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THE POWER 20

David G. Booth

DFA founder wins by thinking small-cap

EVER SINCE HE established his firm, Dimensional Fund Advisers, in 1981, out of his Brooklyn Heights brownstone, David G. Booth has been raising lots of eyebrows.

Among the initial skeptics were workers for New York Telephone, who refused his request to install six telephone lines. “They thought he was a bookie,” said Weston Wellington, a vice president at the money management firm, now based in Austin, Texas.

DFA was founded on Mr. Booth’s belief that publicly traded markets are efficient, a precept he learned as a student of Eugene Fama at the University of Chicago Graduate School of Business — re-christened the University of Chicago Booth School of Business two years ago after the money manager and his family donated \$300 million. Mr. Booth doesn’t believe that active stock picking and timing the market work.

STARTED OUT SMALL

He founded DFA around the idea of a small-cap index fund, which at the time didn’t exist in the market. Mr. Booth took data that showed how well small-cap stocks had performed and hit the road, meeting potential institutional investors, Mr. Wellington said, adding: “David was very careful in how he positioned it to clients.”

He would ask clients if they believed that they should have some small-cap exposure in their portfolios. Then he would ask if they thought that small-caps were riskier than large-caps. His final question would be whether clients believed that risk and return were related. Once the clients said yes to all three questions, they were on board.

A year later when small-cap stocks started underperforming, it was those three questions that Mr. Booth brought up again with clients. “The reason DFA is alive and kicking is because he had positioned it properly,” he said. “Eventually, small-cap stocks did do well and those clients were glad they stayed on.”

Today, DFA is one of the biggest and top-performing fund companies in the U.S. As of Dec. 17, it had \$202 billion in assets under management. As of Oct. 31, the firm was the 17th-largest fund family, according to Morningstar Inc. The firm has 517 employees globally.

Of the 39 DFA funds with 10-year histories, 33 were in the top half of performance in their categories for that period as of Nov. 18, according to

Morningstar. More than half (30) of the 51 funds with five-year histories outperformed their categories for that period — not a small feat, given the market downturn of 2008. In fact, 34 of the 58 DFA funds were in the top half of their category just in 2008.

And the firm has some of the lowest fees in the industry — with fund expenses ranging from 0.16% to 0.9%.

At a time when financial advisers are questioning active management, DFA seems to be a good alternative. But the firm doesn’t do anything to promote that fact. “We wait for the phone to ring,” Mr. Wellington said.

Advisers who want to work with DFA have to attend one of the firm’s two-day investment conferences in Austin or at its corporate offices in Santa Monica, Calif. And no, the firm won’t pay for the trip or hotel.

“If advisers are frustrated enough, they come to our conference and learn about our approach,” Mr. Wellington said. Today, 60% of DFA’s business comes from advisers.

In 2011, DFA has more interesting projects to pursue as it looks at how it can expand into the defined-contribution business. Last year, the firm acquired SmartNest, a provider of retirement-planning software.

“There is an interesting potential new business initiative that strays outside of the area of doing pure investment management as we have done in the past,” Mr. Wellington said. “Something we are working on in the future is applying our academic approach to solving clients’ problems.”

— Jessica Toonkel

Education

- B.A., M.A., University of Kansas
- MBA, University of Chicago

Family

- Wife, Suzanne; a daughter, 20, and a son, 13

Off the job

- He and Suzanne started a foundation, Friends of Heritage Preservation, which seeks to preserve and restore cultural-heritage sites. His two main passions are college basketball and wine. He is a lifelong fan of the University of Kansas Jayhawks; now that he is in Austin, Texas, he also supports the University of Texas Longhorns in football and basketball. He owns Bella Oaks Vineyard in the Napa Valley and spends as much of his spare time there as possible.



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