Active vs passive funds

Active funds

- Aims to beat stock market's average returns
- Stocks are selected by a team of portfolio managers, who are supported by analysts
- Attempts to take advantage of price fluctuations

ADVANTAGES

- Opportunity to get outsized returns
- More flexibility to identify hidden gems in the markets or hedge against risks
- Tap expertise of investment professionals

DISADVANTAGES

- Higher fees can dampen investment returns
- Carries more risk; no guarantee of index-beating performance

Passive funds

- Mirrors benchmark index performance
- Typically automated with little oversight
- Typically aims to generate beta rather than alpha

ADVANTAGES

- Typically much lower fees than active funds
- Greater transparency as index stocks are known to investors

DISADVANTAGES

- Returns may be lower than some active funds, given that it simply aims to match the performance of the index tracked rather than trying to beat it

Compiled by BT