S&P 2016 Mid-Year Indexing Study

Overwhelming Majority of Fund Managers underperform their Index Benchmarks

"The best way to own common stocks is through an index fund." - Warren Buffet, Berkshire Hathaway Inc. 1996 Annual Report

The latest 2016 Standard & Poors SPIVA indexing study, has once again exposed active managers – delivering a fresh blow for US stockpickers - finding 90% fall short of their benchmark.

Over a one year period, approximately 90% of US large-cap, mid-cap and small-cap managers underperformed their respective benchmarks – the S&P 500, S&P MidCap 400 and S&P SmallCap 600.

The numbers are equally unfavorable over both 5 and 10 year periods – with underperformance all hovering around the 85% - 97% range, relative to their index benchmarks.

Less than 25% of active managers outperformed their index benchmark – across all domestic US equity categories – over 10 years.

% of US Equity Managers underperforming the Index (June 30, 2016)

	1 year	3 year	5 year	10 year
Large-cap (vs. S&P 500)	84.6%	81.3%	91.9%	85.4%
Medium-cap (vs. S&P 400)	87.9%	83.8%	87.9%	91.3%
Small-cap (vs. S&P 600)	88.8%	94.1%	97.6%	90.8%
All US Equity (vs. S&P 1500)	90.2%	87.4%	94.6%	87.5%

Source: Standard & Poors, Mid-Year 2016 SPIVA Scorecard

In the global equity arena – in both developed and emerging markets over the past 10 years - fewer than 20% of US fund managers beat their benchmark indices.

% of Global Equity Managers underperforming the Index (June 30, 2016)

	1 year	3 year	5 year	10 year
Global (incl US) (vs. S&P Global 1200)	75.4%	77.0%	82.5%	81.2%
Global (ex US) (vs. S&P 700)	54.9%	54.6%	60.5%	80.2%
Global Small Cap (vs. S&P Developed Ex-US Small Cap)	74.8%	74.7%	55.0%	62.3%
Emerging Markets (vs. S&P/IFCI Composite)	42.2%	77.4%	67.6%	81.9%

Source: Standard & Poors, Mid-Year 2016 SPIVA Scorecard

Perhaps more surprising, is the weak performance amongst Fixed Income (bond) fund managers. In the bond categories, - including US government, high yield and investment grade areas – the percentage of fixed income funds outperformed by their benchmarks, now also regularly approaches the 90% range.

% of US Bond Managers underperforming the Index (June 30, 2016)

	1 year	3 year	5 year	10 year
US Govt Long Bonds (vs. Barclays Long Govt)	93.1%	96.8%	97.6%	95.7%
US Inv Grade Long Bonds (vs. Barclays Long Govt/Credit)	94.4%	97.3%	98.4%	98.2%
High Yield Funds (vs. Barclays High Yield)	75.0%	80.5%	88.8%	96.6%
Global Income Funds (vs Barclays Global Aggregate)	86.2%	70.8%	59.1%	65.6%
Emerging Markets (vs. Barclays Emerging Markets)	74.7%	88.9%	92.3%	81.8%

Source: Standard & Poors, Mid-Year 2016 SPIVA Scorecard

It is therefore not surprising to see a number of active funds disappearing – over the past 5 years some 21% of US domestic equity funds were merged or liquidated. Similarly 21% of global equity funds disappeared and 14% of fixed income funds.

Globally the trend is getting far worse for active fund managers – with both 2015 and 2016, amongst the worst years on record. The latest results are the clearest indictment yet of poor active fund performance over the past decade. While it may be fun investing with the current star fund manager, active manager underperformance is proving incredibly costly to investors. Few global fund managers remain stars – more often than not they are bright comets that flame out, shortly after reaching their brightest moment.

Those who list top-performing unit trusts as evidence that indexing doesn't work are in fact doing investors a terrible disservice. Although each year some active unit trusts will always beat the indexes, few consistently do over a 5 and 10 year period. Finding such needles in a haystack are clearly not be worth the risk of underperforming well known global index benchmarks. Mr. Buffett clearly agrees.

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