Passive Management
Security Analysis and Portfolio Management

Contents

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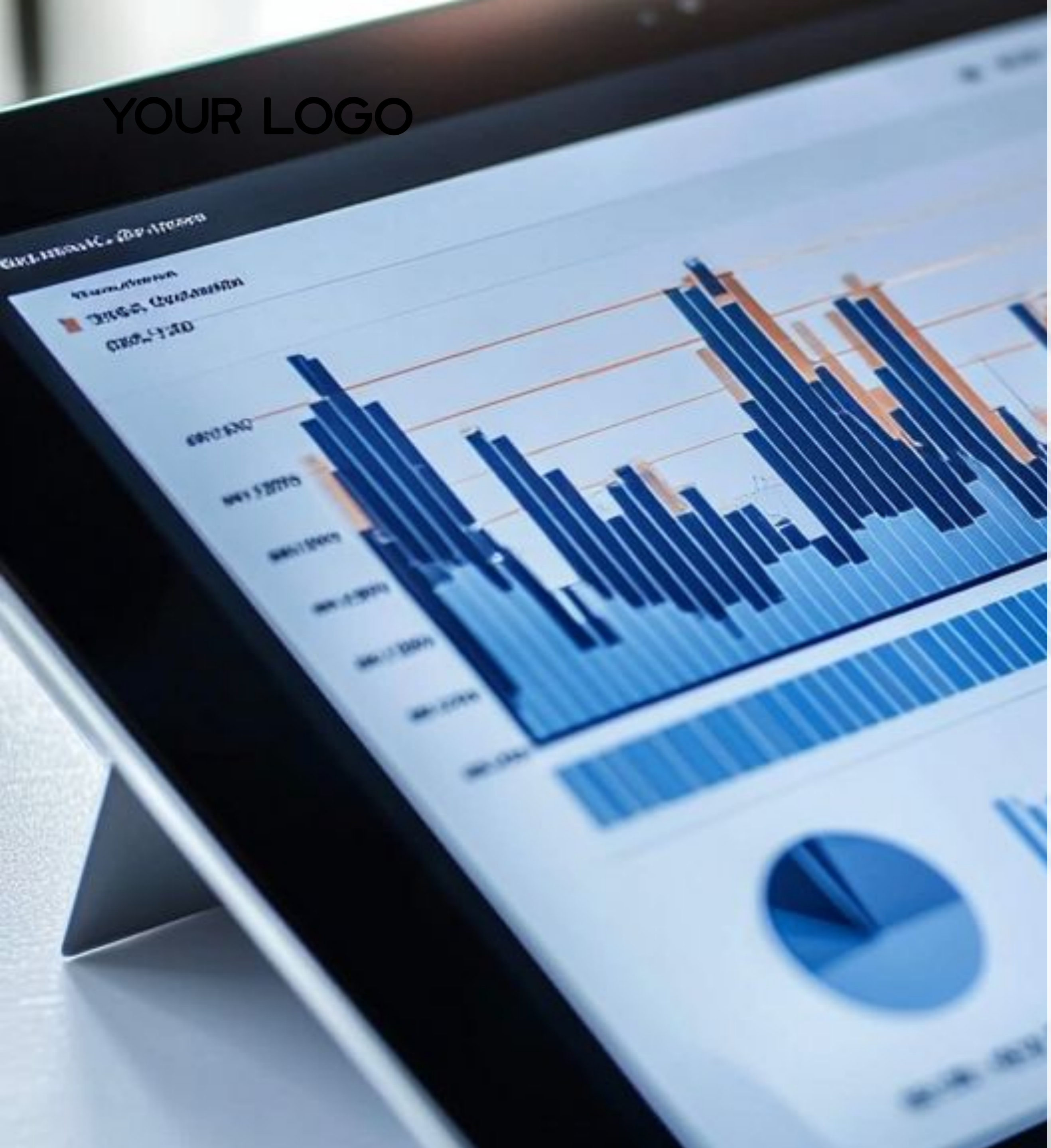
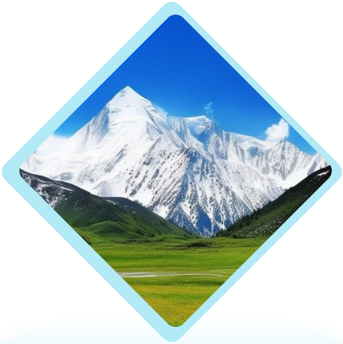


01

Introduction to Passive Management

Definition and Concepts



Overview of Passive Management

Passive management refers to an investment strategy that aims to replicate the performance of a market index through a buy- and- hold approach rather than attempting to outperform it.

