AN ACTIVE DIALOG

News headlines and industry statistics continue to highlight investors' ongoing enthusiasm for investing in passive investment vehicles (index mutual funds and exchange traded funds which mirror the holdings and performance of a particular market index or segment) over actively managed portfolios of individually selected securities. And no wonder; 'owning the market' has been a pretty attractive investment strategy during this ten-year plus bull market.

In addition, the lower cost fee structure attached to index funds and exchange traded funds ("ETFs") has fueled a new mindset and approach to the business of investing. The major brokerage companies and banks, with tens of thousands of advisors to oversee, have widely, and in some cases exclusively, adopted fund investing models in order to more efficiently manage their clients' investment portfolios. Given this persistent dynamic, **is there still a role for active stock selection in investors' portfolios today?**

ACTIVELY UNLOCKING RETURNS

Active portfolio managers take an opportunistic approach to investing, buying and selling securities in response to changing market conditions and company prospects. Unlike passive investing, **active managers have the flexibility to evaluate multiple opportunities, seeking the best investment prospects for generating better than average returns, minimizing losses and reflecting the tax and other considerations important to clients' investment and wealth management objectives.**

THE "I" IN ACTIVE

Employing active investment strategies allows advisors to dynamically manage client assets within an investment plan that integrates specific allocations to individual stocks and bonds (and may also include index funds/ETFs) to meet that client's objectives**. This opportunistic approach is more investor-centric and in step with the fiduciary mandate of a wealth advisor**: to help clients achieve their long-term financial goals and desires while helping to minimize the impact of severe market disruptions along the way.

PASSIVE: NOT ALWAYS A PORTFOLIO PANACEA

While index funds and ETFs are popular and have performed well with the bull market, allocating to passive investment vehicles alone carries risk. By definition, a passive investment is a basket of all securities in a given index. Like the index, the passive fund's stocks are market cap weighted; the larger a stock's market cap, the greater its impact (positive or negative) on performance, and vice versa. And as a stock outperforms, its proportional weight in the index/fund grows, whether the stock's price moves are rational or not. Unlike active investment strategies, passive strategies can't trim or sell a position or sector that may have become over-valued and be at risk for a correction.

Passive investing is not opportunistic investing; you are forced to keep investing in every underlying security in the index. As a result, you get 100% of the index's upside, but also 100% of its downside performance. You lose

the opportunity to directly invest in sectors/individual securities where there may be opportunities for growth. **Active management offers the potential to both beat the market over time and provide capital protection during market drops.**

Given that there are thousands of indices and certain stocks are in multiple indices (Apple or Amazon, for example), there can also be security overlap among passive investments. This means **portfolios invested in multiple passive investments may have a replication of holdings among the underlying indices, which can fail to deliver appropriate diversification.**

ACTIVELY TAKING YOUR NEEDS INTO YOUR ACCOUNT

As fiduciaries, wealth advisors must always take into consideration their clients' individual needs—needs that begin with a formal financial and investment plan. At Princeton Portfolio Strategies we take a holistic view of managing our clients' wealth and actively engage each client in the development and implementation of their wealth management plan.

Clients come to us with unique experiences, needs, and investment objectives, and we believe no singular modeled approach works for everyone. Through the planning stage of getting to know our clients, we create individualized plans that prudently diversify assets and achieve our clients' desired investment and wealth management goals. Our work considers each client's risk appetite, time horizons, individual tax considerations, estate planning objectives, and philanthropic interests, and we determine the best investment management tools to most efficiently meet his or her needs, both active and passive. **An investor should settle for nothing less than active duty when it comes to the stewardship of their assets.**

IN SUMMARY

The question isn't active versus passive investing, but when and how passive funds might supplement an actively managed investment program. Passive investments provide exposure to markets/segments efficiently and with a very low cost. They certainly may have a place in a portfolio. A good example would be an index fund or ETF focused on a specific geographical area, such as emerging markets, where the logistics of conducting company research is prohibitive.

Overall, active strategies (individual securities and possibly the addition of passive funds) can more effectively balance market and security opportunities and risks with a client's specific needs and objectives.

Please let us know if you have questions or comments about active or passive investing, or would like more information about financial planning or any other aspect of our wealth management services.

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