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Active vs. Passive Management: New Evidence from Exchange Traded Funds

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Abstract

This paper expands the debate about "active vs. passive" management using data from active and passive ETFs listed in the U.S. market. The results reveal that the active ETFs underperform both the corresponding passive ETFs and the market indexes. With respect to risk-adjusted returns, both active and passive ETFs provide investors with no positive excess returns, an expectable finding for the passive ETFs but not for the active ETFs which are aimed at beating the market. Going further, the underperformance of active ETFs is depicted to the low performance rates such as the Sharpe or the Treynor ratios they receive relative to the passive ETFs and the indexes. Furthermore, regression analysis on the selectivity and market timing skills of ETF managers indicate that the managers of both the active and passive ETFs are lacking in such skills. However, the passive managers are not expected to have such skills. Finally, tracking error estimates indicate that the discrepancy between ETF and index returns is greater for active ETFs. However, this result is to be expected as the active ETFs do not target to replicate the performance of the indexes.

Keywords: Active ETFs, Performance, Managers, Selection Skills, Market Timing**JEL Classification:** G12, G15[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID1337708_code628432.pdf?abstractid=1337708&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1337708_code628432.pdf?abstractid=1337708&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN_ID1337708_code628432.pdf?abstractid=1337708&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1337708_code628432.pdf?abstractid=1337708&mirid=1&type=2)

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