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Active vs. Passive Investing

There's no denying it: making and keeping happy and healthy relationships is hard.

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Why It’s Not About You—It’s About the Market

Investing often feels like a personal identity. You'll hear people say with pride:

"I'm a passive investor. I buy and hold."

"I'm an active trader. I like to move fast."

But what if I told you that choosing between active and passive isn't about who you are—it's about what the market is doing?

Most investors don't realise it, but both active and passive strategies work about half the time—and fail the other half. That's why the real skill isn't picking one approach and sticking to it blindly, but learning when to switch gears.

Let's look deeper into this idea and explore how understanding market cycles can improve your long-term results.

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The Myth of Consistency

Many investors pick a label and wear it like a badge.

- Passive investors believe that buying and holding always wins.
- Active traders believe that constant action guarantees better returns.

The truth is more nuanced.

According to research by Dalbar, the average equity fund investor earned just 6.81% per year over the past 30 years, while the S&P 500 returned 10.65% annually. The main culprit wasn't fees or bad products—it was investor behaviour. Active investors jumped in and out at the wrong times, while passive investors held on during prolonged declines.

A famous Morningstar study showed that over a 10-year period, the typical investor underperformed their own funds by 1.7% annually, simply because they couldn't pick the right times to buy and sell.

This is why the "active vs. passive" debate is often the wrong question. Instead, you need to ask:

What is the market requiring me to do right now?

03

Markets Aren’t Static

Think of the market as a living organism with moods that constantly change.

When valuations are low—after a major sell-off or correction—the probability of the market going higher increases. In these conditions, patience is rewarded.

Consider the 2008 financial crisis:

- From the bottom in March 2009, the S&P 500 rose over **400% in 10 years**.
- Investors who remained passive during the downturn captured all of that upside.

But in other phases—when the market has surged to all-time highs—the probability of a meaningful pullback goes up.

Take 2022, for example:

- The Nasdaq fell **over 33%** in a single year after reaching record highs.
- Amazon dropped **over 50%**, while Meta lost more than **70%** of its value.

Investors who passively held these positions through the drawdown had to wait years to recover their capital. In these periods, an active approach—being willing to trim profits or rotate into more stable assets—can help protect gains.

04

When Should You Be Passive?

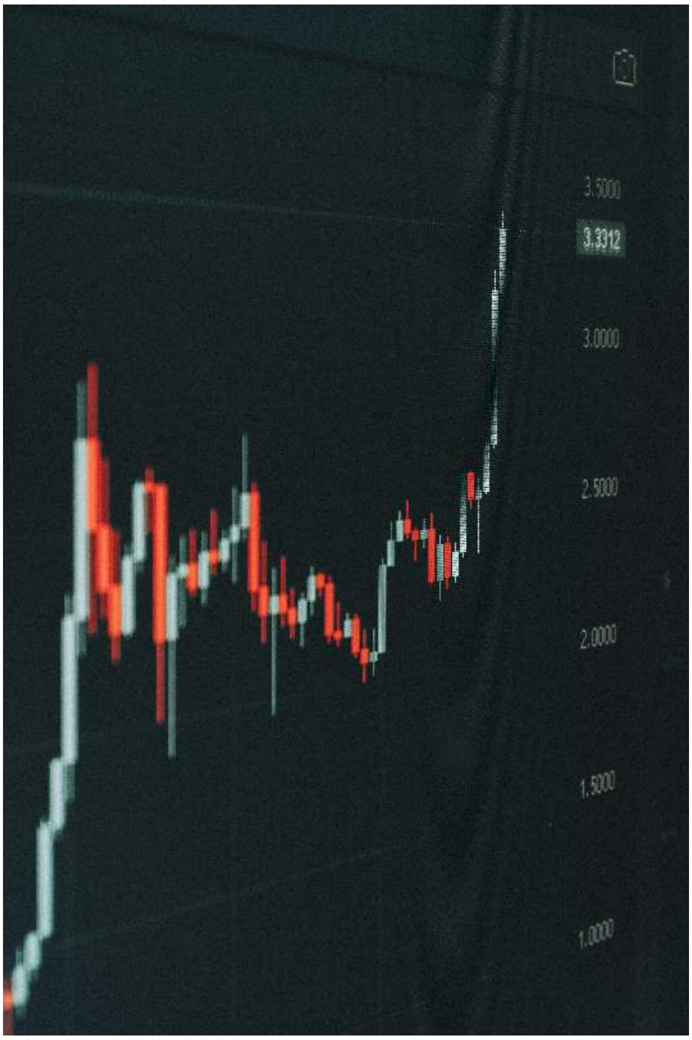
In simple terms: When prices are low, the odds favour upward movement.