Key Principles of Passive Management

The key principles of passive management include minimizing trading costs, focusing on long- term investment, and maintaining a diversified portfolio to reduce risk while tracking indices.

Importance in Portfolio Management

01.

Benefits of Passive Management

Benefits of passive management include lower fees, reduced tax implications, lower volatility, and historically consistent market returns, making it an attractive option for many investors.

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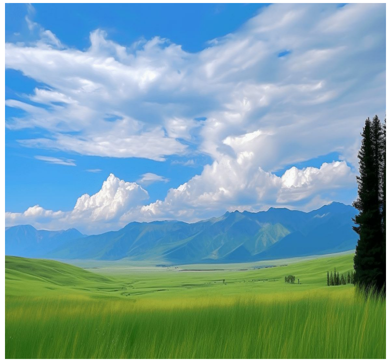
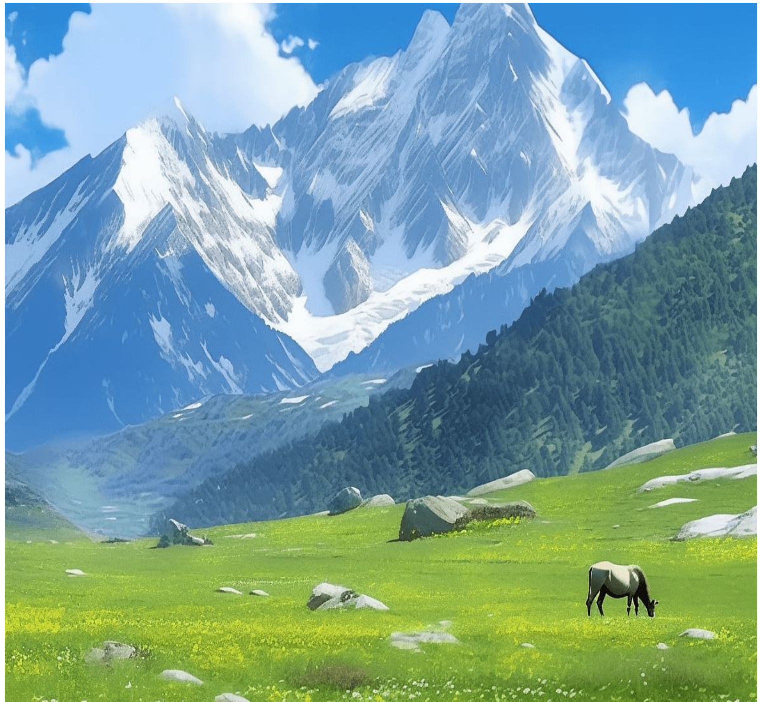
Comparison with Active Management

Passive management typically yields lower costs and fees compared to active management, which involves more frequent trading and attempts to outperform the market through various strategies.





