A study by finance professors at Yale School of Management has found that about one-third of mutual funds in the U.S. that claim to be actively-managed are actually tracking indices. According to the study, only 25% of all funds are truly actively-managed. “Many investors are paying high fees for the alleged benefits of active management, but they end up getting a mostly passive portfolio that hugs the benchmark index with a only a small active part,” said Prof. Antti Petajisto, who co-authored the research with Prof. Martijn Cremers. The professors came to their conclusion using a method they developed called Active Share, which, among other things, is said to be able to predict fund returns, showing that only the most active funds outperform their benchmark indexes while all the other “active” funds underperform after expenses. Among related findings, the study revealed that smaller funds are more actively managed, confirming conventional wisdom on the subject.

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