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94% of US Fund Managers underperform S&P 500 over 20 years

"The best way to own common stocks is through an index fund." - Warren Buffet (1996)

The latest Standard & Poors (SPIVA) 2021 indexing study, has once again exposed active fund managers – delivering a fresh blow for US stock pickers. Active fund managers continue to lose sizable market share against their index (passive) competitors. Over the past 10 years, 83% of fund managers fell short of their S&P 500 benchmark, with 94% failing over 20 years. Similarly, 91% and 94% did not match up to the S&P Midcap 400 or the S&P Small Cap 600 respectively - during this 20-year period (ending June 30, 2021).

These extremely poor results for traditional (active) fund managers, are repeated over the past 3, 5 and 10 years. Regardless of bull or bear markets, active fund manager underperformance continues.

Consequently, it is not surprising to see a growing number of active funds disappear. Over the past 15 years, almost 60% of all US domestic equity funds were merged or liquidated! Similarly almost 50% of global/international equity funds and 52% of all fixed income (bond) funds were merged or liquidated.

Globally the trend is getting worse for active fund managers. Projections in the US is for indexing to comprise as much as 60% of all mutual fund assets by 2025. Current US inflows into mutual funds, are dominated by index fund players.

Performance summary

Over the past 10 years, 83% of US large cap funds have failed to beat their benchmark. The numbers are equally unfavorable over both 3- and 5-year periods for all US Equity fund managers. Underperformance of the broader S&P 1500 reached 86% and 88% respectively, over 10- and 20-year periods.

% of US Equity Managers underperforming the Index (June 30, 2021)

	1 year	3 year	5 year	10 year	20 year
Large-cap (vs. S&P 500)	58.2%	67.6%	72.7%	82.5%	93.8%
Medium-cap (vs. S&P 400)	75.5%	49.4%	59.2%	73.1%	90.7%
Small-cap (vs. S&P 600)	78.0%	54.8%	66.7%	83.5%	93.8%
All US Equity (vs. S&P 1500)	43.8%	71.5%	71.6%	86.0%	87.8%

Source: Standard & Poors, Mid-Year 2021 SPIVA Scorecard

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While it sounds appealing to invest with the current star fund manager, active manager underperformance is proving incredibly costly to investors. It is simply no longer prudent as few global fund managers remain stars. Mostly they are bright comets that flame out, shortly after reaching their brightest moment.

Worth noting over periods of 3, 5, 10 and 15 years - the performance of active fund managers was amongst the worst in the very US equity class (small caps), they claim is most inefficient and should help traditional funds!

Those who list a few top-performing funds as evidence that indexing doesn't work - are doing investors a disservice. While each year a number of active mutual funds beat their global index benchmarks – fewer than ever before are consistently outperforming their benchmarks.

Finding such needles in a haystack - are not worth the risk of underperforming well known global index benchmarks. Mr. Buffett clearly agrees, advising his wife to invest the bulk of her assets in the S&P 500. The longer the horizon, the worse traditional fund managers tend to perform relative to their global benchmarks. The vast majority of global investors would clearly be safer investing in an index fund.

For global equity, in both developed and emerging markets over the past 20 years – only a small minority of US fund managers have beaten their global benchmark indices (see below). The evidence is quite clear that picking an active manager will most likely lead to significant index underperformance. Over 5, 10 and 20 years, the vast majority of US managers failed to beat their global benchmarks – with 72%, 83% and 87% respectively losing to the S&P Global 1200 Index.

% of Global Equity Managers underperforming the Index (June 30, 2021)

	1 year	3 year	5 year	10 year	20 year
Global (incl US) (vs. S&P Global 1200)	54.3%	64.3%	71.5%	83.1%	86.5%
Global (ex US) (vs. S&P 700)	64.0%	66.5%	75.6%	80.1%	90.6%
Global Small Cap (vs. S&P Developed Ex-US Small Cap)	57.1%	63.1%	65.8%	63.3%	86.2%
Emerging Markets (vs. S&P/IFCI Composite)	52.3%	63.0%	75.0%	76.2%	91.9%

Source: Standard & Poors, Mid-Year 2021 SPIVA Scorecard

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The weak performance amongst Fixed Income (Bond) fund managers is also worth noting. In various categories, including US government, High Yield and US Investment Grade areas - the percentage of bond funds outperformed by their benchmarks, regularly approaches 90% or higher.

Over the past 3-, 5-, 10- and 15-year periods – the vast majority of fund managers trailed their bond benchmarks by significant margins (table below). Over 3, 5 and 10 years, less than 10% of US managers - beat either the US Long Bond or Investment Grade benchmarks.

% of US Bond Managers underperforming the Index (June 30, 2021)

	1 year	3 year	5 year	10 year	15 year
US Govt Long Bonds (vs. Barclays Long Govt)	8.6%	96.0%	100.0%	97.3%	98.1%
US Inv Grade Long Bonds (vs. Barclays Govt/Credit Long)	8.3%	94.1%	90.3%	98.4%	97.1%
High Yield Funds (vs. Barclays US High Yield)	64.6%	86.6%	92.6%	95.2%	98.0%
Global Income Funds (vs Barclays Global Aggregate)	39.6%	53.4%	49.1%	59.4%	63.8%
Emerging Markets (vs. Barclays Emerging Markets)	8.5%	78.2%	78.7%	100.0%	94.7%

Source: Standard & Poors, Mid-Year 2021 SPIVA Scorecard

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The latest results are the clearest indictment yet of ongoing poor active fund performance over the past 20 years. Selecting active fund managers that consistently underperform their benchmark, is an expensive losing proposition.

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