



## Sound Financial Bites 091 - Dimensional Fund Advisors Episode Transcription

*“Taking that approach of trying to outguess the markets, pick stocks, time when to be in, when to be out, there’s not a lot of evidence that it works on a regular basis.”*

Jake DeKinder: From our foundation 35-plus years ago up until today, we believe very strongly in the academic community and the ability to take that research and ultimately translate it into investment solutions for clients.

Welcome to Sound Financial Bites, where we help you with bite-sized pieces of financial and life knowledge to help you design and build a good life. The knowledge that has been shared from stages at conferences, pages of national business magazines, and clients living across America, our host, Paul Adams, now brings directly to you.

Paul Adams: Welcome to Sound Financial Bites. This is Paul Adams. I am so glad that all of you are here today especially. Today, we have a really special guest, but before we get to that, I just want to acknowledge all of you. You are out there in our car, driving to work, on a run, folding laundry, doing dishes, whatever you’re doing to take some of that downtime in life and be able to invest in yourself and your knowledge.

Just know, if this is your first time listening to our show, I want you to know our entire goal is to help you design and build a good life so that you will be in the best possible position to make financial decisions, and if you’re already a client, giving you good thinking that gets you out of the morass and financial noise that’s out there so that you can make good decisions to help you design and build a good life.

Let me share with all of you about our unique guest today. Our guest, Jake DeKinder, is the head of all advisory communications and Vice President of Dimensional Fund Advisors. Now, many of you may know Dimensional Funds because they are the organization that we reference constantly in our public talks, in our podcast, and we point to the kinds of research that they’ve done over time, and they’re also the asset management platform that we use consistently to help our clients manage their money in the market and keep it academically allocated and globally diversified.

His real role, in working with advisors across the world, is to help them learn how to bring these complex topics in English to their clients. Well, I guess it’s not in English. In some countries, it might be a different language. But, in plain language to be able to help them understand how to take care of their investing with their advisor. So, prior to joining Dimensional, Jake also owned and operated a chain of restaurant franchises. Now, he’s got a CFA, he’s an MBA, he went to the McCombs School of Business and the University of Texas at Austin, and I’m just so glad that you could be here with us, and Jake, I know that I left a few of your accomplishments off of the list, but I’m so glad that you could be with us today.

Jake: Paul, it’s wonderful to be here.

Paul: Now, before we get rolling and jumping right into Dimensional Funds and different ways of thinking about saving and investing for people, could we do a step back and have you share with our audience a little bit about the mutual fund industry? People have owned mutual funds in their 401(k)s, IRAs, maybe purchased them individually. But, a lot of people don’t know where the mutual fund industry has been overall.



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Jake: Sure, I'd be happy to share just a little bit of background there. If you go back to sort of the start of industry, or the idea of a managed fund of some sorts, traditionally, what you saw was it was more of a stock-picking, market timing approach, looking to say, "Is there some way we could outguess what we're seeing out there in the market or outsmart the market in some way?" and we'll talk a little bit about this as we go through the program.

But, the reality is that taking that approach of trying to outguess the markets, pick stocks, time when to be in, when to be out, there's not a lot of evidence that it works on a regular basis, and I think one of the challenging things is it's really been designed in a way that it was an expensive way for many people to access the capital markets, and it comes through in different types of expenses. Certainly, there's the expense ratio that you see associated with the funds, but also taking this approach means that you may incur a lot of costs trying to capture those returns.

I think the challenging thing for investors is there's been a lot that's been marketed at them over the last several decades, really 50-plus, 60-plus years that, "This is the way that you need to go about investing to have a successful experience," and it's tough because what we know is there's not a lot of evidence that it works, but for the average investor that's out there, it's maybe all that they've known, all that they've been exposed to, all that they've been sold over the years. But, what we're seeing over time is there are better ways that people can capture those capital market rates of return, and ultimately have a better investment experience.

