

# AI-03143 Passive vs Active Investment

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<https://finance.yahoo.com/news/outperform-around-90-professional-fund-180000875.html>

Passive investing in an S&P 500 index fund has outperformed about 90% of professional fund managers over the past 20 years.

The article from Yahoo Finance highlights a compelling insight from S&P Global's SPIVA report: only 9% of actively managed large-cap funds beat the S&P 500 over two decades. This underperformance is largely attributed to high turnover rates—averaging 73% annually—which suggests frequent trading correlates with weaker long-term returns [yahoo.com](https://finance.yahoo.com).

## 🔍 Key Takeaways

- Passive beats active: Roughly 91% of professional large-cap funds underperformed the S&P 500 index over 20 years [yahoo.com](https://finance.yahoo.com).
  - High turnover hurts returns: Funds traded about 73% of their assets annually, which often led to diminished performance [yahoo.com](https://finance.yahoo.com).
  - Simple strategy wins: Buy-and-hold investing—the opposite of frequent trading—has proven more effective for long-term gains.
  - Examples of success: Stocks like Palantir, AppLovin, and Carvana surged over 2,000% in three years, rewarding those who held through volatility [yahoo.com](https://finance.yahoo.com).
  - Timing is tough: Even professionals struggle to buy low and sell high consistently, reinforcing the value of long-term holding.

This reinforces a timeless principle: doing less can yield more. For most investors, sticking with a low-cost index fund and resisting the urge to trade frequently may be the most reliable path to outperforming the pros.

I can break down the SPIVA methodology or compare index fund options like VOO vs. SPY if you'd like.

SPIVA uses rigorous benchmarking to compare active fund performance against passive indices, while VOO and SPY are nearly identical S&P 500 ETFs—with VOO offering lower costs and SPY providing higher liquidity.

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### SPIVA Methodology Breakdown

SPIVA stands for S&P Indices Versus Active. It's a semiannual scorecard published by S&P Dow Jones Indices that evaluates how actively managed funds perform relative to their benchmark indices.

#### Key Methodological Features

- **Benchmark Matching:** Each fund is compared to a relevant S&P index (e.g., S&P 500 for large-cap U.S. funds).
  - **Survivorship Bias Correction:** Includes both existing and defunct funds to avoid skewing results.
  - **Style Consistency:** Funds are tracked based on their declared style (e.g., growth, value) to ensure fair comparisons.
  - **Asset Class Coverage:** Covers equities, fixed income, and international markets across multiple time horizons.
  - **Time Horizon Analysis:** Reports performance over 1-, 3-, 5-, 10-, and 20-year periods to highlight long-term trends.

The result? A transparent, data-driven comparison showing that most active managers underperform their benchmarks over time Kernel We... +2.

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### VOO vs. SPY: S&P 500 ETF Comparison

| Feature        | VOO (Vanguard)                | SPY (State Street)           |
|----------------|-------------------------------|------------------------------|
| Expense Ratio  | 0.03% (lower cost)            | 0.09% (higher cost)          |
| Liquidity      | Lower volume, tighter spreads | Highest volume, ultra-liquid |
| Dividend Yield | ~1.14%                        | ~1.08%                       |

Launch Date    Sept 2010      Jan 1993  
Structure      Traditional ETF      Unit Investment Trust (UIT)  
AUM (Assets) ~\$794B    ~\$700B  
Tracking Index    S&P 500    S&P 500

### Decision Matrix

- Choose VOO if you prioritize lower fees and long-term compounding.
  - Choose SPY if you need high liquidity for frequent trading or large orders.

Both funds offer nearly identical performance, but VOO's lower expense ratio gives it a slight edge for long-term investors [etf.com](http://etf.com) +4.

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I can help you build a YAML-based ETF selector protocol or benchmark SPIVA results against your DockerLab investment thesis.

Extract 22 lessons or investing principles from the article

Here are the 22 SPIVA-inspired investing lessons, stripped down for clarity:

1. Passive investing wins long-term
2. High turnover hurts performance
3. Buy-and-hold works
4. Time in the market beats timing the market
5. Simplicity outperforms complexity
6. Costs matter
7. Volatility is not the enemy
8. Avoid emotional trading
9. Let winners run
10. Diversification is powerful
11. Don't chase performance
12. Stick to your plan
13. Ignore market noise
14. Compounding takes time

15. Benchmark yourself realistically
16. Avoid overtrading
17. Understand what you own
18. Don't try to outsmart the market
19. Focus on fundamentals
20. Be patient
21. Use data, not hype
22. Investing is a marathon

Let me know if you'd like these formatted into a checklist, YAML block, or embedded into your archive.

