

# Passive investment a valid option

DEAR SIR — It is clear the success of passive investors are frustrating the active portfolio managers no end.

I can understand their frustration. I mean, here I sit, doing an honest day's work in the real economy, adding actual value to the economy, and while I know nothing about active investment theory or technical analysis, my portfolio just keeps on expanding while I am not paying any investment "professional" a cent for advice. Ludicrous and unfair! It should be stopped. Attack my credibility and intellect.

It uncovers a number of misconceptions to think passive investors are getting a free ride from active portfolio managers, or that the active investors are thinkers and the passive ones are leaves in a stream, captive passengers with no decision-making capacity.

If you see investments as a set of transactions where the investor shows his/her skill by having more positive trades (more transactions that produce profits than not) with stop-loss positions to limit the damage for the non-profitable transactions, and thus producing a net profit as a result, then clearly you are not suitable to be a passive buy and hold investor. A passive investor buys



some kind of an index where investment cost is low because there is an underlying desire to own an asset that will retain its value in real time over longer periods of time while earning regular dividends, and no skill is required, only the money to buy the asset. Short-term volatility caused by churn from short-term speculators is of little concern to the passive investor.

To think, however, that the active manager somehow drives the show to the point that the passive investor rides on his/her back shows a lack of understanding of what really drives

asset values. Active investors are driving volatility by overreacting to every short-term signal. The fundamental value of a business is driven by the actual value added by the business; by the quality of its product and ability of its management.

Investors add value by providing capital to businesses to allow expansion and renovation. I fail to see the value added to the economy by active managers: they add value to their own bank accounts by (rightly so) fleecing the naïve gamblers who dream of fantastic returns that will get them rich quickly. Long-term investors should set realistic goals and stick with the plan.

My advice to other investors is: do not believe the onslaught of active managers to discredit passive investment as a valid alternative.

If you are investing for the long run, for retirement, give it some serious thought, and it can produce positive results even in a shrinking market. I have been following a passive investment strategy for the past 15 years and have a portfolio worth 10 times my annual income to show for it — not much, but better than nothing.

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