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Investing: Active Vs. Passive Styles

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Depending on who you listen to and the time period, one or the other style of investing, active and passive, will be winning. Let's take a look at both.

Passive Investing: An investor buys a basket of stocks (or bonds or alternatives)

and normally adds to their investment on a regular basis (think about how your 401k, 403b or 457 plan works at work). This is called Dollar Cost Investing. They do this consistent buying whether the stock market is up or down.

Active Investing: Investors research and follow companies closely and buy or sell stocks based on their view of the future. The companies services, products, supply and demand.

Which style works for you? Passive investing seems to have the edge lately. About 83-95 percent of active money managers fail to beat their benchmark returns in any specific year. Many investors want to join the winning team and are going on the passive side.

Passive investors are buying stocks and bonds mechanically meaning they are accepting the investments within the index they want to follow. This style uses computer and software to move money around rather than a high-priced professional. They can get a lower expense ratio, keeping annual cost lower. Costs factor into the total return.

There are many indexes to choose from. There is the Dow Jones, S&P500, NASDAQ, international indexes and specific indexes



like the large cap stocks, med-cap, small-cap, and by industry, geography, country, socially responsible companies, green companies and many other niche arenas.

To get the market's long-term returns you have to buy and hold for the long term. This is difficult because we watch and listen to the TV and radio and listen to the commentators constantly stirring the pot of worry.

Active investors are tempted to sell investments when they go down. Buy positions when their value goes up. Stop buying after the market goes up or down. All these moves will reduce your returns. Each move generates commissions and or fees. Between 83- 85 percent of active professional managers fail to beat their indexes in any given year. Therefore, buying and holding an active manager is not necessarily the answer.

Consider the case of Peter Lynch, one of the top stock pickers in the world. Lynch ran the Fidelity Magellan fund for 13 years. He made an impressive average return of 29 percent per year, almost double the market's return in the same time period. Even the best known managers like Warren Buffett and Sir John Templeton faltered at times. Many of the investors who followed Lynch actively traded his fund trying to do better. The more astute ones did about a 7-percent average, and some of the average investors were lucky to break even. Passive investors who followed Lynch did well because they bought and held on.

You have to take some time to seriously consider what it is you want to accomplish and are comfortable with. Do you want to play the market and see if you can beat it? Do you have the time, desire, and expertise to take the time for this activity? Or do you

A Professional's Opinion

want to find a good counselor/planner to help you make decisions and stay the long-term course of getting you to a comfortable retirement? It is a long term commitment on

your part. I have never had anyone come into my office and ask me to explain the VIX, or tell them how the NASDAQ works. No, they want to know how to pay off the mortgage, get the kids thru college, put enough away to enjoy retirement and play with the grandkids and take a few fun trips.

As always, we are here to answer your questions and help you to choose the right path. Call or email us for help.

Huntington's Jon L. Ten Haagen, CFP is founder and CEO of Ten Haagen Financial Services, Inc. which is an independent full-service investment and financial planning firm. In this bi-monthly column he will answer your questions on the markets and investing. Ten Haagen has 39 years of experience as an investment professional. You can learn more about Ten Haagen Financial Services at Tenhaagen.com

Ten Haagen is an investment advisor representative offering securities and advisory services through Royal Alliance Associates, Inc., member of FINRA/SIPC, and a registered investment advisor. Ten Haagen is a certified financial planner (CFP) since 1982. The Ten Haagen offices are located at 191 New York Ave., Huntington. Please feel comfortable to call and stop by for a cup of coffee and a chat. You can e-mail your questions to asktheexpert@longislandergroup.com

Ten Haagen is very active in the community giving back. He is on the board of a number of nonprofits and is the liaison for the Greater Huntington Council of Yacht and Boating Clubs, Inc. The boating council represents approximately 4,500 boating families helping to keep our waters safe and upgrading the water quality