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Straight Talk from the Brainiacs at DFA



Eugene Fama, a finance professor at the University of Chicago and co-winner of the Nobel prize in economics in 2013, is a director and adviser at Dimensional Fund Advisors. *PHOTO: GETTY IMAGES*

By **JASON ZWEIG**

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Dimensional Fund Advisors L.P. may be little known publicly, but it's legendary among eggheads who love debating investing theory.

“What really makes Dimensional different is they think through the scientific process like nobody else,” said Sunil Wahal, a finance professor at Arizona State University who has consulted for the fund firm.

DFA was founded by David Booth and Rex Sinquefield, who both attended the University of Chicago's business school, a bastion of efficient-markets thinking.

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In one of the first classes he took at Chicago, “I sat there in awe,” recalled Mr. Sinquefield, a former Catholic seminarian who retired from DFA in 2005.

“Efficient markets are the only thing that creates an ordering principle in the financial universe.”

The firm takes its name, it says, from “the dimensions of risk and return identified by financial science.”

Eugene Fama, a finance professor at the University of Chicago and co-winner of the Nobel prize in economics in 2013, is a director and adviser to the firm, as is Dartmouth finance professor Kenneth French.

“They are ruthless about the truth. Gene and Ken don’t give a damn about any vested interests or incentives or marketing. They only care about the data,” said Prof. Wahal.

“There’s one good financial idea every decade or so, and five to 10 marketing ideas a week,” said Prof. Fama. “We try to be very robust and bring a lot of rigor to the financial ideas.”

During a conference in Chicago for prospective wealthy private clients during the financial crisis, recalls Don Tharp of Hudson Financial Advisors Inc. in Streetsboro, Ohio, Prof. Fama talked about the excess returns investors earned on particular strategies in the past. Then, says Mr. Tharp, a woman in the back of the room stood up and said, “Professor, everything you just told us makes perfect sense, but how do you know the world isn’t coming to an end?”

“We don’t,” he responded, according to Mr. Tharp. “We’ve had a democracy for only 200 years, so we don’t really know yet if that works, either. So, yes, we might be wrong.”

Prof. Fama doesn’t recall that specific event. He said, however, that it does sound like the kind of thing he would say.

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