MARKET MOVER

PASSIVE GETS AGGRESSIVE

CHRIS TURNBULL, PORTFOLIO MANAGER, THE INDEX HOUSE, ON WHY INVESTORS SHOULD FOCUS ON JUST MEETING—NOT BEATING—THE MARKET

Chris Turnbull was once a wide-eyed stock picker. Things didn't work out quite as he'd hoped. Like many investment professionals, Turnbull had trouble beating the benchmark over the 18 years he spent working as a portfolio manager at RBC Dominion Securities. He was underperforming, taking on too much risk and, ultimately, not adding much value. "I felt like I was letting clients down," he says. "It was an unsatisfying place to be."

In the midst of this period, Turnbull heard about Toronto Index Participation Shares, the first exchange-traded fund (ETF) to come to market. He pitched the idea of owning this benchmark-tracking product, but he didn't get many takers. Why pay a broker for advice, just to get average returns?

After years of frustration, Turnbull finally turned his back on stock picking in 2012. He opened The Index House, a private investment firm based in Edmonton that allocates clients' money into passive products such as index-tracking ETFs. In 2013, he published *Your Portfolio Is Broken*, an indictment of the investment management industry and a prescription for escaping its clutches, using passive strategies.

The traditional industry is a "product and prediction" business, he argues; firms need to sell product, and stock picking is mostly guesswork. People have been conditioned to try to beat the benchmark, but doing that (if it can be done–there's a lot of evidence to suggest it can't) involves taking on too much risk. Portfolios end up becoming a "grab bag" of stocks, rather than a diversified basket of assets, he says. "These portfolios rarely capture the full return of the market, and they chronically underperform."

Turnbull doesn't promise his clients will get anything but market returns. Modern portfolio theory doesn't make any demands to outperform, he explains. However, you shouldn't underperform either.

He puts most of his clients in only five ETFs–Canadian, U.S. and international equity, a fixed income fund and a real estate fund. The main difference between one person's portfolio and another's is asset allocation. Those who can stomach more risk have more money assigned to equities. Other than real estate, which has higher yields and can act as a diversifier, Turnbull won't hold any sector or alternative-asset ETFs.

Index-tracking products have taken off over the past few years, especially in the United States, where the broad S&P 500 index has risen more than 200% since the market bottom in 2009, aided by the U.S. Federal Reserve's monetary stimulus. All an investor had to do was own an index fund to get attractive returns.

However, that same index actually lost money over the 10 years preceding that date. Now that the Fed has quit its quantitative easing, many argue that active investing will once again become the only way to grow your savings. Turnbull rejects that line of thinking. "There's an idea that stock picking can be the right approach at times, but it's still making predictions," he says. "If you can't predict the future, then it doesn't make any more sense at any given point in time."

Exchange-traded funds and the advisers that use them have a long way to go to match mutual funds' assets under management. But that's fine with Turnbull. He's in a much happier place than he was when he was picking stocks. "My job is rewarding and enjoyable," he says. "I love the message I'm sending."

–BRYAN BORZYKOWSKI

THE INDEX HOUSE