Taxes & Investments Series

Active vs. Passive Management

With the ever-changing landscape of taxes, it is growing increasingly difficult to understand how legislation affects clients and could possibly impact their financial future. As a leader in the financial services industry for the past 30 years, we get it. That's why HD Vest Financial Services® is constantly seeking ways to share the latest knowledge with you. We've created the Taxes & Investments Series to share timely information and provide our Advisors and their clients with practical educational information..

As you begin to analyze investment options you will find that there are two main types of management for investments- active management and passive management. Each of these has their place in the investment world and it is important to understand the difference between the two to determine which is right for you.

A way to illustrate the difference between active and passive management is a ride on an airplane. Imagine you have two flight options- one with a pilot and one without a pilot. Both planes leave at the same time, arrive at the same time, and provide transportation to the same location. The ticket for the plane without a pilot is slightly cheaper than the ticket for the plane with a pilot.

Now imagine that there is some bad weather between your origination location and your final destination. The plane without a pilot will stick to the plotted original course no matter the turbulence involved. This could make for quite a bumpy and uncomfortable ride. The plane with the pilot, however, has the ability to maneuver through the ups and downs of the wind turbulence and help make the ride much smoother and generally a more pleasant experience. Which flight would you take?

The same can be said for actively managed and passively managed investments. The difference is the investment that is actively managed has a professional watching the portfolio and making adjustments as necessary to ideally avoid positions that could potentially hurt performance, add positions that could potentially increase performance, and potentially limit overall volatility.[2] An investment that is passively managed is generally a fixed bucket of assets that track the index and do not change. Because these investments track the market they could move as much as the market, both up and down. Also note that you generally do not outperform the market as a whole with this strategy because you typically own the same investments that make up the market.[1]

Both actively managed investments and passively managed investments could have a place in your overall portfolio. Before deciding which route to take, consult with a qualified Advisor, who can help you navigate through the available options to see which are the most suitable for your individual needs and goals.

If you are not currently an HD Vest Advisor but are interested in learning more about partnering with us to offer financial services, contact a Business Development Consultant at (800) 742-7950.

Sources:
[1]FINRA.org- Exchange Traded Funds http://www.finra.org/investors/exchange-traded-funds
[2]FINRA.org- Mutual Funds http://www.finra.org/investors/mutual-funds

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6333 N. State Highway 161, Fourth Floor, Irving, TX 75038, 972-870-6000 1544564 03/17