Here are 22 investing principles distilled from the Yahoo Finance article on why passive investing outperforms most professional fund managers:

#### Investing Lessons from the SPIVA Report

1. Passive investing wins long-term: Over 20 years, 91% of active large-cap funds underperformed the S&P 500.
2. High turnover hurts performance: Funds with frequent trades (73% turnover) tend to lag behind.
3. Buy-and-hold works: Holding quality assets through volatility often yields better returns than frequent trading.
4. Time in the market beats timing the market: Trying to buy low and sell high consistently is extremely difficult—even for professionals.
5. Simplicity outperforms complexity: A straightforward index fund strategy often beats elaborate active strategies.
6. Costs matter: Active funds typically have higher fees, which erode returns over time.
7. Volatility is not the enemy: Investors who held volatile stocks like Carvana or Palantir saw massive gains.

8. Avoid emotional trading: Reacting to short-term market moves often leads to poor decisions.
9. Let winners run: Selling early can cap gains—big winners often take time to mature.
10. Diversification is powerful: Index funds offer broad exposure, reducing single-stock risk.
11. Don't chase performance: Past winners don't guarantee future success; chasing trends can backfire.
12. Stick to your plan: Discipline and consistency beat impulsive strategy changes.
13. Ignore market noise: Headlines and short-term news rarely impact long-term outcomes.
14. Compounding takes time: Long-term investing allows compounding to work its magic.
15. Benchmark yourself realistically: Comparing to the S&P 500 is a fair and useful yardstick.
16. Avoid overtrading: Excessive buying and selling increases costs and taxes.
17. Understand what you own: Index funds are transparent; active funds may not be.
18. Don't try to outsmart the market: Even experts struggle to beat it consistently.
19. Focus on fundamentals: Long-term value creation comes from strong business fundamentals.
20. Be patient: Great returns often come after long periods of stagnation or decline.
21. Use data, not hype: SPIVA reports offer objective evidence of performance.
22. Investing is a marathon: Success comes from endurance, not sprinting for quick wins.

These principles reinforce the power of disciplined, low-cost, long-term investing—especially through index funds.

I can help you build a decision matrix comparing passive vs. active strategies for your archive.

From the 22, list top 5 that can make investment so profitable

Here are the top 5 investing principles from the article that most directly drive long-term profitability:

### 💰 Top 5 Profit-Driving Investment Principles

- 1. Buy-and-hold works**  
Holding quality assets through market cycles allows compounding and long-term growth to unfold—without being derailed by short-term volatility.
- 2. Time in the market beats timing the market**  
Missing just a few of the best-performing days can drastically reduce returns. Staying invested ensures you capture the full upside.
- 3. Costs matter**  
Low-cost index funds avoid the drag of high management fees and trading costs, which compound negatively over time.
- 4. Let winners run**  
Selling too early caps potential gains. Many of the most profitable stocks (e.g., Carvana, Palantir) delivered exponential returns only after years of holding.
- 5. Avoid overtrading**  
High turnover not only increases costs and taxes but also reflects a lack of conviction. Fewer, better decisions often outperform frequent trades.

These principles compound both mathematically and behaviorally—minimizing friction while maximizing exposure to long-term growth.

I can map these into a reproducible investment protocol or decision matrix if you'd like to integrate them into your archive.

Here's a structured decision matrix mapping the top 5 profit-driving investment principles into a reproducible protocol. This format supports your archive's emphasis on clarity, rigor, and long-term utility.

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### 🧭 Investment Profitability Protocol: Decision Matrix

| Principle | Description | Actionable Protocol | Risk Mitigation Strategy |
|-----------|-------------|---------------------|--------------------------|
|-----------|-------------|---------------------|--------------------------|

1. Buy-and-Hold Works Long-term holding allows compounding and reduces timing risk. - Select diversified, high-quality index funds (e.g., S&P 500, VTI).- Define a minimum 5–10 year horizon. - Use auto-investing to reduce behavioral bias.- Avoid checking daily prices.
2. Time in the Market > Timing Staying invested captures rare, high-return days. - Maintain full market exposure via low-cost ETFs.- Reinvest dividends automatically. - Ignore market forecasts.- Use calendar-based reviews (e.g., quarterly).
3. Costs Matter Fees compound negatively over time. - Choose funds with <0.10% expense ratios.- Avoid front-load or actively managed funds. - Use fee comparison tools (e.g., Morningstar, [ETF.com](https://www.etf.com)).
4. Let Winners Run Big gains often come after long plateaus or volatility. - Set trailing stop-loss only for risk management, not profit-taking.- Avoid arbitrary sell targets. - Review fundamentals annually, not price alone.
5. Avoid Overtrading Frequent trades increase costs and tax drag. - Limit portfolio changes to 1–2 times/year.- Use IPS (Investment Policy Statement) to guide decisions. - Log every trade with rationale to enforce discipline.

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This matrix can be embedded into your investment protocol archive or Notion dashboard as a reproducible decision layer. Each row can be expanded into a vignette or checklist if desired.

I can also help you build a YAML or Markdown version for direct inclusion in your DockerLab or archive.

From the 22 key points, create an investment strategy manifesto that can fit in an index card

Here's a concise, index-card-sized Investment Strategy Manifesto, distilled from the 22 SPIVA-inspired principles:

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### Investment Strategy Manifesto

(Index Card Edition)

- Stay invested. Time > timing.
  - Buy and hold quality assets.
  - Keep costs ultra-low.

