In-Depth Study Reveals How To Identify Actively Managed Funds That Can Add Significant Value To Retirement Savings

(NAPSA)—Looking at two key characteristics can help investors identify actively managed mutual funds that have outpaced index-focused investments over the past two decades, according to an in-depth study released by American Funds, whose parent company, Capital Group, manages nearly $1.4 trillion for individuals and institutions.

The study found that actively managed stock funds with relatively low expenses and whose portfolio managers invest alongside shareholders generated more value than "passive" investments over a 20-year period ending in January 2014. The study challenges the belief that investors should settle for average returns provided by index funds that seek only to mirror the movement of the broader markets. Choosing an active manager that can outpace the broader markets can make a significant difference in how much money investors are able to accumulate for retirement—and how long their money will last in retirement, according to American Funds.

"Low expenses and high manager ownership are critically important factors for investors to consider when they are searching for mutual funds that can help them achieve their investment objectives," said Tim Armour, a portfolio manager and Chairman of the Management Committee at Capital Group. "Low expenses mean investors have more of their money working for them. High manager ownership means that fund managers are investing significant amounts of their own money in the portfolios they manage. They have 'skin in the game' and, not surprisingly, the funds have tended to provide better results."

Active fund managers, research suggests, may lead to greater yields.

The American Funds' study provided two hypothetical scenarios that demonstrated the importance of identifying actively managed funds that can add value over the long term:

• The first scenario looked at what would have happened had a 45-year-old invested $100,000 in January 1994 in two portfolios, with half of each devoted to large U.S. companies and half to large international firms. One portfolio consisted entirely of "passive" exchange-traded funds (ETFs), which are securities that track an index such as the Standard & Poor's 500 or Dow Jones Industrial Average, but trade like stocks on an exchange. The other portfolio drew from the universe of 3,037 active equity mutual funds tracked by Morningstar, including only those funds whose expenses were in the lowest 25 percent and whose investment firms ranked among the highest 25 percent in manager ownership. After a 20-year period, the portfolio of actively managed funds would have grown to $551,409, or 31 percent more wealth than the ETF portfolio.

• The second scenario looked at what would have happened over the same period to a 65-year-old retiree who started with a $500,000 nest egg and invested in the same two portfolios. Assuming that retiree made an initial withdrawal of 5 percent of the principal from each portfolio and then increased that amount by 3 percent each year to account for inflation, the actively managed portfolio would have generated 5–7 percent more wealth in retirement.

American Funds emphasizes that the past results of mutual funds do not guarantee they will be similar in the future.

Information on expense ratios and manager ownership is typically available on fund company websites (see www.americanfunds.com), as well as from independent research firms such as Morningstar or financial advisors.

Investors who are relying on 401(k) plans for their retirement may want to review which mutual fund families are being offered through those plans, Armour said, suggesting that they specifically look at the funds' expense ratios and manager ownership information.

"There are a number of fund families—American Funds among them—that keep their costs relatively low and have portfolio managers who invest alongside their shareholders," Armour said. "Rather than simply going along with the idea that passive investments are the only answer, investors would benefit from using these two screens. Active managers that have the potential to provide superior results are available, and the value they may add can make a significant difference to investors in pursuing their retirement objectives."

For more information, visit www.americanfunds.com.

Editor's note: The ETF portfolio represents an equally divided allocation between a widely used S&P 500 ETF and MSCI ACWI ex USA ETF. For years in which the MSCI ACWI ex USA ETF was not in existence, index returns were used, net of the ETF's fees, as of 2013. The ETFs selected were the largest in their respective categories (among Morningstar's universe of large-cap investments) tracking the S&P 500 and MSCI ACWI ex USA indexes as of December 31, 2013. The actively managed portfolio represents a cross-section of the least expensive and highest manager ownership quartiles (50 percent U.S., 50 percent international). The U.S. allocation is equally weighted among 85 active U.S. equity managers; the international is equally weighted among 20 active international equity managers.