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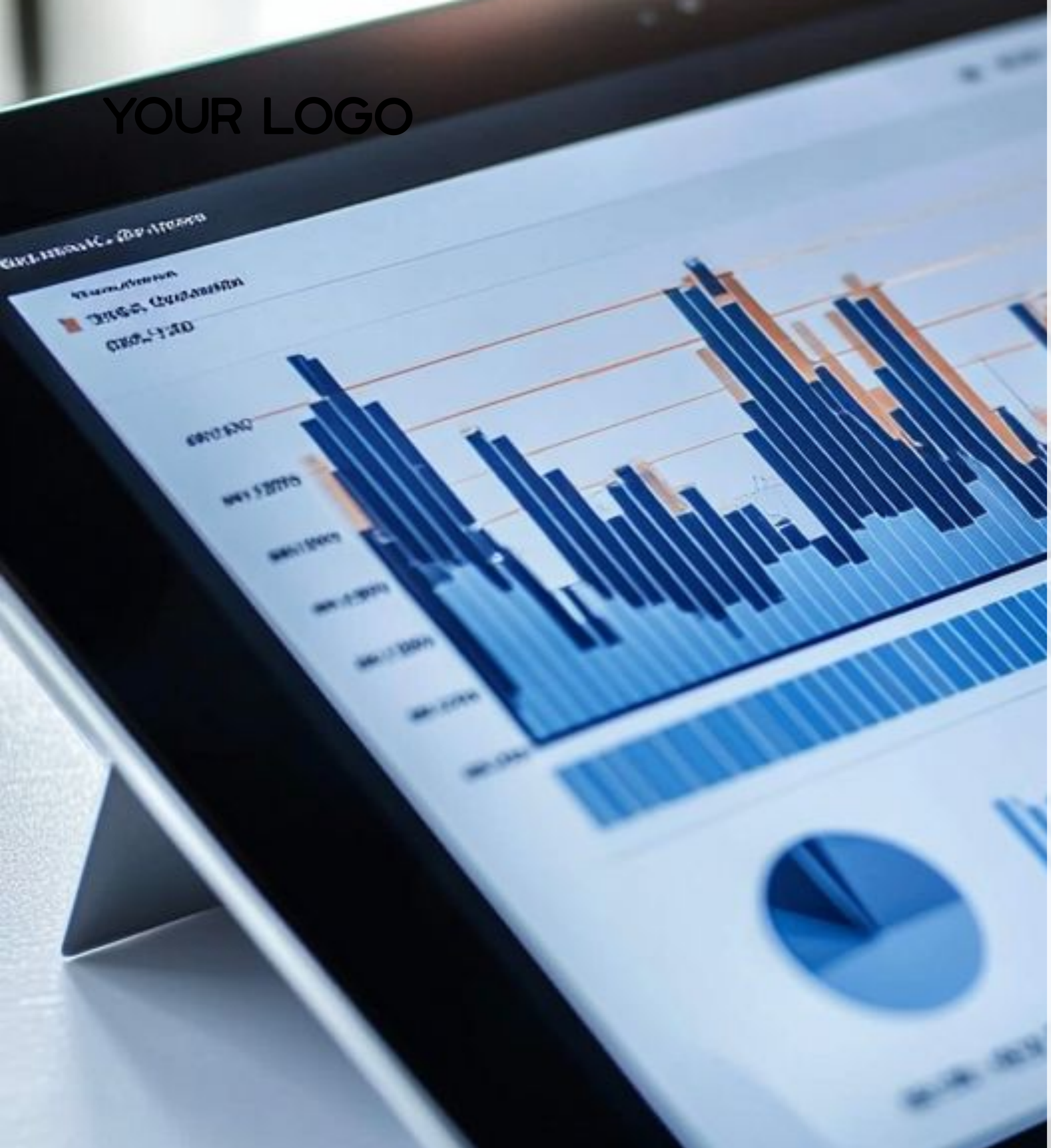

02

Strategies in Passive Management

Index Fund Investing

Understanding Index Funds

Index funds are investment funds that aim to replicate the performance of a specific index, such as the S&P 500, by holding a portfolio of the same assets that the index contains.

Advantages of Index Fund Investing

Index fund investing offers benefits like lower expense ratios, broad market exposure, and reduced manager risk, making it an appealing choice for both novice and experienced investors.

Exchange-Traded Funds (ETFs)

01

Overview of ETFs

ETFs are marketable securities that track an index, commodity, or basket of assets, providing investors with a way to buy into diverse portfolios with ease and flexibility.

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Differences Between ETFs and Mutual Funds

ETFs differ from mutual funds primarily in their trading characteristics, tax efficiency, and fee structures, allowing for real- time trading and generally lower expense ratios compared to traditional mutual funds.

