PASSIVE INVESTING: a sure bet to a safe retirement

When it comes to investing, many consumers wonder whether they should choose passive or active funds for their retirement portfolio.

For me, passive investing is the only sensible way to invest.

Important secrets

It is no secret that saving for retirement is essential; and starting as early as possible is the essential secret to a more fruitful retirement.

Despite all the complicated algorithms and confusing terminology, there are really only two investment strategies: active and passive.

Choosing a winner

To invest actively is to entrust your money to a fund manager who will use their expertise and insight to choose a series of stocks, shares and investment opportunities that they hope will beat the market by delivering returns in excess of the market.

To invest passively is to ignore managers and simply track the market's movements by investing in products like Exchange Traded Funds (ETFs), or choosing a basket of stocks and shares, which mirror overall stock market performance.

Both styles of investing are popular. However, they each have their own specific advantages and issues.

We have put together a few of the most commonly cited pros and cons of both active and passive investing, enabling you to decide which one may be right for you.

The cost detractor

Active funds have notoriously high fees, with most managers sending you an annual bill, even if their strategy has lost you money.

On top of this, active managers may also take a cut of any profits. So, while you may think you have made a 10% profit, after fees and commission it may be 6% or less.

Add inflation of 6% to that and you may actually have 0% return.

Cheap as chips

Passive investing is one of the cheapest ways to access the market, with minimal fees and none of the hefty fees and charges that come with hiring an active manager.

That means that any money you make is all yours, except for a nominal admin fees which are typically less than 1%.

This is especially true if you are prepared to invest your money over a long period of time, such as for your retirement income. In this case, the stock markets have historically delivered great results.

Grave concerns

Current statistics show us that only 6% of consumers will be able to retire comfortably on a salary (after settling all debt) that they are accustomed to while they were working. There are, however, many reports that state that this has worsened and is currently sitting at about 3%.

With a passive investment strategy, you always know where your money is and what it is doing, and you can remove and reinvest it with relative ease.

The main advantage of passive investing is cost. The total annual charges are low. So, for investors wishing to minimise the friction of annual charges on returns, passive investing represents a logical strategy.

The other main advantage of passive investing is simplicity.

Pros of Passive Investing	Cons of Active Investing
Likely to perform very close to index	Potential to underperform index by far
Generally lower fees	Generally higher fees
Transparent cost	Opaque costs

Passive investments do not try to beat the market. But because of their lower costs, they often end up beating active investments that try.

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