

CRYPTOCURRENCY LIVE

BTC ₹33,98,375 2.09%

ETH ₹2,35,190 2.90%

USDT ₹79 0.00%

ADA ₹165 -1.65%

MARKET WATCH

THE ECONOMIC TIMES Markets

English Edition | E-Paper

Subscribe Sign In

Save 20% on ET Prime

Home ETPrime Markets News Industry RISE Politics Wealth MF Tech Jobs Opinion NRI Panache ET NOW More

Cryptocurrency by COINSWITCH Stocks IPOs/FPOs Markets Data Market Moguls Expert Views Technicals Commodities Forex Bonds More

Business News > Markets > Bonds > Why investing in passive funds can be a good diversification strategy

Why investing in passive funds can be a good diversification strategy

ET CONTRIBUTORS Last Updated: Jul 21, 2021, 07:51 PM IST

SHARE FONT SIZE SAVE PRINT COMMENT

Synopsis

The debate over whether investors should use active or passive strategies in their portfolios has traditionally been viewed through the lens of outperformance. In reality, both can co-exist in a portfolio where an investor can follow a blended approach.



Markets are getting efficient over time and now active funds are finding it hard to beat the benchmark indices.

At a time when the market was reeling under the effects of Covid-19 pandemic, passively managed products have seen a massive rise in popularity. Ranging from index funds to exchange-traded funds (ETFs), passive investments gained ground in terms of both investor interest and assets under management. Since Jan 2020, the average AUM for index funds almost tripled to Rs 240 billion and ETFs, including gold ETFs ballooned 1.7x to Rs 3 trillion (source: **AMFI**). This traction was also driven by a plethora of index funds and ETFs being launched by several fund houses over the past couple of years.

Let us understand the difference between active and passive investing. The fund manager in an active fund decides in which stocks, sectors,

geographies, etc he should invest the fund's resources and has a clear objective to beat the benchmark index, whereas a fund manager in a passive fund will not have any major active role in the investment strategy as the fund replicates the selected benchmark and hence mirrors the returns as well.



Achieve your organization's financial goal with the right lender

CredAvenue Learn more

IN THE SPOTLIGHT How FB solutions helped these platforms raise funds



RELATED

Smart Investing: Three ways you can build a passive portfolio

Index fund or ETF? How investors should pick the better passive investment

Is it time to invest in the lowest costing index funds?

Crypto Quiz

Presented By

Test your crypto IQ

Question 1/4 Highest Score 40

0

_____ is a cryptocurrency that incentivizes a solar-powered planet. Fill in the

Flat 20% Off

AVAIL THE OFFER

ETPrime

Looking to invest? Check the Stock Score Access Scores for 4000+ stocks with your ET Prime Subscription.

Markets are getting efficient over time and now **active funds** are finding it hard to beat the benchmark indices. According to data from **SPIVA** (S&P Indices versus active), as of December 2020, 87.95% of largecap funds underperformed the BSE100 index in a period of five years. Even on a 1-year basis, 80.65% of the funds underperformed. Passive funds, which mimic returns of indices, have emerged as a strong alternative to investing. Performance apart, passive funds are low cost as the fund management expenses are far lower. An investor having a long-term horizon will consider the expenses associated with it as it will add up on a compounded basis.


Owing to the increased levels of awareness, digital adoption and product innovation over the years, investors have begun appreciating the potential of ETFs. ETFs combine the trading flexibility of a stock, coupled with diversification and low costs of a mutual fund. The fact that ETFs offer exposure to a basket of stocks at a fraction of the amount and have several advantages compared to direct investing, are factors which have helped elicit a favourable response from new age investors.

SolarCoin

Bitcoin

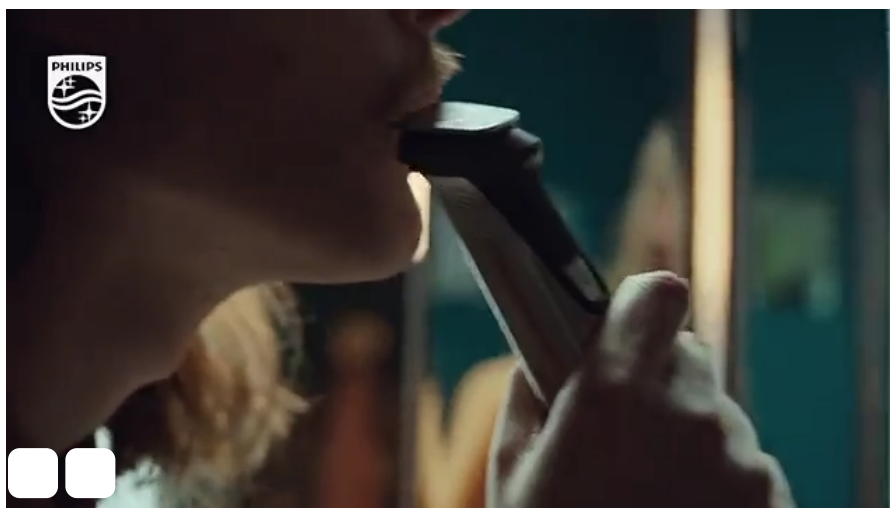
GreenCoin

LiteCoin



Latest 3 Multibagger Stocks by Manish Goyal

[Sign up](#)




