The concept was so simple it was genius. Create a fund that mirrors the stocks of the S&P 500.• In 1974, Nobel prizewinning economist Paul Samuelson suggested the concept, a year later John Bogle from Vanguard made it reality. Recently, I had an interview with KPRC?s Channel 2 reporter Bill Spencern index funds. I?m proud his segment won the 10pm timeslot. However, we didn?t spend much time on the pitfalls of indexing. Briefly, I?ve outlined several dangers investors need to understand. **The Wall Street marketing machine has morphed and twisted the definition of indexing.** Indexing in its purest sense seeks to replicate a market-cap weighted index and is best for most investors, especially novices. Think the S&P 500, the Wilshire 5000, MSCI EAFE Index, and the Russell 2000. ?Smart? alternatives where stocks out of an index are equal weighted, selected for growth, value, momentum, technical analysis, dividends, dividend growth, buybacks (not kidding), to name a few, can provide benefit if researched.

However, with all the methods used to slice and dice markets today, investors are left confused and have a difficult time selecting smart choices on their own. The performance of smart strategies can deviate dramatically over long periods when compared to the market-cap weighted brethren. Therefore, unwitting investors will be stumped how they sought to capture the returns of the market and fall way short. Smart indexing is designed to BEAT the broad market and comes with higher costs than traditional market-cap weighted index alternatives. Beating the market goes against exactly why you own index funds in the first place. Instead of focusing on personalized returns an investor requires to meet specific financial goals, Wall Street cajoles investors to focus on a carrot they shouldn?t chase or can rarely obtain ? beating the market. It?s like an emotional seductress for investors to beat the market; all this misguided focus does is get investors to chase performance and pay too much for the products Wall Street distributes. If you believe in smart indexing, seek assistance from a financial partner. Preferably, a fiduciary. I?ve explained this before - let me do so again.

1) Indexing should be considered an ACTIVE, not PASSIVE strategy.

Passive may sound all warm and cuddly but it?s the equivalent of hugging a rattlesnake. I?m extremely tired of active investing to mean money managers or funds that seek to beat the market. Passive sounds too, well, passive and the word is greatly misleading. Over the last decade, ?passive? has become a hot button for Wall Street. As global central banks have pumped unprecedented liquidity into the system and kept interest rates lower for longer, a great tailwind has filled the low-cost sails of index investing. The dilemma for Wall Street was how to capitalize on the investor hunger for indexing. *So, if passive is what clients want, passive is what they shall receive*, but in a manner that can be delivered and scalable by a financial retailer in a CYA/fiduciary manner. It?s time efficient to get cash fully invested in an asset allocation at once; buy full in to the story•*that it?s time in the market not timing the market*, regardless of current valuations•or expected returns, especially as corrections appear more as distant memory than reality. The asset-allocator factory box designers create investment packages positioned as products or ?solutions,? thus forging a path perhaps we haven?t walked so passionately before. The demand for pretty boxes filled with a colorful palate of panacea in the form of passive investments, have made stocks expensive. This sausage is successfully marketed to a new breed of adviser who perceives passive as safe, has never witnessed a correction or bear market and shockingly believes bear markets are ?no big deal,? and not detrimental to financial health.

> ***The popularity of indexing has severed the investment vs. valuation connection. The re-connect is going to be marked by turbulence and disappointment.*** •Asset-allocation solutions are being positioned to ?pros? as simple, third-party adjuncts to an overall financial planning experience. The intoxicating promise of ease and low cost which places what you pay in the form of valuations in a clean-up spot, or makes it an afterthought (if that), is incredibly alluring. Buy it up now, let it grow, harvest later.

2) Passive investing is not safe.

To clarify:•Passive is an **investment type**. It is **NOT an investing process**•nor a manner to which RISK is managed. Readers of RIA should be smart enough to understand and re-associate passive to investments like individual U.S. Treasury securities, fixed annuities and possibly certificates of deposit. Everything else, is active. **And with stocks ? RADIO-active.** There?s no•*escape-risk-free* •card for passive investors or any investors who choose to take on risk.

3) The ?slice and dice? of indexing using exchange-traded funds has been nothing short of silly.

Never underestimate Wall Street?s ability to produce worthless and on occasion financially-dangerous products. Want to track an index that covers companies involved in streaming entertainment? Sure! How about the Quincy Jones Streaming Music Media and Entertainment ETF (QJ)? So, want to invest in products and services of an aging population? The Long-Term Care ETF (OLD), was created just for you! Recently, ProShares debuted a stock index related to the pet-care industry. Symbol PAWZ (isn?t that catchy?), invests in companies (you guessed it), that serve the growing pet food and care industries. Listen, I?m a big dog lover but it?s ridiculous to carve the market like this and offer it up for investors with cute symbols. Generally, these products are thinly-traded (which means they may not track the stocks they?re seeking to track) and come with unattractive internal expenses. I hope you enjoy my interview with Bill.