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2019 Outlook: Conversations with Commerce Trust
Active vs. Passive Management Transcript

Chris Schildz: Welcome to Conversations with Commerce Trust. A podcast where various specialists discuss the latest research, insights and market news.

This is Chris Schildz with the Commerce Trust Company. We have Barbara Turley with us today. Barbara is Commerce Trust Company’s Director of Investment Research. Barbara holds the chartered financial analyst designation. Barbara, welcome. How are you today?

Barbara Turley: Great. Thank you for having me.

Chris Schildz: It's probably the gorilla in the room this year as certainly the stock market correction as of late the volatility and you in your role are able to see some of the things that come up in the future as far as portfolio strategies are concerned. What has stood up though over time that perhaps we do here at Commerce Trust Company regarding asset allocation during these stretches of volatility.

Barbara Turley: You know, Chris, that's a great question. Yeah, there's probably no better investment strategy than to number one, work with your portfolio manager to set your asset allocation in line with your long-term goals. And then number two, assuming nothing in your life has changed, stick with a plan through thick and thin markets, and then number three, a rebalanced portfolio back to your original allocation. When the market forces caused your portfolio to drift from that original allocation, and then I would say adding onto that time tested strategy is the idea that when your life changes, for example, you have an event like starting a family, retiring, receiving an inheritance, or selling a business, you go through the process with your portfolio manager to revisit your long-term strategy to see if any changes are needed. Now, over the past few months, you know, we've witnessed a return to stock market volatility and your portfolio manager can help you weather through the ups and downs. A lot of research has been published that says that trying to time the market by getting out of stocks before downturns and getting back in before upswings, which any advisor will tell you is virtually impossible to do successfully. It ultimately hurts the investor. So a good portfolio manager can help investors to stay the course during times of market volatility.

Chris Schildz: Barbara, it seems like these periods of a turbulence always bring back the old argument, the old debate of active versus passive management. Did we learn anything for 2018 about those particular approaches?

Barbara Turley: Well, you know, we've performed a lot of research on the question of active versus passive management and over the long run we believe it's important to include both. In certain areas of the market, active managers have enjoyed relative success in outperforming the index. But in other areas it's been tougher. In 2018, active managers had a kind of, I'm going to call it middling kind of year. Median managers outperformed or performed generally in line with the index and a number of areas, although there were a few areas in which the median manager did not keep up. Growth managers had more success than value managers. You know, in alternatives, any strategy associated with momentum probably struggled because the market volatility made it difficult with the swings up and down to really catch a trend in momentum. So over the long run we believe, we continue to believe, that costs are important. So we focus on low cost managers. We also believe that managers should be evaluated over a full market cycle. And that combinations of managers, so that some managers are zigging while others are zagging that can help smooth returns. Just as it's important to stay the course with your portfolio’s asset allocation, it's important to stay the course in your choice of active versus passive managers. Sometimes the outperformance or underperformance cycles can carry on for several years. So you wouldn't want to be caught in a position of switching out of an underperforming manager right before a period of outperformance. And you wouldn't want to switch into an outperforming manager right before a period of underperformance. So your portfolio manager can help you make the right decisions on active versus passive managers and help you stay the course once your portfolio has been constructed.

Chris Schildz: Barbara, due to all the turbulence this year, investors are human. They get caught up in some of the emotion, if you will. How would you suggest that they deal with their relationship managers and their portfolio managers during those periods?

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Barbara Turley: Well, it's important to communicate effectively with your portfolio manager to make sure that they understand not only your life circumstances, but also whether you're having trouble sleeping at night due to market volatility or if there are circumstances that would lead the portfolio manager to perhaps suggest a different strategy. Generally though, most portfolio managers will do their best to try to help the investor to understand the big picture, the long-term strategy, and to understand that market gyrations are a normal part of investing in stocks and a portfolio manager can definitely help investors to see the big picture in terms of their lifelong goals

Chris Schildz: Barbara, thank you visiting with us today.

Barbara Turley: Thank you Chris.

Chris Schildz: Thank you for listening to this episode of Conversations with Commerce Trust. For more research, insights and market news, visit www.commercetrustcompany.com

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