Paul: You say that, and you mentioned about the only way most investors get exposed to this. Now, I've been in this industry nearly 20 years, and it's also in the early stages in my career, and by that, I mean the first half. The people that would come out and educate me, as an advisor, were the people from the mutual fund industry, and they really go out of their way to go after the advisors as a specific conduit to help get exposed, if you will, to clients. I would say many advisors that I've spoken to, when we talk about some of the things we're going to chat about later on, even they get a little bit surprised and agitated. So, I'm glad you're here to bring this across.

Maybe, now, in the scope of the overall mutual fund industry, we have this history of marketing a great deal, having to pick stocks, speculate, etcetera. What are the origins of Dimensional Funds? Where did it come from, and where is it now, and how specifically does your role work directly with the advisor and client?

Jake: Certainly. Dimensional was really formed out of a lot of academic research that was taking place in the '60s and 1970s. Our founder, David Booth, along with his partner, Rex Sinquefeld, were students at the University of Chicago and had a very close connection with many of the leading thinkers in this space, and we formed the firm around the idea of accessing the markets in a different way from what we were seeing out there in the industry.

We think that there's a lot of value in the research, a lot of value in the data, not necessarily taking a guessing approach, and when David and Rex were students in the University of Chicago and then went off into the industry, they returned to the academic community to help get the firm started, and really leaned on that research to say, "What are we seeing out there in terms of, potentially, parts of the market that, maybe, have higher returns, but then also how do we go



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*“There are a lot of costs that are much more difficult to see that investors may not be aware of and a lot of those come in the form of implementation costs.”*

about designing some type of solution to ultimately capture those returns in a different way than what everybody else was doing at the time around that stock-picking approach, that trying to time markets, when to be in, when to be out?

From our foundation 35-plus years ago up to today, we believe very strongly in the academic community and the ability to take that research and ultimately translate it into investment solutions for clients.

Paul: At some point, you guys took all of that background, all the research and said, "We're going to serve advisors directly as opposed to working with clients directly." Could you tell me a little bit about that decision-making and how you guys arrived where you are today?

Jake: Certainly. The first funds came out around 1981, and for the first eight or nine years, we only worked with institutions: state pension funds, large endowment, organizations of that sort, and we had an advisor who was looking to use Dimensional Funds for his clients. His name was Dan Wheeler. He approached the company and said, "I think that these funds make a lot of sense for my clients, but I also think that there are many advisors out there that need to know that there's a better way of helping clients reach their goals."

Dan ended up forming the financial advisor business in the late 1980s, early 1990s, here at Dimensional, and just started off with a handful of advisors, but it has slowly grown over time as people have realized that not only is it a great way to access the capital markets different than that active management approach of what we've seen traditionally, but also taking this approach and working with the types of advisors that Dimensional is associated with, it's translated into, ultimately, very good investor experiences because there's a lot that advisors bring to the table beyond just simply the investment management piece of it, and we'll get into some components of that as we go through. But, that's really one of the reasons that, at Dimensional, we have built our business on the advisor side around what advisors are trying to do to help their clients.

Paul: A few times, you mentioned active management. We have all different levels of financial literacy in our listeners. So, let me just define active management, and of course, Jake, just refine this at all if you need to, but it's the idea that there is a manager sitting at the top of that mutual fund, or a team of managers whose job it is to look at the stock market, equity markets, bond markets, and say, "I think this one is going to do better than all those other ones, or this country is going to do better than these other countries," and they're making that kind of selection actively as an individual or a group of individuals in an attempt to beat what the market would have done without them, and you'll see many mutual funds that you have in your 401(k), IRA, they are constantly compared to an index. Jake, could you just share with our audience what's the history been like for many of these active managers just trying to beat the index that they willingly say they should be compared to?

