CFP BOARD

Fifty Shades of Funds: An Investment Strategy for Every Taste

CFP Board provides considerations when choosing between index and actively-managed funds

Washington, D.C., October 21, 2015 – Once upon a time, investors chose between two starkly different investment fund options: traditionally "plain vanilla" index funds and broad spectrum actively-managed funds. But over the last decade, funds incorporating aspects of both – such as Smart Beta funds and ETFs – have emerged, leaving investors with more options than ever. CFP Board offers considerations for investors evaluating the rapidly shifting fund landscape in search of the right investment for them.

"The ever increasing choices for investors makes it possible for those with $100 today to invest like only multimillionaires did less than a decade ago," said Metro-Detroit CFP Ambassador Robert Schmansky, CFP®. "Where most investors fall short though is not having a philosophy to guide their decision making to weigh the options before them."

As a starting point, the following typical investor profiles might consider these types of funds:

- **Young Investors:** Mutual funds offer children and teens ample diversification at minimal levels of investment. Managed funds often have a "story" behind their holdings that can be much more exciting and entertaining for younger investors than an S&P 500 index.

- **First-Time 401(k) Participants:** A broad index fund provides low volatility and instant diversification without much active thought or monitoring – just the right amount of work for a new participant managing all of the financial decisions that come with a new job.

- **High Tax Bracket Investors:** This investor is likely to have a number of different investment accounts. To minimize annual taxable income, he or she might utilize index funds for taxable accounts and put favorite high-performing managed accounts into tax-deferred or tax-free accounts, to minimize annual taxable income from investments.

- **Socially Responsible Investors:** Investors that are passionate about a cause, such as women's rights or environmental preservation, can take advantage of managed funds aligned with their interests.

- **Plug and Play Investors:** Managed funds can make more sense for investors who want a fund that adjusts as he or she gets closer to a life milestone such as retirement. Other managed funds take care of asset allocation, rebalancing and risk management, as opposed to the investor choosing a variety of funds and adjusting his or her holdings in each.

- **Hedgers:** To mitigate particular types of risk, such as rising medical care costs in retirement, an index can be a smart investment. However, be cautious, as narrowly targeted indexes can be inherently high-risk and volatile.

There's a fund that fits every type of investor, and an investor can be successful utilizing either type of fund as long as it aligns with their needs and goals. Rather than simply examining fund prospectuses, seek the counsel of a CFP® professional, who puts your interests first and can help you find the fund that's exactly right for you.

ABOUT CFP BOARD

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ABOUT ROBERT SCHMANSKY, CFP®

Robert Schmansky is the founder of Clear Financial Advisors of Metro-Detroit. Rob has over a decade of experience helping individuals and families meet their financial goals and overcome money concerns. He is frequently quoted in the media on issues regarding personal financial planning, and has been a contributing writer for U.S. News & World Report, Forbes and Yahoo!Finance, and an investment expert for FiLife, a former Dow Jones/IAC joint Internet venture. He has been an adjunct instructor of economics and the required courses for candidates to sit for the CFP® exam. Investment News selected Rob as a 2015 40 Under 40 financial planning professional and he is the 2013 PlanPlus Global Financial Planning Awards North American finalist.

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