

*1-Edit*

---

**Publication:** Asheville Citizen-Times  
**Day:** MONDAY  
**Section:** W  
**Page:** 6  
**Keyword:** COLUMNS, INVESTING

**Date:** 01/10/2005  
**Edition:** FINAL  
**Sectionname:** WNC Business  
**Byline:** BY WARREN W. WALL

---

## **An active investing strategy may be worth your while, but it takes time and resolve**

An active investing strategy may be worth your while, but it takes time and resolve

O

Our last article looked at the advantages and disadvantages of using a buy-and-hold investing strategy. With this piece, let's look at the other side of the investment spectrum -- active management.

Active management is adjusting an investment portfolio in reaction to changes in the value of a company, sector or overall market. In comparison to buy-and-hold investing, active management takes an opportunistic approach to the market. The active manager believes there are inefficiencies in the market that can be exploited to improve risk-adjusted returns.

Active management strategies that work tend to have three similar characteristics:

- n They are a systematic, non-emotional commitment to make changes in the allocation of investment assets whenever the system indicates that an asset or asset class will perform better than another for the immediate future.
- n They use ongoing fundamental or technical analysis of investment options to make their investment decisions.
- n They are applied consistently over time.

Active management ranges from 100 percent moves from a single asset class to cash and back in response to buy and sell signals to dynamically allocating a portfolio among asset classes or individual securities in response to perceived opportunities for gains or to protect the portfolio from losses.

Although active management is often characterized as a "riskier" approach to investing by those who espouse buy-and-hold investing, in reality, it can be a very conservative approach, moving to the safety of a money market position when downturns appear to be under way.

Active management has four main advantages:

- n Active management takes the desire for many investors to "do something" and channels it in a very deliberate strategy. For many people, the passive nature of buy-and-hold investing is counter to their basic nature. Faced with a growing loss or a missed opportunity, they want to take action, to change the results.

## DC4 Report

n Active management reduces the risk of a major market drop decimating your portfolio. There's no similar protection in buy-and-hold investing except having a substantial part of your portfolio devoted to fixed-income investments. And that reduces returns while it reduces risks.

n Active management gives you the potential to outperform flat or declining markets by avoiding devastating losses and opportunistically positioning your portfolio in sectors of the market that are doing well.

n Active management gives you a tool with which to invest in more volatile aspects of the market, such as sector funds or leveraged funds.

Disadvantages of active management:

n There is no perfect system. There is no way to know for sure that a strategy that's been successful in the past will be successful in the future. Every time you make an investment decision, you face uncertainty.

n When you fail, it's your fault. When you do succeed, the market gets the credit.

n Active management doesn't work unless the investor has a high level of resolve, discipline and commitment, and the time follow your investments on a regular basis.

n Active management may under perform buy-and-hold strategies over the long term. The more risk adverse the strategy, the more likely it will underperform long term. With that said, there are strategies that have historically excelled, particularly in the growth investment arena.

n Active management can lose money when the market is going up. Because many active strategies use trend following, buy and sell signals will lag actual market action.

Successful investing often comes down to picking the investment strategy that fits your emotional temperament and then sticking with it.

Coming up in future articles: the keys to successful buy-and-hold and active investment strategies.

WALL ON THE STREET

By Warren Wall

w/his col sig mug

Warren W. Wall CFP CSA is a local financial author and advisor with Wall & Co. Wealth Management. For contact and free investment workshop information, visit [www.Wallco.com](http://www.Wallco.com).

---

**Department:** WNC BUSINESS

**Docname:** WALL\_0110

**Pubdate:** 01/10/2005

**Typist:** KATHLEEN DAVIS

**Depth:** 18.75

**Docnumber:** 917122

**Source:** STORY

**Wordcount:** 643

*1-Edit*

---

**Author:** KATHLEEN DAVIS

**Status:** Sent

**Datatype:** Text