BRENTHURST GLOBAL WEALTH

INVEST BETTER *with* BRENTHURST

IN THIS ISSUE

Finding the right blend of active and passive investing can offer both stability and growth by balancing cost-effective market exposure with selective value-add strategies. As markets evolve, the key is combining low-fee, broad-based funds with targeted active allocations to optimise portfolio performance and control risks.

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ACTIVE VS PASSIVE INVESTING

FINDING THE RIGHT BALANCE

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A balanced path to performance means blending passive stability with active opportunity through a core-satellite strategy.

For decades, the investment world has debated a question that continues to divide professionals and individual investors alike: Should one pursue active or passive investing? The reality is that both approaches have merit, and often, the best solution is not an either/or decision, but a thoughtful balance of the two.

THE CASE FOR PASSIVE INVESTING

Passive investing has grown dramatically in recent years, with trillions of dollars flowing into index funds and exchange-traded funds (ETFs).

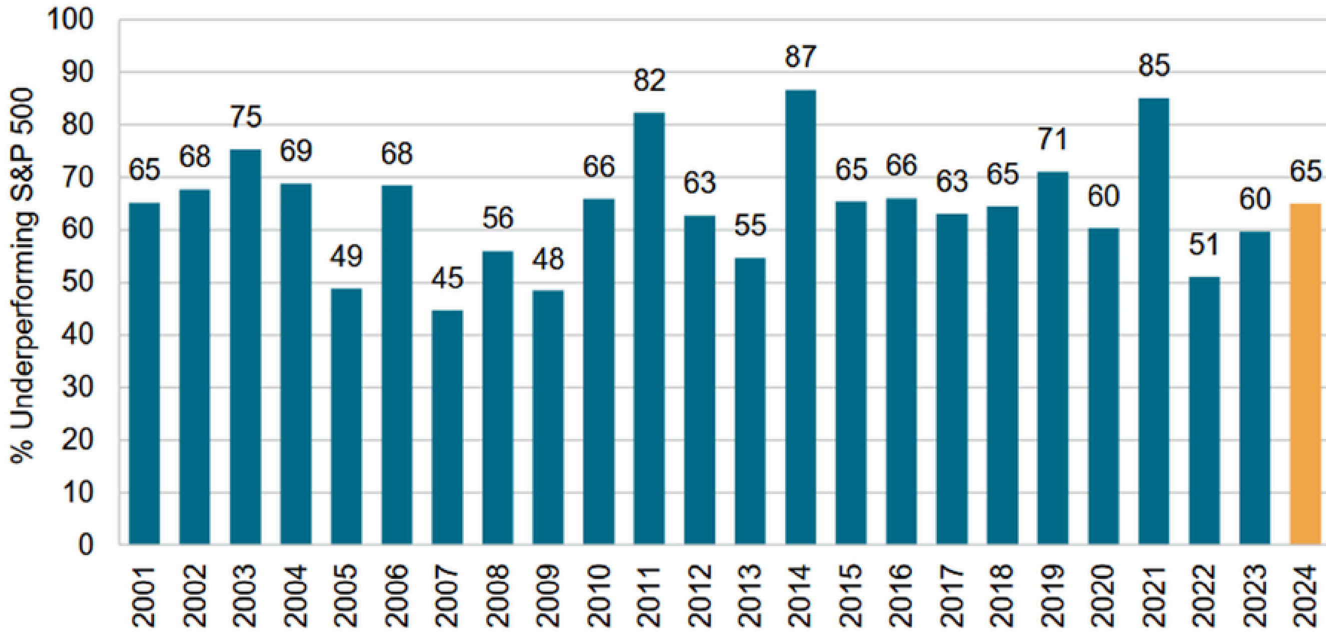
The strategy is straightforward: Instead of trying to beat the market, passive investors seek to replicate it by tracking an index such as the S&P 500 or the FTSE/JSE All Share Index.

ADVANTAGES INCLUDE:

- **Lower costs:** Because passive funds simply track an index, management fees are significantly lower.
- **Simplicity and transparency:** Investors know exactly what they own.
- **Tax efficiency:** With less trading, investors often face fewer taxable events.

This approach is appealing for long-term savers who value consistency and cost control. Indeed, data from the SPIVA (S&P Indices Versus Active) scorecards show that the majority of active managers underperform their benchmarks over long periods, reinforcing the case for choosing passive.

PERCENTAGE OF LARGE-CAP DOMESTIC EQUITY FUNDS UNDERPERFORMING THE S&P 500 EACH YEAR

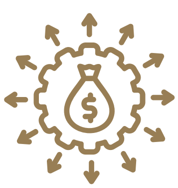


Source: S&P Dow Jones Indices LLC, CRSP. Data as of Dec. 31, 2024

THE STRENGTHS OF ACTIVE INVESTING

Active investing, however, should not be written off. Skilled managers and disciplined strategies have shown that it is possible to generate excess returns, especially in certain environments or asset classes.

ACTIVE INVESTING BRINGS:



FLEXIBILITY:
Active managers can adapt to market conditions, reduce exposure during downturns, or exploit emerging opportunities.

ACCESS TO UNDER-RESEARCHED MARKETS:
In areas like small-cap equities, emerging markets, or specific sectors, active managers often have an edge.

RISK MANAGEMENT:
Active strategies can build in protections against concentrated risks that passive indices might carry, such as heavy weightings in technology stocks.

This adaptability is particularly valuable in volatile or uncertain markets, where simply tracking the index might expose investors to significant downside risk.

PERFORMANCE CYCLES: WHEN EACH WORKS BEST

History suggests that passive investing thrives in long bull markets, where broad exposure captures rising tides at low cost. Active investing often shines during turbulent periods, when markets diverge, and skilful stock selection can help preserve capital.

The chart below illustrates this cycle:

MARKET CONDITIONS	LIKELY WINNER
• Prolonged bull markets	Passive funds
• High volatility/crises	Active funds
• Inefficient markets	Active funds
• Mature, efficient markets	Passive funds

THE BLENDED APPROACH: CORE AND SATELLITE

Many investors find success by blending both strategies through a core-satellite approach:

- **Core portfolio:** Low-cost passive funds tracking major indices, ensuring diversification and cost efficiency.
- **Satellite portfolio:** Active strategies targeting specific opportunities, such as emerging markets, small caps or thematic funds.

This balance allows investors to benefit from the reliability of passive investing while still capturing the potential upside of active management.

CONCLUSION

The debate between active and passive investing is unlikely to end because both have enduring strengths. Passive investing provides a disciplined, cost-effective foundation, but dismissing active investing entirely may leave opportunities on the table. For investors willing to do their research or work with skilled financial planners, active strategies can add resilience and potential outperformance when it matters most.

In today's complex market environment, perhaps the wisest move is not to pick sides, but to appreciate how active and passive investing can complement each other.

CHARIZE BEUKES | CERTIFIED FINANCIAL PLANNER®, BRENTHURST PRETORIA

Phone: +27 (0) 12 347 8240 | **Email:** charize@brenthurstwealth.co.za