

**By Dr. Mike Walden, North Carolina Cooperative Extension:** Like many, I mourned the recent loss of Muhammad Ali. I watched Ali rise through the ranks of boxing's heavyweight division and admired his skill and tenacity. Of course, I was also sad to see him in pain in the latter years of his life.

Boxing is popular to some, in part, because it is a one-on-one competition where it's easy to determine who is responsible for the win and the loss. It's also a sport that has sparked many "what if" comparisons between fighters of different eras. I fondly remember my late father debating who would have won a mythical match between Joe Louis vs. Muhammad Ali, or Rocky Marciano against Mike Tyson!

There's been the equivalent of a heavyweight boxing match going on for decades in the investment world. It's the battle about the best approach to investing. In one corner is the strategy called "active management". In the other corner is the opponent "passive management". The two approaches have been engaged in a boxing match for at least fifty years, and both sides have always answered the bell for another round.

Active management is based on the notion that trends can be perceived in both the economy and investment markets that allow buying and selling of specific investments paying superior investment earnings. Expanding on an old Kenny Rogers song, active managers "know when to buy them, know when to hold them, and know when to fold (sell) them"!

People adhering to the passive management approach believe just the opposite. Passive managers think the economy is too complex for anyone to consistently know where it's going and what businesses and investments will benefit. Furthermore, passive managers say trends and forecasts that are generally known will automatically be incorporated into the current prices of investments.

So, to be a successful active manager, you have to see things others don't in the economy and investment world. Obviously, supporters of active management say this is possible; advocates of passive management say it isn't!

The boxing match between active and passive management approaches translates to some distinct differences in the way investing is undertaken. As the name implies, buying investments that are thought to provide superior returns and selling those that have had their run are the essential ingredients of active management. This implies frequent trading of investments and means two kinds of costs – fees for the manager directing the buying and selling and potential fees for each transaction. In contrast, passive investment management is implemented with a diversified buy-and-hold strategy. This means buying a collection of each of the major kinds of investments, such as stocks, bonds, precious metals, real estate and money market funds, and holding them throughout the ups and downs of the economy. Only two adjustments are made. First is periodically moving money among the investments to maintain the desired percentage in each category. Second is adjusting the percentages at different stages of an investor's life (young, middle age, old), usually to increase safety with age.

As you might expect, the academic journals are filled with studies evaluating which investment approach – active or passive management – is best. I even contributed to this debate last year. The essential question becomes: do the higher fees paid to active managers pay for themselves with better investment earnings?

In answering this question, there are a number of factors to consider. In measuring fees, all fees related to the investment should be included. Some fees are paid initially when money is placed in the investment, others are paid annually, and some are paid when the investment is sold.

Once total fees are calculated, investments should be compared by their "after-fee" rate of return. So if Investment A earns 5 percent before fees but fees are 1 percent, then the after-fee rate of return is 4 percent.

It's also important in evaluating alternative investment approaches to look at consistency. For instance, an active investment manager might brag about his investment success over the past five years. But what about the last ten years, which would include the Great Recession? How did the manager perform over a longer time span including both a recessionary period and a growth period?

Finally, when looking at specific investments, make sure you understand how the investment works. Investments can be explained – even to people with no investment background. Be careful if someone says "trust me, I know what I'm doing". You should also know what the manager is doing.

I don't know when – or if – another Muhammad Ali will come along, or for that matter another Larry Holmes, George Foreman, Joe Frazier or Gerry Cooney, to name a few heavyweight boxers of the last 30 years. But I do know the contest between active investment and passive investment management will continue, meaning you will have to decide the winner!

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### Storm Damage? 10 Tips for Hiring a Home Repair Contractor

Heavy rain and high winds moved through the Southern Piedmont area of North and South Carolina this summer causing damage to roofs, trees, fences, storage buildings and more. If you have storm damage, the Better Business Bureau urges you to hire a local contractor with a history of doing business in the Southern Piedmont of NC and SC. BBB also warns you to watch out for "storm chasers."

"One of the worst mistakes is to hire a storm chaser, a contractor who is working out of his pick-up truck, and going door-to-door soliciting business in storm-damaged areas," said BBB President Tom Bartholomy.

Here are 10 tips for hiring a home repair contractor:

- Track record - Check out a company's BBB rating and complaint history at [www.bbb.org](http://www.bbb.org). It's fast, easy and free. You can also call the BBB at (704) 927-8611 or 1-877-317-7236, toll-free in NC and SC. Customer service operators are available, Monday through Friday, from 9 a.m. to 3 p.m. (excluding 12-1 p.m. for lunch).
- Cost comparisons - Get at least three bids in writing and be sure you compare the bids based on the same warranty, specifications, labor and time.
- Licensing - Check to see if the company you plan to hire has the proper licensing with your state's contractor's licensing board.
- Insurance - Verify the company's liability insurance to protect you against damage. You can also check with the department of insurance in your state.
- References - Ask for references from the company's last three jobs and check them out before you sign a contract.
- Written contract - Do not permit work to start without a signed, written contract that includes start and completion dates, exact costs, specific work to be done, and warranty information. Be sure to read the fine print carefully.
- Deposit required and payment - Do not pay more than 25 to 33 percent of the total job cost as a deposit. Final payment should not be due until the job is completed. Do not pay in cash; pay by check or credit card.
- Warranty - Get warranty information in writing on products and installation. Be sure to read the fine print carefully.
- Bonding - Be sure all workers are bonded to protect you against theft or additional damage.
- BBB Accredited Business - Find a contractor you can trust at [www.bbb.org](http://www.bbb.org).



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