Jake: Well, Paul, I think you're exactly right in that description there. It goes by a lot of different names. It goes by "active management", "traditional, conventional management", "stock-picking", whatever it may be. But, to me, it all comes down to this idea of do you look out there in the market and do you believe that you can identify individual companies, individual countries that are somehow either mispriced or if I just hold this one investment or a handful of investments inside of my portfolio, I should do better than the market, and what we've seen, if



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we look at all of the evidence, the first study was around 1965 by a professor at University of Rochester, Michael Jensen, all the way to today, and there’s been numerous studies throughout, what you see in the numbers is that very few active managers outperform their benchmark or outperform the index over an extended period of time.

In my mind, from a theoretical standpoint, it seems very challenging to say that me as a manager or me as a person somehow has more knowledge than everybody else out there that’s looking at the same information, and I can pick just the handful of stocks. Then, when you look at it on the empirical side, the actual numbers and how it plays out, there’s nothing that supports that that approach works on a consistent basis.

Paul: In just a moment, I want to ask you, before we go to break, a little bit about the people that just try to buy a mutual fund as an active manager versus our clients who already have more net worth than your average bear, and they say, “Well, I’m not in mutual funds. I’ve got the private wealth manager at X institution, and they’re buying the stocks for me individually based upon a much larger set of recommendations from their organizations.” So, we’re going to be right back, and that’s where we’re going to pick up.

Cory Shepherd: At Sound Financial Group, we are committed to continuing to bring you Sound Financial Bites. Hello, my name is Cory Shepherd, president of Sound Financial Group. If you are finding value in these weekly podcasts, and they are making a difference in the way you think about money, then think about what kind of a difference could be made if you engaged one of our advisors to help you look at your personal finances.

So, what would the next step be? Send an email to [info@sfgwa.com](mailto:info@sfgwa.com) with “philosophy” in the subject line, and we will coordinate with you to have a conversation with Paul, myself, or one of our other advisors to share with you our philosophy of money. No one is going to close you on that call. No one is going to make you an offer to become a client. The only thing we allow our advisors to do in that call is teach, and the only thing we allow you to do is ask for an application.

While we don’t accept everyone who applies to work with us, we are committed that any Sound Financial Bites listener who wants to go deeper has the chance to expand their thinking and walk away with new education and resources around money. So, even if we find out we aren’t right to work together, our team will absolutely take care of you in that call and make sure that you have access to resources that might be of help to you.

Paul: Now, right before we went to break, you were sharing a bit about this way that active managers tend not to outperform their indexes, and I got to actually share something with you that was a bit of a fanboy moment for me. I had a chance to attend a conference out in Bermuda. It was more of a business conference. But, Michael Jensen was teaching a good section of it, and I had a chance to go up to him and he mentioned his research about these active managers not beating their indexes, and so I had a chance to go up to him and chat with him a little bit about how we had been using Dimensional Funds to help our clients kind of escape what can be a bit of a rat race of trying to chase around active managers who are picking stocks and speculating, and he stopped and he said -- he was impacted by the fact that his work and the fact that I had read his work, and that was the early entry into me finding Dimensional Funds was reading his stuff, and he was so pleased with, really, what you guys have been doing and that advisors are



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becoming more likely to bring these kind of concerns to the clients.

Jake: Well, that's great to hear. Again, we believe very strongly in the academic community because they bring a very unbiased opinion to just looking at the data and looking at the evidence, and his study really was one of the groundbreaking studies because, up to that point, there wasn't a lot of people looking to say, "How well are these active managers doing compared to some representative benchmark?" So, he really did lead the way in terms of thinking about this manager research, and how many are outperforming and how many are not.

Paul: Right before we went to break, you were sharing how that works at a mutual fund level. But, what if somebody listening says, "Well, I've got my money with \*fill in the blank here\* private client group, and I actually own a series of individual stocks. I don't own a mutual fund. There's some big recommendations coming from on high in that organization that, then, my broker or advisor is buying all these stocks for me," how do you speak to that?

Jake: Well, I sort of look at it the same way as a mutual fund or any type of managed fund. There is a person or there is a team of people that are looking out there and saying, "I can identify individual companies, individual sectors, individual countries," that should outperform, and whether that comes in a mutual fund form, or it comes in a private client setting with a person or an organization just identifying those stocks or those countries, to me, it's the same thing in my mind. Again, there's not very much evidence that it works on a consistent basis.

