# ACTIVE MANAGEMENT:

## The Right Amount Can Make All The Difference

We share how being too passive, or too active, can negatively impact your financial life - especially during periods of market volatility.

We've talked about it before. When it comes to investing, most people fall into one of two camps: self-managed or professionally-managed. And for the investors that are in the self-managed camp, there are two common pitfalls to this approach: Their investment style is either *too passive or too active*.

### TOO PASSIVE:
### TARGET DATE FUNDS AND ROBO-PLATFORMS

The too-passive investor might rely on target date funds or robo-platforms to manage the majority of their portfolio. Both of these solutions provide equity-heavy portfolios that become high-risk when markets turn volatile, and the robo-platforms - in particular - have not been tested during a significant market correction.

### TOO ACTIVE:
### EMOTIONALLY-DRIVEN INVESTING

The too-active investor is likely to fall into emotional traps, like trying to time the market or buying and selling based on "FOMO". Research has shown that these types of traps make individual investors underperform the market over the long haul: In the 20-year period ending December 31, 2017, the S&P 500 had an annual average return of +7.20% while the average equity fund investor had an annual average return of just +5.29%[1].

1 DALBAR, 2018 QAIB Report

## THE RIGHT AMOUNT, AND TYPE, OF ACTIVE MANAGEMENT CAN BE CRITICAL

When most people think of "active management" from a financial advisor, they think about stock picking or trying to identify companies that will outperform the stock market during a given period.

In reality, however, this is a very small part of what a professional financial advisor does.

At its core, active management from an advisory team can be thought of as a second set of eyes that help guide your investment and diversification strategy. This team uses some of the same exact funds that you would use through a robo-platform, but the key difference is that you have a human determining how much market exposure is prudent considering your tolerance for market risk, your long-term objectives, and the prevailing economic environment.

And, a financial advisor's advice is not just limited to what you invest in, but also in determining how your funds should be invested. That is to say, your advisor can help determine if a 401(k), 403(b), traditional IRAs, SEP IRA, or other savings vehicle is most efficient for you and your unique investment goals. If you already have several of these accounts, they can look to see if opportunities exist to combine accounts. And while it sounds silly, "losing" retirement accounts is a very real risk for many people: in 2019, the Government Accountability Office estimated that in just 17 states there was a combined $35 million in unclaimed retirement accounts.[2]

A professional advisor, most of all, can help you feel more organized about your financial life, by documenting what you own, why you own it, and what opportunities exist to enhance your overall financial strategy.

For all of these reasons, the work done by a professional advisor like CTS Financial Group falls somewhere in between purely-active and purely-passive management. And while we are biased, we feel that this model provides our clients with a "best of both worlds" approach for managing their financial wellbeing. More simply put, it's the efficiency of passive investing with the risk controls that come from active management.

2 *GAO, Federal Action Needed to Clarify Tax Treatment of Unclaimed 401(k) Plan Savings Transferred to States*

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## A TRUSTED PARTNER, GUIDING EACH PIECE OF YOUR FINANCIAL LIFE

Not limited to just stock and bond markets, a fiduciary financial advisor is someone that helps guide all pieces of your financial life. This means that while your retirement portfolio is a key component of the relationship, their guidance extends to tax strategies, personal finance, estate planning, and beyond. With the markets and general life in a state of upheaval right now, having a second set of eyes on big financial decisions can feel like a really good thing.

## OPEN FOR BUSINESS AND READY TO SUPPORT YOUR JOURNEY

If this sounds like a good model for you and your family, we invite you to connect with our team. While Illinois is currently under stay-at-home guidance from State health officials, our team of financial advisors and tax professionals remain ready to assist you.

Through a web meeting or phone call, we can provide a second opinion on your current portfolio, and let you know what opportunity may exist during these unprecedented and challenging times.

Regardless of the path that you take with your financial life, we wish you and your family all the best.





737 N. Michigan Avenue, Suite 2120 • Chicago, IL 60611 • 312-337-1040 • www.ctsfinancialgroup.com
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