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An evolution towards passive investing

In a video interview, Dan Lefkovitz of Morningstar explains the growing trend towards passive investing amid appetite around the world for rules-based, transparent and low-cost strategies.

A confluence of trends is leading to an increasing amount of asset flows around the world into passive investments.

More specifically, the combination of the focus on keeping investment costs low, the drive for more transparency and the shift from commission-based to fee-based advice, is creating this dynamic, explains Dan Lefkovitz, indexes strategist at Morningstar.

This is ultimately based on a desire for rules-based, transparent and low-cost strategies from investors across the board, he adds.

Appetite is increasing, therefore, across, ETFs, exchange-traded notes and more traditional index mutual funds.

PASSIVE EVOLUTION

A lot of different strategies are being brought onto the passive side of the fence from their more traditional active format, adds Lefkovitz.

For example, this might include buying high-quality stocks at a discount, he explains, or perhaps investing in dividend-paying stocks for income. This can all be implemented in a rules-based, passive fashion, he says.

TRENDS IN TRADITIONAL BETA PRODUCTS

On the traditional beta side, there has been consolidation among index providers – to leave a small group of firms that control a large chunk of the market.

For Morningstar, it believes the cost of benchmarking should be lower than it is today, and also more accessible.

As a result, the firm launched its Open Indexes Project in 2016 – to essentially make all its equity beta indices available for free for benchmarking purposes to asset managers, asset owners and intermediaries, explains Lefkovitz.

DAN LEFKOVITZ
Morningstar

This, he says, has been to try to bring down the cost of benchmarking, given that indexing remains fairly high cost overall. ■