Evidence-Based Investing and the benefits of working with a DFA affiliated financial advisor

For years it has been assumed that you have to be either an active or passive investor. It is also assumed (depending on which camp you're in) that one is better than the other. In my opinion, the argument over active vs. passive management can be put squarely to bed. And the answer to which investing strategy we use is...Both. This is called evidence-based investing, and it is a strategy used by a company whose funds we are extremely fortunate to use on our clients' behalf ---Dimensional Fund Advisors (DFA).

A recent article from The Wall Street Journal, The Active-Passive Powerhouse by Jason Zweig, highlights the success of operating without the boundaries and dogma of staying in either an active or passive strategy. It also identifies that DFA is the fastest growing mutual fund company in the US.

The founders and advisors of DFA are pioneers of financial science and champions of efficient market theory, which is built upon the foundation that "active management practiced by traditional stock pickers is futile, if not absurdity."1

Markets Work

This is how DFA invests: "It designs its own indexes, often of small capitalization stocks, then waits—for weeks, if necessary—until an eager seller is willing to unload shares at below the prevailing asking price in the market. Such strategies can minimize, and in some cases even erase transaction costs, providing a small but meaningful boost to returns."2

When clients and potential clients ask how we invest--the answer is simple. We invest the way DFA invests; keeping transaction costs low, offering globally diversified portfolios, and managing risk with returns and goals. Why do we invest this way? Because it is based in financial science, not speculation, and because it works.

Avoiding Behavioral Investing and the Institutional Advantage

In order to invest this way, one must have time, patience, and not be swayed by outside forces that speak to the next hot fund or stock pick of the day. One also must have a certain degree of access to institutional investments not available to the public. Dimensional Fund Advisors doesn't directly offer its funds to individual investors mainly because many studies consistently show that most individuals chase what's recently been performing well, while subsequently panicking out and selling during temporary market declines. Research by both DFA and Vanguard demonstrate that most investors are much better served by having a financial advisor or "behavioral coach" help guide them toward reaching their financial goals.

A good financial advisor's ability to spend time executing this investing strategy, having access to these types of funds, to act as a buffer between your emotions and your investments, and a fiduciary commitment to acting always and only in your best interest is why using a trusted financial advisor is the smartest and most efficient way to help preserve and grow your wealth.

Sources:
[The Active-Passive Powerhouse by Jason Zweig]

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performance is not indicative of future performance. Investments involve risk, including the possible loss of principal. Always seek professional advice before making any financial or legal decisions.