity in particular. Areas like world equity and bond funds—we still see most of the growth in actively managed funds. Now to be sure, there is growth in ETFs and bond index funds that invest in those categories, but still, predominantly, those would be actively managed areas.

Ortbals-Tibbs: So when investors are looking at their fund choices, they really want to think broadly.

Collins: Absolutely. You want to pick a suite of funds that match your characteristics, perhaps with the help of a financial adviser, perhaps changing those suites or mix over time. But you want to look across the range of funds so that you get a beta that sort of fits your circumstances, but also, you don't want to miss funds because you don't want to leave any alpha on the table. So it's a good idea, probably, to look across a range of funds.

Additional Resources

- Weekly Estimated Flow Report
- Monthly Exchange-Traded Fund Assets
- Investment Company Fact Book: Recent Mutual Fund Trends