



## One Reason Why Shares Beat Funds

### Description

While investing in funds can deliver high returns in the long run, it may be possible for investors to outperform them. Active funds charge a management fee each year which can vary, but is usually in the region of 1%. This may not sound like a significant cost to an investor. However, when annual total returns are expected to be 7% – 8%, it can remove a significant part of returns when compounded over the long run.

Clearly, some active fund managers justify their fees and are able to outperform the wider market or their benchmark by more than 1% per annum. For savvy investors, though, there may be an even better means of accessing a significant proportion of active management performance for a lower cost.

### Replicating a portfolio

Funds typically release factsheets on a monthly basis. They provide a range of information and commentary regarding the performance of the fund during the period. They also offer a list of the top ten holdings within the fund as at the date of the factsheet.

In many cases, the top ten holdings within a fund make up a sizeable proportion of the total fund. For some funds which hold a concentrated portfolio made up of a small number of stocks, this could be as much as 60% or more of the total fund. Therefore, those ten companies have a significant impact on the overall performance of the fund.

Investors could feasibly buy the shares included on the top ten holdings list when the fund factsheet is released at the end of the month. They could then monitor the news flow of the fund and check up on future monthly factsheets in order to determine whether there have been any purchases or sales of the top ten holdings. Since many funds invest for the long term, there is unlikely to be a large turnover of holdings, which makes the job of replicating the largest holdings of a fund easier for an investor.

### Logistics

Clearly, buying the top holdings of a fund is not a perfect means of replicating the fund. Since not all of

the stocks within a fund will be purchased, the performance of the investor's portfolio will not perfectly track the fund in the long run. Furthermore, there may be a delay between the fund buying or selling a position and the investor doing likewise. This could also contribute to a difference in performance between the two.

However, the lack of a management fee may make up for these risks. And with the investor taking positions in the fund's conviction buys, it may be possible to access the best ideas of the particular fund manager. As such, as a means of finding new ideas and seeking to improve portfolio performance, the strategy could add value for an investor.

## **CATEGORY**

1. Investing

## **PARTNER-FEEDS**

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1. Investing

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