Investing

Do passive funds take the worry out of investing?

Passive, or index, funds have been promoted as a simple, low-cost approach to investing. While they can help simplify and streamline the investing process, they are not risk free. As with any other type of investment, it's important for investors to familiarize themselves with all aspects of any passive fund they may be considering as an investment.

What they are

Passive funds are also referred to as index funds because they track the performance of a particular stock or bond index. (It isn't possible to invest in an index directly.) This means that the performance of a passive fund rises and falls in line with the ups and downs in price of the fund's underlying index. Generally, if the underlying index is in positive territory for the quarter or the year, then the passive fund will also be up for the quarter or the year -- and if the index declines, the passive fund will lose value as well.

Advantages and disadvantages

Advantages of passive funds	Potential disadvantages
▪ **Lower costs.** A passive fund's costs are generally lower than those of an active fund since investments are chosen using an automatic formula that doesn't require active management. A passive fund also does not make frequent changes to its investment lineup, which helps keep transaction costs low. ▪ **Simplified investing.** Passive funds give investors access to a basket of securities in one simple step. For example, buying shares of a passive fund that tracks the S&P 500 Index gives investors exposure to 500 large businesses across numerous industries.	▪ **Limited flexibility.** A passive fund's portfolio mirrors the securities in the underlying index. The fund follows the same index no matter what occurs in the broader securities markets or economy. A passive fund's investment managers cannot capitalize on observable opportunities in a growing market or cut losses in a declining market. ▪ **Small cash position.** Actively managed funds generally hold some cash in their portfolios so that managers can take advantage of market opportunities. A cash position also helps steady returns during periods of market turmoil. Passive funds, on the other hand, hold very little cash.

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No matter the approach, most investors look to create a diversified portfolio that is line with their tolerance for risk, time frame and specific investment goals. A financial professional can be a great help in guiding investors toward achieving their investment and financial goals.

If you have questions about your workplace retirement plan, please contact your Human Resources department or your retirement plan provider's customer service center.

You should consider a fund's investment objectives, charges, expenses, and risks carefully before you invest. The fund's prospectus, which can be obtained from your financial representative, contains this and other information about the fund. Read the prospectus carefully before you invest or send money. Shares, when redeemed, may be worth more or less than their original cost.

Diversification does not ensure a profit or protect against loss in a declining market.

This content is for general informational and educational purposes only and should not be relied upon as the only source of information. It is not intended to represent advice or a recommendation of any kind, as it does not consider the specific investment objectives, financial situation and/or particular needs of any participant.

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