For active managers, it's been a brutal 10 years

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The results are in for active managers, and they're pretty terrible.

Fewer than 1 in 4 active managers have outperformed market benchmarks over the past 10 years and only about 4 percent of large-cap growth fund pros did so in 2014, according to a sweeping new study released Thursday by S&P Dow Jones Indices.

At a time when the broader market has been on a tear, posting double-digit percentage increases over each of the last three years and with the S&P 500 up about 210 percent from its lows six years ago, stock pickers have lagged well behind. More than 86 percent of large-cap managers overall lagged basic indexes in 2014, and more than 82 percent fell into the same boat over the past three-, five- and 10-year periods.

No category saw a greater-than-50 percent outperformance rate in 2014, with mid-gap growth coming close as 56.25 percent missed. Over a 10-year period large-cap value managers came closest, with a 58.8 percent underperformance rate.

The report adds more fire to the debate between active and passive management and comes as active managers actually are enjoying a relatively good year. Some 55 percent

are beating benchmarks in 2015, owing largely to a growing level of dispersion in performance between the best and worst market sectors that has gone along with periodic levels of high market volatility, according to Thomas J. Lee, founder and lead strategist at Fundstrat Global Advisors.

This table shows the level of underperformance by strategy:

Actively underperforming

Fund category	Index	1-year %	3-year %	5-year %	10-Year %
All domestic equity	S&P Composite 1500	87.23	76.77	80.82	76.54
All-large-cap	S&P 500	86.44	76.25	88.65	82.07
All mid-cap	S&P MidCap 400	66.23	70.48	85.37	89.71
All small-cap	S&P Small Cap 600	72.92	80.4	86.55	87.75
Large-cap growth	S&P 500 Growth	96.01	71.08	91.5	89.52
Large-cap core	S&P 500	79.28	77.32	88.77	84.3
Large-cap value	S&P 500 Value	78.59	80.98	86.67	58.76
Mid-cap growth	S&P MidCap 400 Growth	56.25	66.48	89.42	91.81
Mid-cap core	S&P MidCap 400	58.39	70.43	85.62	88.42
Mid-cap value	S&P MidCap 400 Value	73.61	72.73	78.35	85.71
Small-cap growth	S&P SmallCap 600 Growth	64.49	71.5	85.95	91.71
Small-cap core	S&P SmallCap 600	67.92	82.13	89.25	88.14
Small-cap value	S&P SmallCap 600 Value	94.31	90	89.68	86.59
Multi-cap growth	S&P Composite 1500 Growth	87.85	72.2	84.51	83.33
Mulit-cap core	S&P Composite 1500	86.6	81.62	85.94	85.2
Multi-cap value	S&P Composite 1500 Value	69.42	68.35	82.47	79.64
Real estate	S&P U.S. RE Investment Trust	80.14	86.23	91.49	78.08

Source: S&P Dow Jones Indices

Following indexes, which is at the core of passive management, has surged in popularity over the past several years, with the exchange-traded fund industry swelling to more than $2 trillion in total assets. ETFs trade like stocks but almost all of them follow indexes like the S&P 500 and Nasdaq, or sectors within them.

"On a secular basis we think the indexing trend is going to continue because of the emphasis on cost," said Chuck Self, chief investment officer at ETF strategist iSectors. "It's become clear that the costs to invest have been historically higher than they should

have been. We think there's just a greater awareness by investors and advisors that you can get acceptable returns without paying the fees that have been charged historically."

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Indeed, ETFs come with much lower fees than actively managed mutual funds and carry tax advantages while being easier to trade.

With the continued level of underperformance and the other advantages index-based investing has provided, it's a tough hill to climb for active managers.

However, many continue to thrive. The $15.7 trillion mutual fund industry has added about $912 billion over the past year itself, including about $513 billion in domestic equity funds, according to the latest numbers from the Investment Company Institute.

Michael Yoshikami, CEO at Destination Wealth Management, said it comes down to explaining the role of active managers to clients.

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For instance, index funds, unlike active managers, have no fiduciary duty to provide coverage for the downside in markets. A six-year bull run has led some to forget that stocks can go down, too.

"How much pain can you take? That's the question we ask people all the time," Yoshikami said. "If you live with volatility then it might be worth grabbing the additional performance. If you can't, an asset manager can provide you in many cases with some hedge against that. It's a matter of what you're comfortable with. It's my experience that most people just can't take that kind of volatility, and they're willing to give up some of that performance."