Weighing up different ways you can invest your money

Is active fund management a wise choice for savers? Barry O'Neill, investment director at Carbon Financial Partners in Aberdeen says there are better ways to invest your cash

TAKING A GAMBLE: Barry O'Neill says you can short the odds on investment success

If I had £1 for every column inch written about the active versus passive debate in terms of investment fund management, I'd be writing this from my yacht in the Caribbean.

The majority of "market-beating" out-performance claims in active managers' advertisements cover investment terms of one year or at a stretch three years.

Quite who invests for such a short period of time I'm yet to figure out, so I've never understood the relevance of the data.

However, recent research from one of the world's leading fund data companies, Morningstar, shows that in the 12 months to July 1, 2016, only 29 of the 242 funds in the UK All Companies sector beat its benchmark, the FTSE All Share index.

This debunks one of the myths perpetuated by active fund managers which is that in a downward or sideways trending market, their stock-picking skills should win the day.

They argue that, unlike their passive fund counterparts, they don't have to own all the stocks in the index and can, therefore, avoid those which fall more than the market as a whole.

The past year should then have seen the active camp deliver a strong performance but the results were appalling.

What does this mean for investors in actively managed funds?

Well, it means you would have had slightly worse than a one in eight chance of picking a fund that delivered more than the FTSE All Share index over this period.

These are not great odds when you consider the skill and expertise these active managers are supposedly bringing to the table in return for you paying much higher fees than a simple FTSE All Share index tracker fund.

Trackers, or "passive" funds, ensure you get the index return less a fee which could now be less than 0.1% a year.

Research findings published last October by The Pensions Institute at Cass Business School in London showed the average active manager was not simply unlucky with their stock selection and market timing decisions, but "genuinely unskilled".

The few managers who did achieve a degree of out-performance over the index extracted all of the additional return in the form of fees, leaving no index-beating return for investors.

There must surely be another way to invest I hear you say?

Fortunately, there is and it costs a fraction of the thousands of actively managed products in the market.

The vast majority of any excess return over the market can be attributed to a small number of factors which can be exploited without the need to pay for expensive and ineffective fund managers.

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