Now, let me say this that it's not surprising that, I think, all of us would want to believe that the harder we work, the more successful we're going to be. So, if I put more time in, and I research individual companies, or I research managers, or I just dig through financial statements, and I somehow try to get the edge that I can be more successful. Because, in almost every other aspect of life, that's the case.

But, when we think about investing, when we think about what's going on out there in the markets, remember, there are hundreds, if not, thousands of people, taking a very similar approach, all pouring over the same information, pouring over the same data, and some people are going to interpret that data one way, and some people are going to interpret it another way, and some people are going to think that the stock's underpriced, or that the stock's overpriced.

But, in our minds, that's the beauty of believing in the capital markets that we can actually use the markets to our advantage rather than trying to feel like we have to outguess them or outsmart them to have a great investment experience.

Paul: Each time that they're after outperforming the market, they're placing trades inside the portfolio, they're actually triggering additional costs that the fund manager then needs to outperform. It's almost like a negative feedback loop where I sometimes talk about it like -- you gave a great running metaphor I hadn't heard, but I think of it like if you're a really good runner, and you're marketing the fact you're a really good runner, in this case, the speculators that are inside the active management fund trying to stay ahead, it's like they're running with a parachute on. But, you used a different one.

Jake: Yeah, I look at it as if I'm running a 100-yard dash, and I'm forced to start 10 yards behind



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the starting line, it's going to be a lot more difficult for me to catch up and have a good chance of winning, and I sort of look at expensive investing or costly investing that way. When I say costly investing, there's two forms of cost: there's the cost that you see and then there's the cost that you don't see.

What I mean by that is the cost that we see, when we think about investing in any type of fund can come in the form of an expense ratio, and we can look up the expense ratio for any mutual fund that's out there, but there are a lot of costs that are much more difficult to see that investors may not be aware of, and a lot of those come in the form of implementation costs. The more trading I do inside of the portfolio, the more potential costs that I generate. Or, if I'm tied to a particular stock, I may have incentives to get more of that stock in my portfolio in a quick amount of time, and when I do that, I may cross what they call the bid-ask spread in a stock, or I may have market impact.

Really, the idea, simply, is that if I'm tied to an individual stock or if I have a very strong opinion, I may spend a fair amount of money getting that stock into my portfolio, and what I can tell you is whether it's the expense ratio, the costs that we see, or whether it's some of these other costs that are a little bit more difficult to measure, both of them take away from your return as an investor, and when you think about how you want to go out and you want to access the markets, and you want to invest in the markets, you want to make sure that whatever investment approach you're employing focuses on both those costs you can see as well as the costs you can't see.

Paul: We're going to have a giveaway from today's episode that's going to be at [wwwFOUNDATIONS.sfgwa.com](http://wwwFOUNDATIONS.sfgwa.com), and we'll have it in the show notes also. We're going to enclose in that a link to the article on Forbes that talked about the real cost of mutual funds, and you don't see these kinds of ads or these kinds of articles very often in major publications because you'll notice, even on this very article, surrounding the article, usually, when you pull it up online, you'll see advertising from the mutual fund companies. So, it's not the kind of article you see come out a lot from some of the major publications like Forbes, Fortune, etcetera. So, thank you for that, and we'll make sure to give people something they can read to better understand some of those key components that you mentioned.

One from that article is actually something that is the cash drag, and you mentioned earlier about Dimensional Funds, you have to be connected to an advisor. You can't go into your E\*TRADE account and just buy one of the Dimensional Fund's funds, and part of the reason has to do with investor behavior, and in that article, it points to cash drag. Could you talk a little bit about how your behavior, or better yet, if you're a disciplined investor, how the behavior of everybody else in the mutual fund that you're in actually impacts your outcomes?

