

### Response to *New York Times* Article Comparing DFA and Vanguard Stock Mutual Funds

A recent *New York Times* article profiled Dimensional Fund Advisors and its role as shareholder activists. DFA was ranked No. 1 in shareholder activism by the American Federation of State, County and Municipal Employees in June 2011. The article compared Dimensional with Vanguard, which was ranked last in shareholder activism by the same survey. It also mentioned the following performance comparison:

“What’s more, investors in Vanguard stock mutual funds have had higher actual returns than investors in Dimensional funds. On an asset-weighted basis in the 10 years through Jan. 31, the return received by Vanguard investors was 6.614 percent, annualized, compared with 5.05 percent for Dimensional funds, Morningstar calculates.”

What is the problem with this statement? Asset-weighted returns are meaningless, and an example can show why. Let’s say both companies only have two funds, a stock fund and a bond fund, and they had the following returns:

**DFA Stock:** 10 percent  
**Vanguard Stock:** 9 percent

**DFA Bond:** 5 percent  
**Vanguard Bond:** 4 percent

Let’s also say 80 percent of Vanguard’s assets are in the stock fund and 50 percent of DFA’s assets are in the stock fund. In this example, Vanguard’s asset-weighted return is 8 percent and DFA’s asset-weighted return is 7.5 percent. Vanguard “outperforms” on an asset-weighted basis even though DFA’s funds outperformed in both asset classes.

The proper way to make the comparison is to analyze funds in the same asset class. The table on the following page compares returns and expense ratios for the different Vanguard funds that have at least a 10-year history. You’ll notice that the returns for the different fund families are similar, with the notable exceptions being the value asset classes. DFA’s funds tend to be more tilted to value than the comparable Vanguard funds, and this shows up in the returns.

Fund Name	Morningstar Category	Prospectus Net Expense Ratio	Total Return Annualized 10-Year
Vanguard 500 Index Admiral (VFIAX)	Large Blend	0.05	7.92
Vanguard Dividend Growth Inv (VDIGX)	Large Blend	0.31	9.80
Vanguard Growth & Income Adm (VGIAX)	Large Blend	0.25	7.42
Vanguard Total Stock Mkt Idx Adm (VTSAX)	Large Blend	0.06	8.79
<b>Vanguard Average</b>		<b>0.17</b>	<b>8.48</b>
<b>DFA US Large Company (DFUSX)</b>		<b>0.10</b>	<b>7.94</b>
Vanguard Equity-Income Adm (VEIRX)	Large Value	0.21	9.14
Vanguard US Value Inv (VUVLX)	Large Value	0.29	7.52
Vanguard Value Index Adm (VVIAX)	Large Value	0.10	8.42
Vanguard Windsor Adm (VWNEX)	Large Value	0.31	8.15
Vanguard Windsor II Adm (VWNAX)	Large Value	0.27	8.62
<b>Vanguard Average</b>		<b>0.24</b>	<b>8.37</b>
<b>DFA US Large Value III (DFUVX)</b>		<b>0.14</b>	<b>9.55</b>
Vanguard Small Cap Index Adm (VSMAX)	Small Blend	0.10	11.96
<b>DFA US Small Cap (DFSTX)</b>		<b>0.37</b>	<b>11.83</b>
Vanguard Small Cap Value Index Inv (VISVX)	Small Value	0.35	10.76
<b>DFA US Small Cap Value (DFS VX)</b>		<b>0.52</b>	<b>12.37</b>
Vanguard REIT Index Adm (VGSLX)	Real Estate	0.10	12.40
<b>DFA Real Estate Securities (DFREX)</b>		<b>0.22</b>	<b>12.09</b>
Vanguard Developed Markets Index Inv (VDMIX)	Foreign Large Blend	0.20	9.30
Vanguard Total Intl Stock Index Inv (VGT SX)		0.22	10.19
<b>Vanguard Average</b>		<b>0.21</b>	<b>9.75</b>
<b>DFA Large Cap International (DFALX)</b>		<b>0.30</b>	<b>9.24</b>
Vanguard International Value Inv (VTRIX)	Foreign Large Value	0.41	10.34
<b>DFA International III (DFVIX)</b>		<b>0.26</b>	<b>11.28</b>
Vanguard International Explorer Inv (VINEX)	Foreign Small/Mid Blend	0.42	12.83
<b>DFA International Small Company (DFISX)</b>		<b>0.55</b>	<b>13.28</b>
Vanguard Emerging Mkts Stock Idx I (VEMIX)	Diversified Emerging Mkts	0.13	16.47
<b>DFA Emerging Markets (DFEMX)</b>		<b>0.61</b>	<b>17.46</b>

Vanguard Winners	DFA Winners
US Large Neutral	US Large Value
US Small Neutral	US Small Value
US REIT	Int'l Large Value
Int'l Large Neutral	Int'l Small
	Emerging Markets

Source: Morningstar Principia. Data shown for the 10-year period through January 31, 2013.

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