Historically, buying during bear markets has been one of the most reliable ways to build wealth:

- A *Fidelity* study of every correction since 1926 found that the average one-year return after a 20% market drop was **22%**.
- After a decline of 40% or more, the following year returned an average of **57%**.

This is when you need to suppress fear and stay passive.

Buying and holding high-quality companies when pessimism is everywhere tends to deliver excellent long-term results.



05

When Should You Be Active?

Conversely, when valuations are stretched and markets are euphoric, the odds of a pullback increase.

Consider the Shiller CAPE Ratio—a popular measure of US market valuation:

- The historical average is around **16–17**.
- In 2021, it surpassed **38**, one of the most expensive levels in history.

Sure enough, the Nasdaq collapsed the following year.

In these moments, it often pays to:

- Tighten stop losses.
- Trim positions that have run too far.
- Take smaller, quicker profits.

This doesn't mean selling everything. But it does mean being more vigilant and prepared to act decisively.

06

A Simple Mental Model

If you only remember one idea from this report, let it be this:

Be passive in bear markets. Be active in bull markets.

When the market is low:

✅ Be patient.

✅ Hold your positions.

✅ Let the recovery lift your investments.

When the market is high:

✅ Be cautious.

✅ Take profits more quickly.

✅ Avoid overextending your exposure.

07

The Emotional Trap

One of the hardest parts of investing is managing your emotions.

When markets are falling, the instinct is to sell everything and "wait for things to settle." When markets are rising, the instinct is to keep buying more out of fear of missing out.

But often, the right strategy is the opposite:

- Be **passive when you feel fear**.
- Be **active when you feel greed**.

This is why most investors underperform even the index—because they do what feels safe instead of what works.

08

Real-World Example

Let me give you a real example of how this plays out.

I spoke to an investor who considered himself a passive, long-term holder. He had built up a portfolio of US growth stocks worth £400,000. Every year, I'd check in, and he'd say the same thing:

"I'm fine, I'm making good money, probably don't need any help."

Last year, in a market hitting all-time highs, he lost 25% of his portfolio—over £100,000—because he held through a correction in technology stocks while the broader market remained strong.

He was so shaken, he sold everything and moved into UK government bonds paying less than 4% interest.

This is the risk of sticking to one identity—passive or active—without considering what the market is telling you.

09

Bringing It All Together

Here’s what decades of experience have taught me:

- Passive investing works best when the market is undervalued.
- Active investing works best when valuations are stretched.
- No approach works all the time.

A flexible mindset—one that adapts to market conditions—is far more powerful than rigid labels.

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Next Steps: Learn More

If you're serious about improving your investing results, take a moment to reflect:

✅ Are you being active or passive because it suits your personality, or because it suits the market?
✅ Do you have a clear strategy for when to switch gears?
✅ Are you prepared to act differently when conditions change?

If you'd like to explore this topic further, I've put together a short video explaining how to spot when to be active and when to be passive. You'll also learn simple rules for applying this in your own portfolio.

