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PEAK CAPITAL MANAGEMENT

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BLOG POST
Passive Surpasses Active
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August 31st marked the first time broad U.S. equity indexes surpassed active managers in total assets. Morningstar reported that U.S. equity indexes totaled $4.27 trillion in assets, while active managers totaled $4.25 trillion. Over the past ten years, $1.36 trillion has come in to index based mutual funds and exchange traded funds, while $1.32 trillion has left actively managed funds. Concern among analysts and investors is that the flood of assets in to indexing exacerbates volatility. Three firms make up approximately 80% of the indexing market: Blackrock, Vanguard, and State Street Global Advisors (Wall Street Journal). The chart on the left shows that U.S. index funds' share of the U.S. stock market is approaching 14%. A successful Brexit deal likely hinges on Boris Johnson and Donald Trump's ability to negotiate a trade deal between the U.S. and the U.K.

- The three largest holders of index-based investments hold approximately 20% of the S&P 500 (Factset)
- The SEC has expressed concern over a concentration of ownership among the three largest holders of index-based funds, creating unintended consequences to indexing specific to corporate governance.
- S&P Dow Jones research through the SPIVA report demonstrates that active managers often struggle to provide outperformance over passive indexes for various asset classes.