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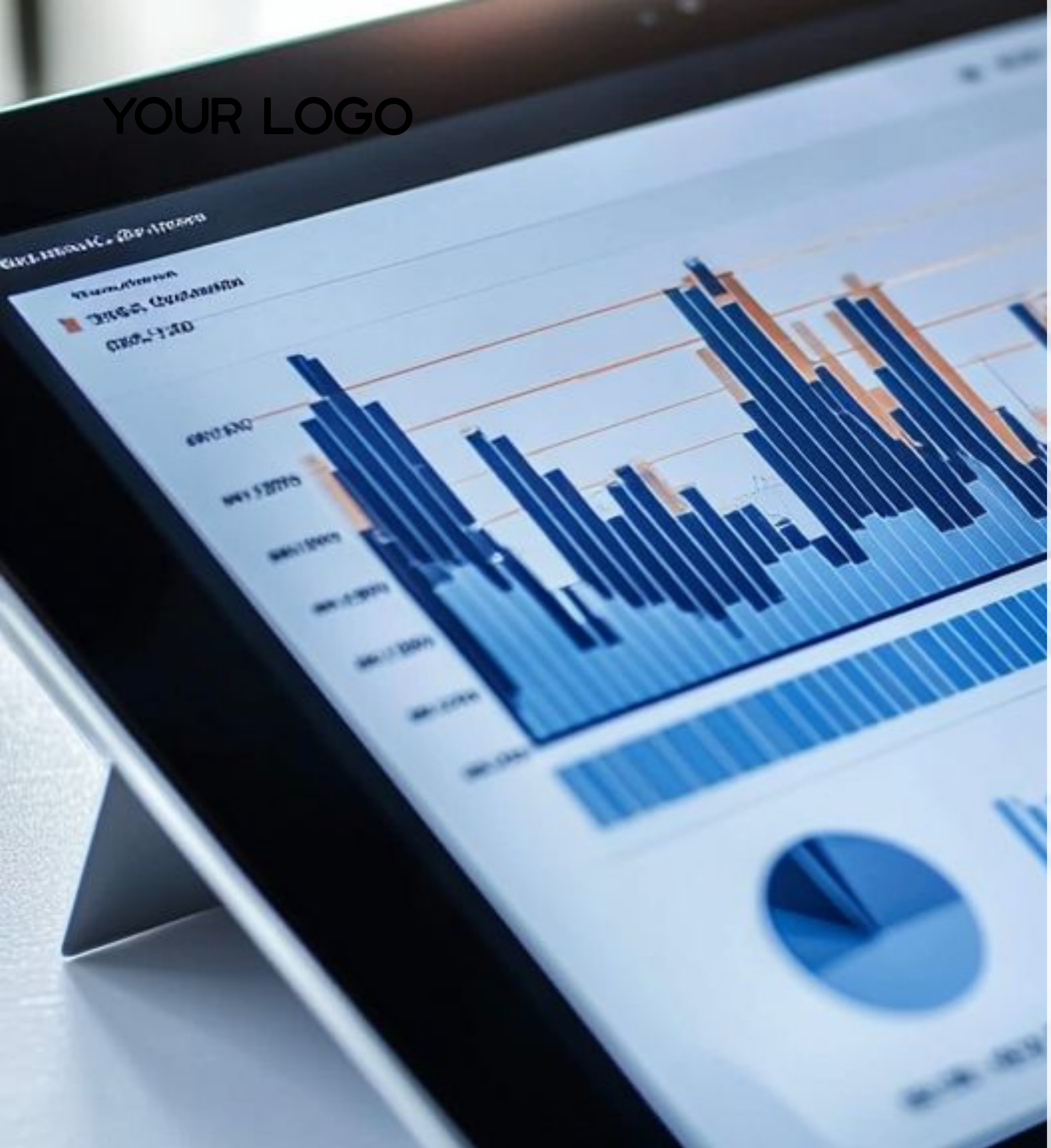

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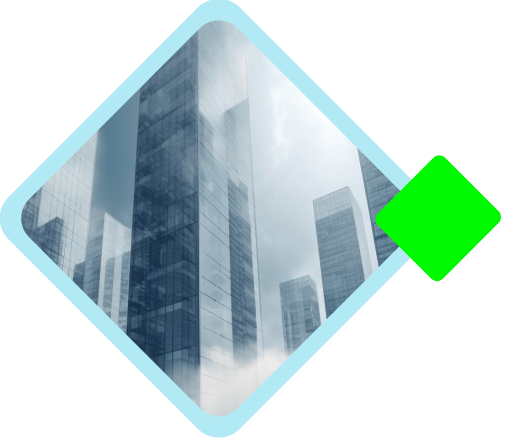
Performance Measurement and Evaluation

Evaluating Passive Portfolio Performance

Metrics for Assessment

To evaluate passive portfolio performance, several metrics are utilized, including total return, volatility, and the Sharpe ratio, which indicate risk-adjusted returns and overall effectiveness.



Benchmarking Against Market Indices

Benchmarking against market indices allows for a comparative analysis of passive portfolios, helping investors gauge performance relative to established standards and make informed investment decisions.

Limitations of Passive Management

Market Conditions Impact

Passive management might underperform in volatile or rapidly changing market conditions, as it does not react to market fluctuations or capitalize on short-term opportunities.

Diversification Constraints

While diversification in passive portfolios is essential, it may also limit exposure to high- performing assets or sectors, potentially leading to lower overall returns compared to actively managed portfolios.

Thanks

Prepared by D.Deepa