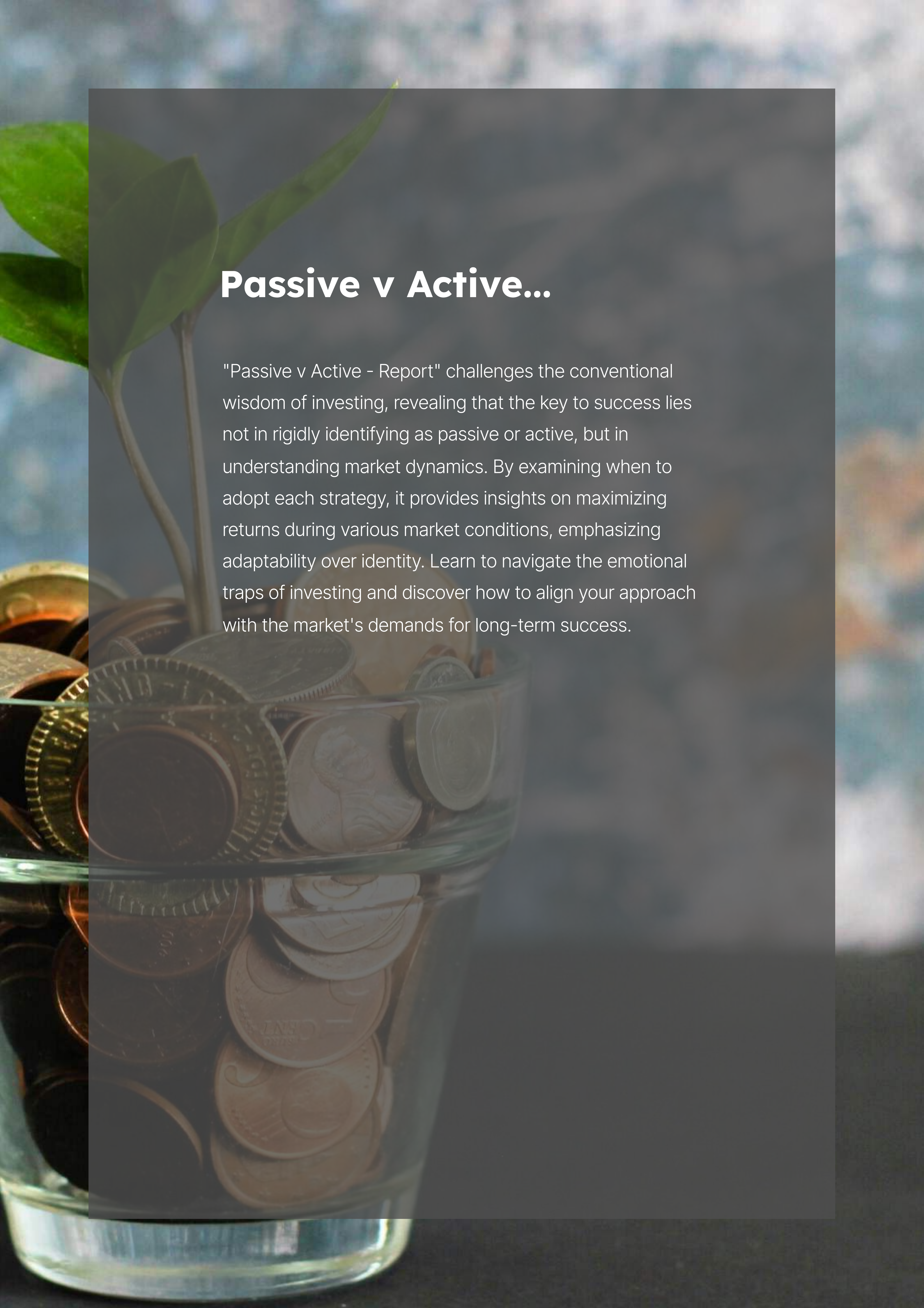
👉 Market Insider News

Alternatively, if you prefer a more personal conversation, I run a private Telegram group for serious investors with share portfolios of £250,000 or more.

If you'd like to join, simply send me a message with the word "Tortoise" to 07930 50 60 35, and I'll share the details.

Final Thought: The best investors aren't always the most active or the most passive. They are the most adaptable.

Be the investor who reads the market—and adjusts, calmly and confidently.



Passive v Active...

"Passive v Active - Report" challenges the conventional wisdom of investing, revealing that the key to success lies not in rigidly identifying as passive or active, but in understanding market dynamics. By examining when to adopt each strategy, it provides insights on maximizing returns during various market conditions, emphasizing adaptability over identity. Learn to navigate the emotional traps of investing and discover how to align your approach with the market's demands for long-term success.