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INVESTMENT

Passive resistance

In response to last week's Best Advice column by Jason Witcombe, obviously, if you ask a known adviser who uses the passive investment strategy which is better – active or passive – the answer he will give is passive.

The question was about active or passive management of a portfolio. Mr Witcombe seems to have altered it to passive or active funds. The difference is tangible and important. There are times in an active portfolio when you will do well to use passive funds. However, that does not mean the portfolio suddenly becomes passive.

He says that he believes in the concept of market efficiency. The market has never been efficient and it never will be. Was the market priced right at FTSE 6,700 in October 2007? Or 6,950 in 1999? Or 3,450 in March 2009? Or today?

With manipulation by governments, central banks and major market players, the market, as I say, is never efficient.

How is it that the bond market often tells us well in advance what the equity market will do, eventually? If the market was efficient, there would be no discrepancy and yet there are often major ones.

If cost were the sole determinant of portfolio performance, how come we can beat cash, inflation and "the market", yet we charge our fees, the manager charges his and the wrap charges theirs? Answer – we do not try to beat the market. We could never do so.

Finally, he does not think absolute return strategies can work consistently. I would ask him to reconsider after looking at, for example, Martin Gray of MAM (since he set up his funds in the mid-1990s) and Jonathan Ruffer of the eponymous Ruffer (late 1990s).

Give me active any day. Passive only worked from the early 1980s to the end of the 1990s because interest rates fell on a long-term trend and this was positive for property, equities and bonds all at once.

What will happen to these asset classes – the main ones in a passive portfolio strategy – and thus to a buy and hold portfolio when rates rise again inexorably? Or even if they stay at virtually nil for decades?

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