

# 5 Ways Active Managers Steer Mutual Funds Effectively

Active fund management comes with higher fees for investors. Here's what managers do to earn their pay.



From creating models to quickly reacting to market swings, here's how you may be getting your money's worth.

By [Joanne Cleaver](#)

Dec. 9, 2015, at 10:38 a.m.

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Active fund management or passive? It's an ongoing debate, but just how much do [active fund managers](#) do to drive results and justify their higher fees?

Here are five things active managers do to try to outrun the market.

**Create models.** Many active managers develop proprietary tools, databases and research models to fashion their own methodologies, says Michael Swope, Milwaukee-based director of manager research for BMO Global Asset Management. Their goal, he says, is to "look for a pattern of success, typically over a market cycle."

Investors need to be able to identify the model that [fund managers](#) use before deciding where they should put their money. "You want to understand how they arrive at their decisions," says Greg Fayvilevich, a director with the Fitch Ratings Fund and Asset Management Group in New York. "Is there a committee, or is it a star manager approach?"

One key manager is likely to deliver consistent results from a consistent point of view, Fayvilevich says, but what happens if that celebrity manager defects or dies? Succession planning is essential to avoid orphaned funds. "That's why some investors think that it's better to go with a team, so that even if the manager changes, the style of managing the fund won't change."

**Search for the overlooked.** "Think of active managers as detectives," says Jason Voss, content director with the CFA Institute and a former fund manager. A good active manager looks not just in the obvious places – SEC filings, annual reports and industry trend reports – but will also construct his or her own valuation models to "see if the equity is trading at the appropriate price," he says.

An active manager is also likely to travel to the company's operations to see the conditions for himself, whether that entails going to a [South American mine](#) or a suburban shopping mall. "And then they decide which facts are relevant to really tell the story," Voss says.

Analysts agree that excavating spreadsheets only goes so far: Hands-on equity managers take a forensic approach to get the full story and implications of what they observe. For instance, is a fleet of shiny new vehicles positioning the company for snappy, snazzy customer service, or do the vehicles represent a drag on cash flow based on poorly conceived leases?



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