General market. the goal of active management

ASSIGN BUSTER

General review of the literature: in this section you should describe the general discipline or field in whichyour study will be located with your reasons for choosing this field.

Thepredominant investment strategy today is active investing, which attempts tooutperform the market. The goal of active management is to beat a particularbenchmark. Passive management, or indexing, is an investment managementapproach based on investing in exactly the same securities, and in the sameproportions. Portfolio managers do not make decisions about which securities tobuy and sell; the managers merely follow the same methodology of constructing aportfolio as the index uses. The managers' goal is to replicate the performanceof an index as closely as possible. The main advantageof active management is the possibility that the managers will be able tooutperform the index due to their skills and ability to make informedinvestment decisions based on their experience, insights, knowledge and abilityto identify opportunities that can translate into superior performance. Adisadvantage is that active investing is costlier, because of higher fees and operating expenses.

Higher fees are a significant hurdleto consistent outperforming over the long period. As any other, activemanagement can also have unfavorable results. The main advantageof passive investing is that it closely matches the performance of the index. Passive investing requires little decision-making by the manager. The managertries to duplicate the chosen index, by tracking it as efficiently as possible.

This is an advantage for investors who prefer to buy and hold or prefer tomanage their investment themselves. A debate betweenPassive or Active Management of the Exchange Traded Funds (ETFs) lasts already fordecades. The costless passive management argument is mostly backed by theuniversities and research centers. On the other side, asset managers with theirinterest in the management fees tend to endorse the opposite side of thedispute. Each side is able to provide strong logical cases to support theirarguments, although in many occasions the support is due to different beliefsand personal choices, like those of the preference of McDonalds vs BurgerKing, of IOS vs Android or of Coca-Cola vs Pepsi.

Both approaches have advantages anddisadvantages for our consideration. Whatever thereasons are, whether it is costlessness, tax efficiency, or performance, but passiveinvestments continue to gain new money as traditional actively managed exchangetraded funds watch money slipping through their fingers. According to the IOSCOand Central Bank of Ireland officials, ETFs may become a reason of the nextglobal financial crisis; the academic literature, however, is rather focused onthe advantages of the ETF investing rather than on the threats they may possessin the future.

Specific review of the literature: You need to elaborate on what makes your proposal an original piece of work, asresearch degrees should contain an original piece of research. Overthe long term, passive ETF investments performed better, according to the dataprovided by … and only in 2017 active investments outperformed passive ones. Accordingto …, that extra return earned by superiorly performing active managers iseaten up by their commissions. So, why should we pay more, people thought andmoved their

money to invest in those funds that are passively-managed, attracted by their costlessness and reputation of historically good performance.

However, passive investors moved funds out the professionals' (activemanagers') hands and currently trying blind replication of the specific marketwithout considering the possibility of its failure, while active managers aretrying to outperform the market, which may be safer during the financialcrisis. I am going to expand existing research anddebate between active vs passive investments by exploring market structureissues that arise with the shift from active to passive management of the ETFs. Blake, Elton,& Gruber (1993) examined performance of bond mutual funds. Theirmethodology involved a time-series regression model using the funds' excessreturns, selected benchmark indices and a risk-free asset. The results show astrong trend of funds underperforming the corresponding indices.

The inabilityof active managers to " beat the market" is connected with the increasedexpenses incurred: the underperformance value is approximately identical to themanagement fees (that shows funds' performance almost at the level of themarket – before the commission is to be charged). Their results also show that low-skilledforecasting investors should be choosing low-expense funds due to the negative connectionbetween increase in management fee and returns.   MethodThe proposed research will be conductedwith a mix of techniques, combining both quantitative and qualitative approaches:• Quantitative: data analysis on outflows topassively managed ETFs from actively managed ones.• Qualitative: interviews and casestudies.

Methodsof investigation I. Literature review toexamine the existing research on debates between advantages and disadvantagesof passive and active ETF investments emerging from the previous studies, whichwill help to shape this paper. II. Interviews with IOSCOformer/current Secretary General and Research Department will help to explore concernsof the regulators about increasing popularity of the ETFs.

The interviews willbe noted and recorded, and later transcribed (Lyons and Doueck, 2010) to allowan accurate interpretation of participants' comments. III. Collection and analysisof the data on funds' movement from actively to passively managed ETFs. IV. Case studies fromsecurities commissions to find out whether choosing between active or passiveinvestment is right and to what market structure problems the funds' outflowfrom active to passive management may lead (Adams et. al 2007).