SELVI & CIE

Why Index Investing (Almost) Always Beats Stock-Picking

In trading rooms and at dinner tables alike, the same idea keeps coming up: if only you could find the right stock, you could build a fortune. Stock-picking, the art of selecting individual securities expected to outperform, still carries a romantic, almost heroic aura. The reality is more prosaic: **the numbers show that index investing, i.e., passively replicating an index, is a far more effective strategy for the long-term investor.**

The illusion of beating the market

Every year thousands of fund managers and retail investors try to outperform the CAC 40, the S&P 500 or the MSCI World. Every year the statistics remind us how hard that task is. The **SPIVA** (S&P Indices Versus Active) report, which measures active fund performance, is clear: over ten years, more than 80% of equity managers in Europe underperform their benchmark. In short, the majority of stock-pickers fail to justify their choices.

Effortless diversification

What makes indexing so powerful is that it instantly delivers **massive diversification**. Buying an ETF tracking the MSCI World exposes you to more than 1,500 companies across 23 developed markets, from US tech giants to European industrials and Asian leaders. Stock-picking, by contrast, concentrates risk: two or three poor calls can wipe out years of gains.

The weight of fees, the silent enemy

Cost is another decisive difference. Index ETFs often charge annual fees well under 0.3%, while active funds commonly exceed 1% (or more when looking at the Total Expense Ratio). That gap compounds over time and can translate into a material difference in accumulated capital over 30 years. Again, indexing starts with an advantage.

Discipline versus emotions

Financial markets are fertile ground for behavioral biases: fear of missing out, panic selling in a correction, or overconfidence in one's picks. Indexing sidesteps these pitfalls by enforcing a systematic approach. The investor simply follows the market's evolution rather than trying to time entries and exits. That discipline pays off over the long run.

Betting on the growth of the world

Finally, the simplest argument is often the strongest: despite crises, wars and recessions, global equity markets show a **long-term upward trend**. Exposing yourself to this global growth through indexing is a bet on innovation, productivity and the collective success of companies rather than on the instinct of a handful of isolated bettors.

The real rationality

Choosing indexing is not a lack of ambition. It is, on the contrary, the recognition that discipline, diversification and low costs form an unbeatable triptych for building durable wealth. By selecting ETFs carefully and focusing on index selection and the right allocation, Selvi & Cie harnesses the power of indexing on behalf of its management and clients.

The savvy investor knows this: it is usually better to capture the market's return than to exhaust oneself trying to beat it.

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