Don't make it either/or
By Chuck Carlson

In August, I will celebrate my 35th anniversary with *Dow Theory Forecasts*. In those years, I've seen many changes in how individual investors interact with the stock market.

For example, when I started in 1982, online trading didn't exist. The commission on a single stock trade could run several hundred dollars. And investment choices were pretty much limited to individual stocks and these things called mutual funds, which were just starting to gain a foothold with individual investors.

Today, in the blink of an eye, any investor can buy stocks via the internet and pay next to nothing in trading fees. Investment options range from individual stocks and open-end mutual funds to exchange-traded funds and alternative investments such as commodities, partnerships, real estate, hedge funds, and private equity.

In short, individual investors have never had so many choices. And that's a good thing. That's why I get mad whenever I see the investment process framed as an either/or decision:

"Either you invest in individual stocks or funds."

"Either you're a growth investor or a value investor."

And the either/or I hear most frequently these days: "Either you're a passive or an active investor."

The problem with all three of the above decisions is their exclusionary nature. The *Forecasts* has spent a lot of its resources over the years being inclusive when it comes to investments, widening the investment opportunity set for readers. Our Quadrix® stock-rating system hinges on the idea that the perfect stock has it all, scoring well in growth *and* value *and* operating momentum *and* financial strength *and* share-price performance. Likewise, the *Forecasts* also provides regular coverage of mutual funds, because owning both stocks and funds in a well-constructed portfolio can enhance diversification and boost returns.

Of the three either/or decisions, the active-passive argument grinds me the most. Again, my beef involves the premise, not the choices. Passive investing, usually a euphemism for index investing, certainly has its merits. Low costs. Tax friendliness. Competitive returns. The *Forecasts* acknowledges the power of passive investing in its recommended fund portfolios, which feature several index funds.

Owning passive investments is a good thing. But owning *only* passive investments may not be the best solution for every investor. After all, passive investing is a strategy, and just as investors should diversify portfolios across and within asset classes, it also makes sense to diversify across strategies.

Active investing, when done properly and combined strategically with passive investments, can boost portfolio returns while reducing risk. In fact, active investors, those who pick individual stocks or invest in actively managed mutual funds, can apply the positive attributes of passive investing (low costs, tax friendliness, etc.) in a way that enhances returns.

And don't leave out of the conversation the fact that active investing offers a certain utility to those who enjoy the investment process. Active investing is challenging and intellectually stimulating and *fun*. Some people will tell you that fun has no role in the investment process. I will tell you those people are wrong.

For all of these reasons, I own individual stocks as well as funds, including index funds, in my portfolio. That decision to be inclusive has worked well for me, and it should for you, too.

So the next time someone presents you with a false investment premise based on a binary choice, reframe the question. It's not whether you do one or the other, but how you maximize the choices available to you.

And of course, the *Forecasts* is here to help you with those choices.