Jake: Sure, I'd be happy to speak to that. I think, from a high level, we have two broad sides of the business: we have our institutional side, which I mentioned, and then we have the financial advisor side, and on the financial advisor side, we don't allow investors to invest directly with Dimensional. It's only through a financial advisor, and there's a couple reason that we set up the business that way. What you see out there, sometimes, with the general public, investors in general, is when things are going well, they may move money into the markets, and then when things are not going well, they may pull money out of the markets.



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From a manager standpoint, when you think about someone like Dimensional, if we had a lot of money that was moving into the funds quickly, and then we had a lot of money that was moving out of the funds quickly, it might mean that we would have to go to the markets and be forced to buy a lot of something in a short amount of time or sell a lot of something in a short amount of time. You can imagine that if you're forced to do that, you may not get as good of prices as stuff's coming into the portfolio or going out of the portfolio.

One of the reasons that we've structured the business the way that we do is having that advisor in the middle brings a fair amount of discipline to the cash flows of the portfolio, and what that means is it tends to benefit all of the shareholders that are currently in the funds.

But, there's actually another reason that we've sort of set the business up the way that we do. We really believe that advisors bring a tremendous amount of value to clients' life, and certainly, there's the investment management piece of it, putting together the portfolios, there's the financial planning piece, the advisors that maybe do estate plan, your tax plan, whatever it might be, they bring a lot to the table. But, they also bring a lot to the table on what I'll call the behavioral management side, just making sure that they keep clients focused on the long term, keep them disciplined through those challenging markets.

As I always like to say, if you go back to 2008, 2009, which was certainly a challenging point in the markets, if advisors could keep their clients disciplined through February and March of 2009, and ultimately stick around and capture those capital market rates of return, then they've really justified whatever fee that they charge the clients, because, in all likelihood, they've added a lot more value than that. So, whether it's because we want to stabilize the cash flows that are coming in and out of the portfolio purely from a trading standpoint that benefits the shareholders, or the fact that advisors just add a lot of value to people's lives, that's the reason, at Dimension, we set the business up the way that we have.

Paul: I know for us, we've even watched that efficiency piece where clients with mid-seven-figure net worths, they're not quite to eight figures yet, but they've been with some asset management firm who all they've done is looked at the portfolio and said, "All we're doing is managing money," they're not doing anything else, and they left a lot off the table.

We had one client that could have been doing backdoor Roth IRAs for a lot of years before we met them, and the portfolio construction was okay where they were from, but they never looked at anything beyond the rate of return on the assets, and then we've seen others where people are not having any kind of conversation about the amount of cash somebody's left in their business that's just sitting on the sidelines doing nothing because in every conversation, all they said is, "Here's how your portfolio is doing," never getting back out to 30,000 feet to see if there's any other significant and, potentially, at least in their personal lives, systemic inefficiencies that could have something done about them unrelated from the specific portfolio returns.

We've even seen the kind of benefit that can come from taking that bigger look, and sometimes the return is not from the portfolio. In fact, we've spoken it off into our clients that, in our relationship with Dimensional Funds, there's the opportunity to tilt the portfolio to some better rates of return through those areas where we can actually be compensated for risk, and that has



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the potential to produce better returns. But, we're not producing that potential to shoot the lights out against the market, but rather just to produce enough additional return that we might recover some or all of the cost of having us involved as an advisor, which is wildly different because most advisors are representing themselves the reason to move money to them is because they're going to outperform the market, and we take the antithetical approach to that when we talk to our clients.

Speaking of clients, how they look at money, wealth in their life, I've really looked at investors as a whole in four major different areas. So, this is a way from people's overall look at their financial lives, but rather just looking at what classification they fall on specifically in their investments, and that is one, people who speculate on individual stocks or sectors. So, this is somebody who says, "I'm buying \*fill in the blank\* stock here because I think they're really great," or, "I've bought a series of stocks because I'm a customer of theirs."

