

92% of US Fund Managers underperform the S&P 500 over 15 years - study

"The best way to own common stocks is through an index fund." - Warren Buffet (1996)

The latest Standard & Poors (SPIVA) indexing study, has once again exposed active fund managers – delivering a fresh blow for US stockpickers. Over the past 15 years, 92% of fund managers fell short of their S&P 500 benchmark. Similarly 91% did not match up to the S&P MidCap 400, while 93% underperformed the S&P SmallCap 600 - during this period (ending December 31, 2016).

These extremely poor results for traditional (active) fund managers, are repeated over the past 3, 5 and 10 years. Selecting fund managers that consistently outperform their index benchmark, is increasingly a losing proposition.

Consequently, it is not surprising to see a growing number of active funds disappearing. Over the past 15 years, almost 60% of all US domestic equity funds were merged or liquidated! Similarly almost 52% of global/international equity funds and 49% of fixed income (bond) funds were merged or liquidated.

Globally the trend is getting far worse for active fund managers – not surprisingly they are losing sizable market share. Projections in the US is for indexing to comprise as much as 50% of all mutual fund assets by 2020. Current inflows into mutual funds are dominated by index fund players.

Performance summary

Over the past three year period, approximately 93% of US large-cap, 94% of US mid-cap and 96% of US small-cap managers underperformed their respective benchmarks. The numbers are equally unfavorable over both 5 and 10 year periods – with underperformance all hovering between 85% - 97% range, relative to their index benchmarks.

	1 year	3 year	5 year	10 year	15 year
Large-cap (vs. S&P 500)	66.0%	93.4%	88.3%	84.6%	92.2%
Medium-cap (vs. S&P 400)	89.4%	94.2%	90.0%	96.0%	91.3%
Small-cap (vs. S&P 600)	85.5%	95.7%	96.6%	95.6%	93.2%
All US Equity (vs. S&P 1500)	60.5%	92.9%	85.8%	82.9%	82.2%

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

While it may sound appealing to invest 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 a few top-performing funds as evidence that indexing doesn't work - are doing investors a terrible disservice. While each year a minority of active mutual funds beat their global index benchmarks – fewer than ever before are consistently outperforming their benchmarks over a 3, 5, 10 or 15 year period.


Finding such needles in a haystack - are not worth the risk of underperforming well known global index benchmarks. Mr. Buffett clearly agrees. Globally, the longer the horizon, the worse traditional active fund managers now tend to perform relative to their benchmarks. The vast majority of global investors would be safer investing in an index fund.

For example, in the global equity arena – in both developed and emerging markets over the past 15 years - fewer than 18% of US fund managers beat their benchmark indices. (see slide)

**% of Global Equity Managers
underperforming the Index (Dec 31, 2016)**

	1 year	3 year	5 year	10 year	15 year
Global (incl US) (vs. S&P Global 1200)	79.7%	81.3%	85.3%	84.3%	83.1%
Global (ex US) (vs. S&P 700)	84.9%	71.1%	67.0%	83.9%	89.4%
Global Small Cap (vs. S&P Developed Ex-US Small Cap)	71.8%	75.3%	61.9%	63.0%	82.1%
Emerging Markets (vs. S&P/IFCI Composite)	63.9%	83.6%	74.7%	85.7%	90.0%

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



Perhaps even more surprising, is the weak performance amongst Fixed Income (bond) fund managers. In various categories, including US government, High Yield and US Investment Grade areas - the percentage of bond funds outperformed by their benchmarks, regularly approaches 90%. Over the past 3, 5, 10 and 15 year periods – the vast majority of fund managers have trailed their bond benchmarks. (see below)

% of US Bond Managers underperforming the Index (Dec 31, 2016)

	1 year	3 year	5 year	10 year	15 year
US Govt Long Bonds (vs. Barclays Long Govt)	87.9%	98.4%	98.8%	95.7%	96.8%
US Inv Grade Long Bonds (vs. Barclays Govt/Credit Long)	75.0%	98.0%	74.8%	96.3%	97.4%
High Yield Funds (vs. Barclays High Yield)	94.2%	90.9%	88.0%	96.6%	95.9%
Global Income Funds (vs Barclays Global Aggregate)	33.1%	41.9%	37.0%	61.3%	69.5%
Emerging Markets (vs. Barclays Emerging Markets)	39.2%	82.5%	86.4%	76.2%	76.0%

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



The latest results are the clearest indictment yet of poor active fund performance over the past decade.

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