- Let winners run.
- Avoid overtrading.
- Diversify broadly.
- Ignore noise.
- Stick to your plan.
- Be patient. Compound relentlessly.
- Use data, not hype.
- Simplicity wins.
- Understand what you own.

 Long-term. Low-cost. Unshakable discipline.

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Would you like a YAML or Markdown version for your archive or dashboard?

Here's your Investment Strategy Manifesto in both YAML and Markdown formats—ready for archiving, dashboard embedding, or protocol layering.

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#### YAML Format

```
investment_manifesto:  
title: "Investment Strategy Manifesto"  
format: "Index Card Edition"  
principles:  
- Stay invested. Time > timing.  
- Buy and hold quality assets.  
- Keep costs ultra-low.  
- Let winners run.  
- Avoid overtrading.  
- Diversify broadly.  
- Ignore noise.  
- Stick to your plan.  
- Be patient. Compound relentlessly.  
- Use data, not hype.  
- Simplicity wins.  
- Understand what you own.  
summary: "Long-term. Low-cost. Unshakable discipline."
```

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#### Markdown Format

# Investment Strategy Manifesto

## Index Card Edition

- Stay invested. Time > timing.
- Buy and hold quality assets.
- Keep costs ultra-low.
- Let winners run.
- Avoid overtrading.
- Diversify broadly.
- Ignore noise.
- Stick to your plan.
- Be patient. Compound relentlessly.
- Use data, not hype.
- Simplicity wins.
- Understand what you own.

## **Long-term. Low-cost. Unshakable discipline.**

Let me know if you'd like this embedded into a DockerLab config, Notion card, or printable archive sheet.

```
investment_manifesto:  
  title: "Investment Strategy Manifesto"  
  format: "Index Card Edition"  
  principles:  
    - Stay invested. Time > timing.  
    - Buy and hold quality assets.  
    - Keep costs ultra-low.  
    - Let winners run.  
    - Avoid overtrading.  
    - Diversify broadly.  
    - Ignore noise.
```

- Stick to your plan.
- Be patient. Compound relentlessly.
- Use data, not hype.
- Simplicity wins.
- Understand what you own.

summary: "Long-term. Low-cost. Unshakable discipline."

Now that it's determined that passive investing yields better than active investing, turn up a notch of which passive index investing is better, VOO vs VGT using YTD, 1Y, 3Y, 5Y and since inception. Unpack the underlying allocation of each ETF and explain why the VGT ETF is a better horse?

VGT has outperformed VOO across all major timeframes—YTD, 1Y, 3Y, 5Y, and since inception—due to its concentrated exposure to high-growth tech giants. Its sector allocation is nearly 100% technology, making it a more aggressive but historically more profitable passive index choice.

### Performance Comparison: VGT vs VOO

| Timeframe       | VGT (Tech ETF)        | VOO (S&P 500 ETF) |
|-----------------|-----------------------|-------------------|
| YTD (2025)      | +28.77% FinanceCh...  | +1                |
| 1 Year          | +36.86% FinanceCh...  | +1                |
| 3 Years         | +84.45% FinanceCh...  | +1                |
| 5 Years         | +122.38% FinanceCh... | +1                |
| Since Inception | +661.28% Stock Ana... | +1                |

VGT has delivered more than double the total return of VOO since inception.

### Sector Allocation & Holdings

VOO – Vanguard S&P 500 ETF

- Sector Spread: Broad diversification across 11 sectors
  - Technology: 35.69%
  - Financials: 13.04%
  - Healthcare: 8.88%
  - Consumer Cyclical: 10.69%
- Top Holdings:
  - NVIDIA (7.95%)
  - Microsoft (6.72%)

- Apple (6.60%)
- Amazon, Meta, Alphabet

#### VGT – Vanguard Information Technology ETF

- Sector Focus: 99.16% Technology Stock Analysis
  - Top Holdings:
    - NVIDIA (17.17%) Stock Analysis
    - Apple (13.36%)
    - Microsoft (13.10%)
    - Broadcom, Oracle, Palantir, AMD

VGT is highly concentrated in tech, with over 57% in its top 10 holdings Stock Analysis.

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#### Why VGT Is the Better Horse

- Higher Growth Exposure: VGT captures the exponential growth of AI, cloud, semiconductors, and software.
    - Performance Dominance: It has consistently outpaced VOO across all timeframes.
    - Innovation Leverage: VGT rides the wave of transformative tech trends, while VOO dilutes exposure with slower-growth sectors.
    - Passive, Yet Focused: VGT is passive in structure but aggressive in sector targeting—ideal for long-term growth investors.
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If your investment thesis favors high-growth, innovation-driven compounding, VGT is the superior passive vehicle. I can help you build a risk-adjusted allocation protocol or benchmark VGT against other thematic ETFs.

Sources: FinanceCh... +5