Next, I'd put on someone who works with an advisor, but they're with an advisor that's choosing actively managed portfolios largely. Then, we have those that are DIY, do-it-yourself, they're buying indexes or perhaps engaged in a robo-advisor. Then, I think, lastly, out of the four groups, you have somebody, who, I think is the most rare bird of the investor out there, somebody that has found someone to work with who uses structured investing with Dimensional Funds, and then coaches them through the years and helps them make better overall financial decisions.

One, am I missing anything in that, and two, could you share with me what kind of results you're seeing from people, given Dimensional Funds not only has this huge database of research they've done for decades on investments, but you have that same kind of data and research and investors?

Jake: Certainly. I think you've hit on four really broad camps of investors that are out there. There's one that I might add, and I think about it in terms of those that are not currently investing in the market at all, and whether you want to group these as millennials, or people that are currently in their late-20s, early-30s, whatever it might be, I think there is some reluctance among younger investors to get involved in the market at all, and whether that's because they started investing around 2008, 2009.

Whatever the case may be, I think it's very important for all of us in this industry to educate people on the importance of investing over time, capturing the returns that are out there in capital markets to ultimately be able to meet their financial goals in the future. So, I think there's an education component that's very important that we get people to understand that if you want your wealth to grow over time, you have to be willing, where appropriate, to commit your money to the capital markets to make sure that you can capture those returns.

Paul: Those might be the ones that came of age, the 18, 19, 20, right when 2008, 2009 hit. They might have had to start paying for their own college because a parent lost everything they had through speculation or whatever, and those are the people that are still trying to get their feet underneath them to even understand it, whereas their parents have gone through some market cycles and have an understanding of these, I call them, kids, probably just because they're younger than I am, but they haven't seen that, and they might just have money going to cash still, and we've seen a few of those where you sit back and go, "I wonder why that is," but I think you





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gave some great voice to why that might be.

Jake: Again, I think it's important for us. This is not to say that everybody needs to be invested in the stock market, or this is exactly what you have to do, but I think it is important for people to realize that if you are able to stay disciplined over time, at least what we've seen is those capital markets that are out there, the stock markets that is out there, have rewarded investors over the long term.

Paul: Great. Now, speaking about reward over the long term, you have people who are, maybe, long-term investors, maybe not, but they're individuals, they've got their account online, and they're buying stocks, or trying to bet on certain sectors. As an investor, what does your research and background tell you about kind of their likely results?

Jake: We talked about it a little bit at the beginning, but again, you can go back to some of the early studies in the 1960s. There's been plenty throughout. We've done a lot of research here at Dimensional, and what you see is, over longer time periods, there's very little evidence that trying to take an active, a stock-picking approach works on a consistent basis, and it's for a lot of the reasons that we mentioned: one, just trying to identify which companies are going to do well, or which countries are going to do well. That's a very challenging thing to do. But, what you see is, sometimes, there can be a lot of costs that's associated with that as well.

For all of these reasons, the odds of having a good investment experience, or the odds of seeing some of these funds outperform their benchmarks are not quite as high as, maybe, that you see with other approaches as well as from a financial planning standpoint for many advisors, it can be challenging because, sometimes, you don't know exactly what you're going to get with these different approaches.

A good financial advisor is focused on the long term, they're trying to put together a good game plan for a client, and when you have an approach that, maybe, as I like to think about it, complicates the game plan that they're trying to put together, it's not necessarily the best way of having that great investment experience that I think many advisors are trying to deliver for their clients.

Paul: Which kind of speaks to the next one about the advisors who are out there, like I once was at the beginning of my career was active managed mutual funds, and there are wholesale reps that came and originally taught me about how mutual funds even worked for me to go teach my clients two decades ago.

When people are engaging those folks, and I'm going to pull some of the bullets from earlier that recap some of it, but you have the idea that, in this, you've consistently said it's difficult for anybody to outperform consistently, which I think leaves space for what you didn't say explicitly, but can be true, is that there are asset managers who will do it. Today, if we line up 10,000 asset managers, some of them will outperform the market. But, as I understand it, the two problems are we cannot identify who they are in advance, and even if they do it five more years, there's not a very high correlation that they will do it the next five years. Do I have all that pretty well accurate?



