Leçon inaugurale

Active vs. Passive Management: What is the Superior Investment Scheme?

Active management refers to a portfolio strategy where the fund manager takes specific investment decisions to outperform a pre-defined benchmark index. I review three obstacles that indicate that such a goal is very hard to reach for an average-skilled manager: (i) the arithmetic of active management, (ii) the efficient market hypothesis, and (iii) the tendency of market anomalies to disappear after their publication. Empirically, I show that, on average, active equity funds indeed underperform their respective benchmarks in 10 international countries.

Although the average fund is underperforming, there still exist some managers that deliver positive abnormal returns. Is it possible to identify such funds and if yes, how can we do this? I investigate different fund (manager) characteristics and document their relationship with future performance. We will observe that selecting successful funds is a difficult task, particularly for individual investors. I conclude that most investors will do better in allocating money to *passive* investment vehicles instead of actively-managed funds.

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Chaire de gestion des risques financiers

La leçon inaugurale aura lieu
le **mercredi 26 mai 2021** à 18h15

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