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Active Fund management. Is it worth it?

Back in March 2018 an unnamed group of Fund management companies voluntarily reimbursed investors a cool £34m for overcharging them expensive management fees when they hadn't really been managing them at all. Following an investigation by the all powerful Financial Conduct Authority, these guilty parties decided it would be better to make reparation before they were forced to.

Sadly, this is another incident where certain members of my industry have hardly covered themselves in glory, but if you are an investor it is wise to look at exactly what you are investing in and how much the fund will charge you. Better still, get a Trinity adviser to help you.

Part of a diversified portfolio will typically include investing in shares (also known as stocks or equities) The simplest way to invest in shares is to buy a tracker fund. This typically tracks an index and the most commonly known one in the UK is the FTSE 100. This has all the giants such as Tesco, GSK, Barclays etc and if you think that in years to come (remember, investing is for the long term) the FTSE 100 will be higher than it is now, it would be prudent to include a FTSE 100 tracker in the portfolio. The annual cost of that should be no more than 0.3% but can lower

However, some investors do not feel satisfied with just getting the return from the index. They want to try to beat it and so have exposure to actively managed funds whereby stocks will be picked which are thought a good bet to go up and stocks that are looked 'over valued' are avoided. The charges on these funds generally vary between 0.75% to 1.00% but there are other costs which are not so obvious. So the fund manager is going to have to beat the index by quite a bit if his charges are still going to be in a better position than that of a tracker.

So, some investment companies were charging the fees of an active fund but not really doing anything other than replicating the index. This is not good!

However, in the spirit of fairness, some active funds have years where they shoot the lights out! The trouble comes in doing it consistently. Add to that, you (or your adviser) have the problem of working out which one in the future is going to be in that small select group. Sadly, it's true what the advertising warning says; 'Past performance is no guide to future returns'

At least some funds will stand or fall by their convictions and a good way to check is to see how many stocks they hold in their portfolio. I would look for a fund which holds around fifty stocks only, as this type of fund could never be accused of being a 'closet tracker' but it might take you on an eventful journey, up or down!

At Trinity we cater for all investors and will use active as well as passive but always ensuring that our valued clients achieve their goal by taking the lowest risk possible.

Are you protected?

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