Recommended by

The risk of active funds failing to deliver can be mitigated by the right diversification (even within the same asset class) and allocations among stocks to achieve returns. Passive investing is predominantly a product for investors who are looking for simplicity, cost-effectiveness and do not want the complications of identifying the right funds. Apart from the innate advantages of being low-cost, passive funds also provide an opportunity to invest in a diversified portfolio by replicating the weights and returns of the underlying index, thereby reducing risk and volatility.

Apart from the plain vanilla index and ETFs, theme-based-ETFs favouring

Mid-cap Growth Stocks

| | | |
|---------------------|----------------|--------|
| Vaibhav Global | 700.60 | -0.60% |
| Hinduja Global | 2860.30 | 1.15% |
| Orient Refractories | 356.35 | 1.38% |
| Alkyl Amines | 3825.45 | -0.02% |




Why follow tips? Choose your winners rationally in 3 simple steps!

START NOW

Ask the Crypto Expert

Presented By



Manish Kumar

Co-founder, RealX and GREX,

Enter your Query*

Max. characters: 1000

NEXT

MUST KNOW
ALL QUESTIONS

ETPrime

Looking to invest? Check the Stock Score
Access Scores for 4000+ stocks with your ET Prime Subscription.

Flat 20% Off
AVAIL THE OFFER

thematic ETFs, which helps in diversifying their holdings.

The extent of presence of either in an investor’s portfolio would hinge on your risk appetite and understanding of the market. For novice investors, index funds make more sense than aiming for outperformance. Such investors could keep low-cost passive funds as their core portfolio and supplement it with well-chosen active funds to fetch additional returns.

However, gradually as the investor gains experience, passive investing should be seen more as an asset allocation tool. Investors can create a diversified portfolio mix by allocating some part of the equity in **ETF** or index funds, which somewhat ensure less volatility in the investments and have some part in it and the remaining would be through active investing.

With growing inflation and expanding economies, it is essential for all investors to upgrade their portfolios to beat inflation and fetch competitive returns. To achieve diversification with minimal efforts, passive funds are available.

The debate over whether investors should use active or passive strategies in their portfolios has traditionally been viewed through the lens of outperformance. In reality, both can co-exist in a portfolio where an investor can follow a blended approach. Having said that, investments in ETFs and index funds help mitigate the risk of underperformance of actively-managed schemes.

*Ritu Modi is Fund Manager – **Equity Passive Funds, LIC Mutual Fund Asset Management.** Views are her own*

(Disclaimer: The opinions expressed in this column are that of the writer. The facts and opinions expressed here do not reflect the views of www.economicstimes.com.)

READ MORE NEWS ON

- Equity Passive Funds
- Amfi
- Diversifying Strategy
- Lic Mutual Fund Asset Management
- ETF
- S&P Indices
- Mutual Funds
- Active Funds
- SPIVA

*(What's moving **Sensex** and **Nifty** Track **latest market news, stock tips** and **expert advice** on **ETMarkets**. Also, ETMarkets.com is now on Telegram. For fastest news alerts on financial markets, investment strategies and stocks alerts, subscribe to our Telegram feeds.)*

ETPrime

**Looking to invest? Check the Stock Score
Access Scores for 4000+ stocks with your ET Prime Subscription.**

MOST READ
MOST SHARED

Paras Defence IPO: Here's how to check allotment status

Stock Idea | This multibagger is back on recovery path after a blip

Keep investing & you may beat last 13 years' returns in India: Charandeep Singh

After losing 18 kg, the Big Bull is ready to fly, scoff at the skeptics

Kunal Bothra's 3 stock picks for the week ahead

[More](#)

DISCOVER MUTUAL FUNDS

All Mutual Funds

Top Tax Saver Funds

Better Than Fixed Deposits

Low Cost High Return Funds

Crypto Performance

Presented By

02:40 PM | 30 Sep

Bitcoin

₹33,98,528.87 2.09%



INTERESTED IN CRYPTO CURRENCY?

[START HERE](#)

Trending in Markets

- Cryptocurrency
- Stock Screener
- Sensex
- Stock Market
- Stock Recommendations
- IPO

Flat 20% Off

AVAIL THE OFFER