Smart beta question

Finance

Smart Beta Smart Beta strategies are rapidly becoming popular in the investing sectors as it an alternative for conventional passive management and traditional active management. The strategies is widely used and accepted in the different firms to determine the future risks(Skypala). It is said that the strategies can also be used an alternative for the traditional active management. However, some of experts believe that the smart beta strategies are ineffective for active management. This reflection paper discusses effective and ineffective strategies illustrates in the articles of Pauline Skypala and David Oakley.

Throughout the time fund manages look forward for different ways to make the investment products effective. The new smart beta strategies works as passive equity investment assets for the market capitalization due to which most of the pension funds in the European countries like Netherlands, Scandinavia etc have shifted their equities portfolios towards smart beta strategies(Skypala). As the article of David highlights that the adoption of Smart beta strategies is one of the fastest growing investments as it tracks certain stock and asset in the index than emphasizing on the entire market. Smart beta has provided greater increase in the interest rate on the equity portfolio(Oakley). It has assessed providing greater and better returns on the equities than the passive or beta funds through taking in account the small company stocks(Skypala). I believe that the Smart Beta is one of the effective approaches that can provide a better combination of passive and active management approaches for the active managers to yields higher returns on the portfolios. In addition, the Smart beta can be an effective approach that lowers the risk for maintaining, enhancing long term returns. This is because the Smart Beta strategies allow multiple approaches for the managers to evaluate the fund management, as it is an alternative strategy that overcomes the risk parity, minimum variance and maximum diversification, value and growth and risk factors indices.

However some of the active managers believe that the smart beta has the similar amount of risks involved that the previous approaches. Despite of the fact, the smart beta products still remain one of the most expensive portfolios to invest in than the other passive fund that have eventually decreased their fee to cut bones. This is because the smart beta products have higher and better returns than the other portfolios that provide a better opportunity for its investors to replicate. However, some believe that the term smart beta remains a twisted term for the previous active management equity strategies. This is because the most of the managers are working with their personal experiences than picking up the stocks with the traditional active management strategies. Therefore, the term smart beta remains to a twisted substitute for the market capitalization that has only assessed some of the portfolios. But still the Smart Beta strategies remain to be one of the exceptional strategies that have however resulted in the better returns than the traditional active management(Skypala).

Works Cited

Oakley, David. " Fund managers take smart approach." 20 April 2014. .

Skypala, Pauline. " Is ‘ smart beta’ the latest magic money tree?" 14 April 2014. .