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Jake: That's exactly it. I mean, if we look at all the managers that are out there, there's been certainly cases where, over long periods of time, there's been managers that have outperformed their representative benchmarks. So, it's not to say that there aren't people out there that can do it.

But, to your point, can you identify them ahead of time versus looking in the rearview mirror and saying, "I should have been invested with that manager"? Then, even standing here today, "Can I look at some type of past performance and get an indication of what those future returns are going to be?" and we've run numerous studies here at Dimensional looking at that of, "If I look at some type of recent history of performance, does that give me an indication of what that's going to look like going forward?" and what you find is that, as well, doesn't necessarily give me an indication of who I should be investing with.

I think you're spot on with that. Trying to identify them ahead of time, that's really the question, and that's a hard thing to do, and even if I use that track record of great performance, do I see any type of difference going forward? And you really don't. Again, that leads you to this understanding that this is a hard way to go about accessing the markets.

Paul: I don't know that our audience knows how special this opportunity is. While you guys speak publicly quite a bit, and of course, Dimensional Funds puts out a lot of the research and you can gather a lot of their data, they don't do a lot of podcasts, which is one of the reasons why I thought this was such a great gift to our audience. Would you be open to commenting on the industry's practices around killing mutual funds off?

Jake: Yeah, I'd be happy to do that. We actually do some research here. It's part of a broader study. We call it the "mutual fund landscape", where we look at all of the funds that are available to U.S. investors and ask two questions: how many of them are able to survive over some period of time? So, stay in business and stay available for people to invest in. Then, how many outperform their benchmarks in various categories? And when I say "various categories", that's important, meaning if I look at something like a broad market fund, I want to make sure I compare it to a broad market benchmark. If I look at something, an asset class fund, something that operates in the small cap part of the market, then I want to make sure I compare it to a small cap benchmark as well.

What you see is if you look out there over 15 years, and this would have been a study that was ending in 2016, you see just a little bit short of 50% of managers on the stock side are able to stay in business, are able to survive over that period of time, and then you only see 17% of those managers outperform their benchmark over that 15-year period.

Paul: 17% of the survivors?

Jake: 17% of the total. So, we would have started with roughly 2,800 funds. Again, we can get this information out to the investors listening, but about 2,800 funds were available to U.S. investors over that 15-year period or at the start of that 15-year period, and you only see about 17% of those outperform their benchmarks. So, not great odds when you think about, maybe, what you're trying to accomplish as an investor.



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Paul: It kind of sounds mean, but when they kill a mutual fund that, say, has 100 million in it because it's not been doing well, they don't just send the investors their money back. They usually will roll it into another fund that they had available.

Jake: We don't necessarily have time to get into all of the operational issues as well, but yeah, that's the way that it works is that it will be taken over by another group that will ultimately manage that fund, and then the investors can get their money back from that. So, that's not to say that the money is --

Paul: They can certainly request it. I remember the first time I got one of those statements where I was like, "Oh, this looks really good," like this particular fund company has this mid-cap fund, and they've got another mid-cap fund, and they're going to make it more efficient by combining the two, and I didn't know that it was because they were winding down a fund that hadn't done as well as they had hoped.

Let's switch to that next investor. It's just two more then I think we'll wrap. Just know, everybody, that if you go to [dfa.sfgwa.com](http://dfa.sfgwa.com), we are going to have, for you, some of these pieces, reports, articles that we're referencing. So, if you just want to sit back on a lazy Saturday afternoon with a glass of wine, you can read some of this stuff as well as listen to it. Let's talk about the folks that do index investing, DIY, or with the venerable robo-advisor.

Jake: Certainly. To be clear, I think, if you look over the last 30-plus years, indexing has been a very positive thing for investors in general. It's brought the cost down, it's more transparent. Many times, it's more broadly diversified. So, it's important to be clear that if we think about where the industry started and then the movement towards indexing, that's probably a positive. Now, we don't have time to get into all of it today, but we do believe that there's some improvements that can be made over an index approach to make sure you capture a little bit more of those returns.

