

Financial science key to firm's success

INVESTMENT

BY GORDON WILSON

On a recent business trip to the US, I was very fortunate to have a meeting with one of the country's top entrepreneurs and philanthropists; David Booth, chief executive of Dimensional Fund Advisors, based in Austin, Texas.

He founded Dimensional in 1981 and ran the business from his Brooklyn flat, in New York. From having less than £10 in the company bank account at the end of year one, the business is now a global success, managing £152 billion of client money.

I asked him how it all started and, in typically understated fashion, he said: "We just put together a small companies fund.

"We didn't know how it would go as there was a lot of competition around."

When asked about the secret of his success, he said: "Surround yourself with good people and keep them, as they are hard to find."

The business - which shuns active investment management - was borne out of academia. It wastes no time attempting to predict the future, as all the available academic research proves that this is not possible.

If you get predictions about the future right then it is down to luck. The investment philosophy was one of the main things that attracted me to Dimensional. It relies on academic research and financial science when making decisions about how money should be invested.

Mr Booth was one of the pioneers of index investing while at Wells Fargo bank. Research proved that the additional risks involved with investing in smaller companies led to additional rewards for long-term investors.

Institutional investors were not being given the chance to invest in this as-



Gordon Wilson: research

set class so Dimensional's first offering was a smaller companies fund. There was also strong academic support that additional rewards could be gained by investing in value companies: where the value of the assets is worth more than that of the shares in issue.

Dimensional specialises in defining these asset classes and providing access to them via its funds.

Costs are the investor's biggest enemy and Dimensional recognises this, offering some of the lowest-cost funds available as a result of not wasting millions researching which company is going to do best. It builds funds that are highly diversified and avoids active buying and selling.

UK investors can learn a great deal from the success of Dimensional.

Enjoying a successful investment experience isn't about investing in the next big thing which is being promoted in the glossy brochures of big investment houses and banks.

It is about taking heed of the academic research and investing at minimal-cost in assets which have been proven to deliver the most consistent long-term returns and sitting tight.

When asked where the business would go from here, Mr Booth said he wasn't sure, but added: "Just where the business takes us, we take our lead from providing what clients want."

■ Gordon Wilson is managing director of Scottish firm Carbon Financial Partners