

For Immediate Release

February 12, 2018



Contact: Dennis Gallant
President, GDC Research
508-397-9296

New Research Validates that Active Managers have Stock Selection Skill, and Identifies Mutual Fund Design Flaws that are Blocking the Delivery of Alpha

BOSTON, MA, February 12, 2018 – Despite having in-depth investment expertise and extensive resources, Active Managers continue to lag behind their Passive counterparts in terms of performance and net asset flows. However, a new quantitative analysis identifies that active manager underperformance is tied to problems with the mutual fund structure and design, not the lack of manager stock selection skill. The report “**Active Management Unleashed: Addressing Mutual Fund Design Flaws and Reestablishing Value**” provides evidence that active managers can, and do, create alpha from their highest conviction stock selections. It also identifies two solvable structural flaws in mutual fund design that are key factors impacting performance and preventing investment value from reaching the end investor.

This research shows that these fund flaws appear to be costing managers two to three percentage points in annual excess return (200-300 basis points). The White Paper provides an actionable and low-cost blueprint for active investment managers to fix the structural fund flaws and “unleash” the benefits of their investment skill.

“Simply put, this is a must read for any senior professional in the investment industry,” says Robert Steele, founding executive of Rydex Investments, innovative industry consultant, and co-author of the report. *“Active investment managers are losing the battle for the hearts and minds of advisors and ultimately investors. This White Paper demonstrates how the solution for actively managed mutual funds has been hiding in plain sight and provides a viable prescription for improving outcomes and performance.”*

Two proprietary research efforts underpin this White Paper. The first research initiative reflects a survey of more than 200 registered financial advisors which captured their current attitudes and usage of active versus passive investment products, as well as explored their future expectations. The second research effort isolated, and then evaluated, the performance of high conviction stock selections from top-rated actively managed equity mutual funds. This latter analysis was used to validate if active managers truly have skill, as well as to assess the extent of potential structural flaws within the traditional mutual fund design.

“The decade’s long dominance of passive investment products over actively managed mutual funds, as measured by both relative performance and net new flows, is the massive elephant in the room,” says Dennis Gallant, President of the GDC Research and co-author of the report. *“By all measures, active investment managers need to make changes to reposition themselves in the marketplace. The good news is that active managers have real stock selection expertise and the research identifies two – solvable -- structural flaws that blocked that skill from reaching and benefiting their clients.”*

For more information or to purchase the report contact: **Dennis Gallant, 508-397-9296, email gallant@gdcresearch.com or visit www.gdcresearch.com**

About GDC Research

GDC Research provides consulting services, market research, competitive analysis, tactical and strategic planning, business development, market validation for asset managers, insurance firms, broker-dealers, banks, clearing firms, and custodians, as well as various third-party service and technology providers and is highly skilled in conducting in-depth interviews and surveys with key industry executives, experts, and financial advisors across all channels. GDC also publishes numerous reports and white papers on various topics such product/asset management distribution and wholesaling, product development/marketing, advisory trends, retirement income, wealth management, portfolio construction, and financial advisor trends. www.gdcresearch.com