Investment Strategies: Passive, Active, and Mixed

What an "investment strategy" really is

An investment strategy is your strategic plan. It connects your investment goals (what you need the money to do) with how you'll actually invest, day after day, without deviating off course due to emotions or new information.

The aim is alignment. How do strategy will enable be attain my goals? What combination of securities and management will enable attain my goal? If you want long-term growth, you'll look at equities; if you need steady income, you'll favor bonds; if you can't sleep when markets drop, you'll reduce how risk you are taking.

Your view of markets matters too. If you believe "beating the market" is hard after fees, passive strategies make sense. If you believe you can find mispriced opportunities, active can make sense. If you want low cost **and** a few smart tilts, a mixed approach fits.

There's always a trade-off. Active strategies try to outperform but cost more and require skill. Passive strategies keep costs low and results steady relative to the market, but they won't beat it and won't protect you in downturns. Mixed tries to have the best of both—cheap market exposure plus a small, focused slice for ideas you really believe in.

Passive strategies

Passive investing is about matching a market, not "winning" against it. Ways to passively manage your portfolio

- **Indexing** (full replication, sampling, or via ETFs/futures).
- **Buy-and-hold** with a sensible rebalancing rule.

Pros: Why investors love it:

- Low fees are,
- transparent,
- Diversification.

What you give up:

- The chance to outperform and any strategic positioning.
- When markets fall, you fall with it

Examples: Globally: Vanguard or iShares. In Uganda: Xeno Unit Trusts or a benchmark-aware the All Share Index.

Active strategies

Active investing is about having a view and backing it—with rules. You're trying to beat a benchmark after fees by finding mispricing, timing shifts, or harvesting specific risk factors.

There are two common toolkits. **Fundamental** investors study businesses: cash flows, earnings quality, competitive edge, management behavior. **Technical** or **tactical** investors read price and volume to gauge trend, momentum, and turning points. Some managers do both. What matters is that you can explain your edge, size positions reasonably, and define exits (valuation target, time limit, or stop-loss).

Advantages: the possibility of **alpha** (risk adjusted return), the flexibility to avoid suspect sectors, and the option to reduce risk when conditions look rough. Risks: higher fees, higher trading costs, sometimes higher taxes, and the reality that even skilled managers underperform at times. In smaller markets (like USE), local knowledge can help—but capacity and liquidity are real constraints, so position sizes and trading discipline matter.

Examples:

- Fidelity's fundamental funds or ARK's thematic funds globally; on the
- USE, a manager overweighting MTN or Stanbic based on a clear valuation.

Mixed (hybrid/enhanced)

Mixed strategies start with a **passive core** to keep costs down and tracking steady, then add **active satellites** where the manager has a real edge. Another flavor is **enhanced indexing**—stay close to the benchmark but allow small sector or factor tilts to pick up a bit of extra return without taking big benchmark risk. A third flavor is **dynamic asset allocation**—keep a long-term mix but allow temporary, rules-based shifts when signals (valuations, momentum, risk) are extreme.

This is a risk-budgeting exercise. You decide the benchmark, set a tracking-error limit, define what tilts are allowed (factors, sectors, credit quality), and set rebalancing bands so the portfolio doesn't drift. The upside is a better cost/return balance. The downside is more moving parts, so governance and monitoring matter.

How these approaches compare in real life

1. Costs come first. Passive fees are low, and have a compounding complex. Mixed sits in the middle. Active tends to be the most expensive and must earn its keep.
2. Performance depends on the efficiency of the market. In deep, efficient markets, beating the index is hard after fees. In less efficient or lower-liquidity markets like Uganda, a skilled active manager **may** find opportunities.
3. Suitability is mostly about the investor's personality and constraints. Passive suits long-term, cost-conscious investors who want simplicity and can ride out market swings. Active suits investors who accept tracking error, understand the odds, and can evaluate skill. Mixed suits institutions that must stay close to a policy benchmark but want a **measured** shot at extra return.

At a glance

- **Passive:** low cost, diversified, steady vs benchmark.
- **Active:** potential alpha, higher dispersion, more work and more risk.
- **Mixed:** cheap core plus targeted tilts; needs clear rules.

What really drives the choice?

Factors that influence choice of strategy (short list):

1. Risk tolerance, liquidity needs, horizon
2. Market efficiency of your opportunity set
3. All-in costs (fees + trading + taxes)
4. Regulatory constraints
5. Behavioral guardrails (pre-commitment rules, rebalancing bands)

Key Terms

1. **Alpha:** Return above what your market risk would justify.
2. **Beta:** How much a stock/portfolio moves with the market.
3. **Tracking Error:** How much you wander away from your benchmark.
4. **Information Ratio:** Your extra return per unit of that wandering.
5. **Core–Satellite:** Cheap index core plus smaller active bets.
6. **Rebalancing Bands:** Pre-set thresholds that trigger trades back to target weights.