TDC
INVESTMENT ADVISORY

COMPARING THE DIFFERENT INVESTMENT APPROACHES

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	ACTIVE	INDEX	EVIDENCE-BASED INVESTING
ASSET CLASS DESIGN The goal is for the best representation of every asset class to be present for a fully diversified portfolio	• Relies on forecasting, security selection, and market timing while attempting to identify mispricing in securities • Style drift within asset class is common	• Attempts to closely track a commercial index or benchmark • Asset class overlap is common • Style drift can occur as securities change	• Uses academic research to structure portfolios around dimensions of expected returns • Fully able to represent an asset class without worry of drift or overlap
REBALANCE Assuming asset allocation drives returns, we want precise asset class exposure throughout the year	• Occurs whenever the manager thinks the timing is right • Choosing and timing can lead to poor diversification and higher risk	• Only rebalanced on the reconstitution date(s) • Sells the same securities at the same time as all other funds tracking the index leads to price spikes	• Dynamically rebalanced via daily cash flows and patient buy and sell ranges for securities that fit the asset class dimension
TRADING	• Managers, analysts, research subscriptions, 12b-1 fees, and mix of securities might lead to high expenses • Inconsistency and frequency of trading can lead to high turnover and taxes	• Price is the competitive advantage for index investing. Low turnover and trading helps keeps costs down • Advantage can be offset by urgency of reconstitution cost • Securities lending is inconsistent	• Institutional pricing, patient trading, and aggressive securities lending keep costs low
AVERAGE EXPENSE RATIO	• Industry average is 1.1%* According to Morningstar, a 60% global stock and 40% bond fund portfolio has an average combined expense ratio of 1.1% per year.	• Industry average is .20%* According to Morningstar, a 60% global stock and 40% bond fund portfolio has an average combined expense ratio of 0.2% per year.	• TDC average is .28%* Actual average of expense ratios multiplied by the weighting of each fund in TDC's 60/40 taxable portfolio as of 6.30.2016.

*Source: Forbes article "The Heavy Toll of Investment Fees," May 2013 and Morningstar