But, to get to your question there about the do-it-yourselfers, and maybe we'll then transition into the robo-advisor piece of that, again, it's very challenging, in our mind, to always be 100% objective with your money. We want to believe that we would stay disciplined in the markets, and certainly there are individuals out there that can probably do it.

But, when you have someone that understands your goals, works alongside you, understands what you're trying to do on the financial planning side, maybe from charitable gifting side, where you want to send your kids to college, how you want to invest with that, there's a lot of benefit to working with, as Paul calls it, a coach.

I sort of look at it as you can think about the best athletes that are out there in the world, and they can run the fastest races, and they can score the most points in whatever sport you want to pick, and they still work with a coach, and there's a reason they work with a coach, because they understand having that person in the journey alongside them can ultimately make them get to a better place.

Now, to your question there, Paul, about robo-advisors, and we've seen a lot of online technology solutions that have popped up that make it, I'll say, somewhat easier for investors to put together



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an allocation, I think, in general, technology is a very positive thing for all of us, and the advisors that embrace technology in different forms, ultimately, are able to deliver a better solution, a better overall experience because it allows them to focus on their value add.

But, to say, somehow, that there isn't the human element that needs to be there to help coach the person along, to really understand what it is they're trying to accomplish, I think it's very difficult to assume that a computer's going to be able to figure out all of the intricacies of somebody's life and maximize that probability of having a great investment experience.

Paul: It's the equivalent, I think, of using -- people have used Facebook saying, "That's how I'm going to keep in touch and increase relationships," and they're finding their relationships are more difficult, and one of the things we've tried to do is use technology to create more accessibility to us as the advisor, and no matter where the client is, we work with clients all over the country using technology to enable the relationship, but not to disable it.

Jake: I think --

Paul: Go ahead.

Jake: I was going to say I think that's a very fair statement. I think all of us need to understand how the world's evolving and think about how we can incorporate technology in many aspects of our lives to either live a better life or deliver a better overall solution to whoever our clients may be.

Paul: Very good, and then that last classification, which we've almost touched on through this entire conversation, Jake, which has just been great, is this idea of the passive-structured -- or not passive, but structured investing with a coach, with using a firm like DFA, is that I would say one of the biggest things, I think, is difficult for clients to readapt to, and I'd love you to comment on, is I think it's tough when most experiences they've had up until meeting us, specifically, and probably any advisor using Dimensional Funds is there's not a sale. We don't sell them on, "This is why you should work with them." We are educating them enough to try to insulate them from the financial noise that's going to occur to them when they leave our office where somebody's going to have a mutual fund advertised about returns, or whatever, or the guy at the cocktail party with his new market timing strategy is going to be there.

So, I've seen is that that's the thing that most disrupts clients is realizing that they actually have to learn not just have somebody share some good ideas with them and then sign on the dotted line, that they actually have to learn enough to become disciplined.

Jake: I think that that's a very fair statement, and again, just what good advisors can mean for people's lives and allowing them to sleep better at night, feel better about their financial future, and in my mind, focus on what's important to them in their lives. Maybe that's spending more time with their family, maybe it's focusing more on their career. Whatever it may be, there's just all of these ancillary benefits that we believe good advisors can add to what people are trying to accomplish.

Paul: That's great. Well, Jake, I am so glad that you could be here once again. Jake DeKinder being



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on the podcast with us today, Dimensional Funds, being willing to share his knowledge and way of thinking from the perspective of making it make sense to all of you. Now, we're hopeful, it looks like scheduling may allow that in another several months, we're going to have Dimensional Funds back, and for those of you that are really, really, really analytical, we are going to do one of those analytical episodes with them where we can dig in deep to the asset management philosophy, things that they do to reduce costs for the investor. All of that will be super-nerdy, which I will enjoy, and yet some of you may have to let that one wash over you at double speed so you can get through it.

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**2018-53719 Exp. 2/20**



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