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This issue features a debate on active versus passive, with articles from four experts in their fields. Despite common beliefs to the contrary, active and passive are not mutually exclusive. They are simply opposite ends of the risk/return continuum. Active managers are starting to use more passive techniques and passive managers are using more active strategies. In between active and passive the possibilities fall into three levels:

The first level organizes and analyzes data systematically. Data are collected for the research analyst's use in an easily comparable form. Tools are provided for the analyst to easily manipulate the data in order to screen out a large number of companies and allow closer scrutiny of the selected groups.

The second level is when portfolio construction techniques are quantitative. In our industry many firms are adept at identifying return potential but inept at analyzing the risk of the resultant portfolios. In a U.S. portfolio, decisions can be made at either the industry level or the stock level, and a number of firms are particularly strong at stock selection or industry rotation. Some of these firms have elected to emphasize their strengths and neutralize their weaknesses when constructing portfolios, typically by setting the industry weights equal to the S&P 500 and then picking the best stocks within each industry. There are numerous examples of firms who have done this and dramatically increased returns.

The third level moves from portfolio construction to include the alpha generation. Examples of this level are earnings estimate models, which are currently very popular. They are used to predict trends in estimates that lead to changes in price.

We believe it is a hopeful sign that active and passive managers are beginning to view each others' skills as complimentary, and moving away from the idea that the two types are mutually exclusive. The sooner we take a more rational look at all types of investing, the better off those who we invest for will be.

Brian Bruce
Editor-in-Chief

Note to our Subscribers:
Volume 1 of *The Journal of Investing* contains only two issues, Summer and Fall. Volume 2 begins with the Spring issue.

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