

## FOR IMMEDIATE RELEASE

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### **Decrease in Active Management Negatively Impacts Market Efficiency, Academic Review Finds**

**Washington, D.C. – May 16, 2019** – Active investment management is the driver of market efficiency, and the growth in passive investing and decrease in active investing has had a negative effect on market efficiency, according to a new white paper titled, “[Active Management and Market Efficiency: A Summary of the Academic Literature.](#)”

The white paper, presented by the Investment Adviser Association’s Active Managers Council (AMC), builds on the theoretical framework outlined by University of Maryland Finance Professor Russ Wermers in his recent paper, “[Active Investing and the Efficiency of Securities Markets,](#)” which was supported by the IAA’s AMC. The IAA is the leading trade association representing SEC-registered investment management firms.

“Efficient markets are crucial for our economy, and active management is critical to those markets operating efficiently,” said IAA President and CEO Karen Barr. “Given the important role that markets play in fostering investment and capital formation, increased market efficiency should be an important goal for legislators and regulators.”

The new white paper summarizes the conclusions of over 50 academic studies examining a variety of topic areas including:

- How changes in index composition affect the pricing of securities
- The impact on pricing efficiency on the shift to passive investing
- The connection between return comovement (or correlation) and passive index investing
- Whether trading in ETFs and other index products transmits volatility to the underlying securities and the markets in general
- The impact of the introduction of leveraged and inverse ETFs
- The relationship between the level of index investing and the liquidity of the securities in the index

The white paper also includes an overview of the characteristics of market efficiency, the benefits of increased market efficiency, the role active management plays generating market efficiency, and the theoretical impact on market efficiency of the increasing use of passive

management. It provides a concise introduction to a critical topic for policymakers and other industry observers interested in the health of the markets.

To review the paper or learn more about active management, please visit [www.activemanagers.com](http://www.activemanagers.com).

#### About the IAA

The Investment Adviser Association (IAA) is the leading trade association representing the interests of SEC-registered investment adviser firms. The IAA's more than 650 investment adviser member firms collectively manage assets in excess of \$25 trillion for a wide variety of institutional and individual investors. For more information, visit [www.investmentadviser.org](http://www.investmentadviser.org) or follow us on [Twitter](#), [LinkedIn](#), and [YouTube](#).

#### About the AMC

The IAA formed the Active Managers Council to support education and research on the value of active management for investors and the capital markets and to engage on relevant public policy issues. For more information, visit [ActiveManagers.com](http://ActiveManagers.com).