

Active Vs. Passive Funds

Invested Thinking: Wealth Strategies by Turicum

4 minute read

Introduction

When investing, the decision to choose between active and passive funds plays a significant role in managing wealth effectively. Active funds, managed by professionals aiming to outperform the market, provide dynamic investment strategies but carry a risk of underperformance and higher fees. Passive funds, which track an index, offer broad market exposure at a lower cost but, still, cannot protect against market fluctuations.

At Turicum Private Bank, we provide clients with tailored strategies that incorporate active and passive funds to help achieve their unique financial goals, creating a balanced approach that benefits from both styles.

Understanding active funds

Active funds are managed by fund managers who conduct in-depth research, monitor market conditions, and implement an investment strategy to achieve returns that exceed a specific benchmark, such as the FTSE 100 or the S&P 500.

This hands-on approach provides flexibility, as fund managers can respond dynamically to changes in the economy, market trends, or individual company performance.

Advantages:

Active management allows for flexibility in responding to market movements, which can be advantageous during times of volatility. By closely monitoring economic indicators and corporate earnings, fund managers can identify potential growth opportunities or mitigate risks by reallocating assets accordingly.

Considerations:

Active funds tend to have higher management fees due to the expertise involved. They may also experience greater fluctuations, as fund managers make investment choices based on forecasting and/or market analysis. This means there is a possibility of both outperformance and underperformance relative to the market.

Portfolio role of active funds

Active funds can be suitable for investors seeking the possibility of higher returns and who are comfortable with moderate to higher levels of risk. They allow for a strategic approach to investing, with the goal of generating gains and navigating market fluctuations through timely adjustments and/or stock selection.



Understanding passive funds

Passive funds, which include index funds and Exchange-Traded Funds (ETFs), aim to mirror the performance of a specific market index by holding a proportionate selection of assets from that index. Unlike actively managed funds, passive funds follow a more static approach, maintaining holdings with minimal intervention.

Advantages:

Passive funds are known for their low fees and transparency, making them an appealing choice for investors focused on cost-efficiency and predictability. They provide broad market exposure, offering returns that closely align with the market's performance over time.

Considerations:

While passive funds are typically lower in cost, they lack the flexibility of active funds to respond to market changes. Their performance is tied directly to the index they track, meaning they will reflect both the highs and lows of the overall market. This means that investors in passive funds must be prepared for periods of market downturns without the possibility of strategic adjustments.



Portfolio role of passive funds

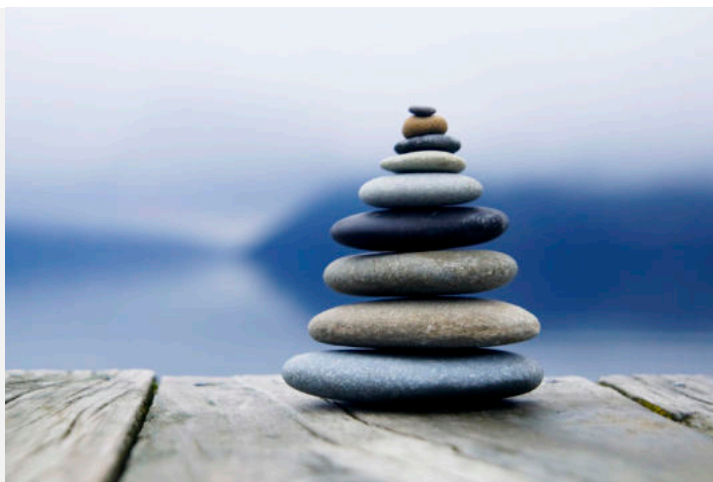
Passive funds are an effective way for investors to achieve long-term growth with lower fees, whilst avoiding the potential under-performance of actively managed funds. Passively managed funds enable clients to gain market exposure without incurring the additional risks, to the upside or the downside, linked with investing in actively managed funds.

Turicum Private Bank's blended approach

Turicum Private Bank recognises that a one-size-fits-all approach does not serve the diverse needs of our clients. Our wealth management approach combines active and passive strategies to create a balanced portfolio that aligns with each client's unique goals, preferences, and risk tolerance.

Balance and stability

By integrating passive funds in client portfolios, we provide a stable, cost-effective foundation that aligns with market performance. This forms a steady core, minimising risk and ensuring consistency.





Flexibility and growth potential

Active funds within the portfolio allow for targeted growth opportunities. Our portfolio managers perform continuous market analysis to capitalise on specific opportunities, responding to trends, economic shifts, and changes in sectorial valuations.

Personalised strategy

Our bespoke approach assesses the ideal balance between active and passive investments for each client, considering personal financial goals, market outlook, time horizon and risk tolerance. Whether prioritising stability or seeking growth, our clients benefit from a well-rounded strategy that meets their financial aspirations.



Conclusion

Active and passive funds each bring unique benefits and serve distinct roles in a diversified portfolio. At Turicum Private Bank, we support our clients in finding the right balance, using our expertise in both types of fund management approaches to preserve wealth and pursue growth.

By leveraging the advantages of both active flexibility and passive stability, we position each portfolio to meet the challenges and opportunities of today's financial markets.

For a detailed breakdown of the benefits and risks associated with these investment options, please refer to [Turicum's Products & Services Booklet](#).

Let's build your tailored investment strategy together.

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