Why Fund Managers Are a Waste of Money

Description

For years, nobody questioned the myth of the fund manager. These superhuman stock pickers won “star” status for their semi-mythical ability to thrash the wider market, making grateful investors rich in the process.

Then the myth started to unravel, as research repeatedly showed that three quarters actually underperformed the market.

Soon investors began to wake up to the fact that the only person making money was the manager themselves, through the lavish fees on their funds.

Well beaten

S&P Dow Jones has published new research confirming that instead of beating the market, the vast majority of managers are beaten by it.

What’s fascinating is the sheer scale of long-term underperformance. Incredibly, fund managers are even worse than we thought they were.

For example, in the 2016 calendar year, an astonishing 87% of UK active equity funds failed to beat the benchmark S&P United Kingdom BMI index.

Last year was particularly bad but by no means unusual, with 74% underperforming over a full decade.

World of woe

It gets worse. Over 10 years, 100% of active emerging markets equity funds failed to beat their benchmark, the S&P/IFCI. That’s right, every single one.

I guess that makes 2016 a relatively good year, when “only” 93.62% underperformed.

It is the same story with actively-managed global equity funds, with more than 88% trailing the S&P Global 1200 in the past year, and more than 98% over 10 years.

Some 77% of actively managed US equity funds trailed the S&P 500 in 2016, rising to almost 98% over 10 years.

There is no respite in Europe, where 80% of active funds underperformed last year, and more than 88% over 10 years.

No wonder global fund manager BlackRock has just announced it is replacing most of its human stock pickers with computers.

Fund charges

Asset management companies claim that the very best fund managers can add value, and it is true that a handful do, but in the longer run the majority do not.

The picture is even worse when you consider that fund managers charge a premium for underperformance with initial fees of up to 5% of your money, and annual management charges ranging from 0.75% to 1.75%.

Manage your own money

Instead of paying extra for failure you can build your own low-cost portfolio using exchange traded funds (ETFs) issued by companies such as BlackRock's iShares, Vanguard, State Street Global Advisors' SPDR and Invesco PowerShares, which passively track a chosen index.

These have no initial fees and annual charges ranging from 0.07% to 0.15% (plus dealing fees and stamp duty charges).

Better still, become your own fund manager, and build a balanced portfolio of stocks and shares, adjusted to suit your own attitude to risk.

It takes a little time and effort, you have to understand the risks as well as the rewards, but there is one danger you definitely avoid: handing over a fat chunk of your wealth to an overpaid, underperforming fund manager. There's a lot of them about.

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