



THE SCIENCE BEHIND THE NUMBERS: AN INTERVIEW WITH DAVID BOOTH

In this month's Science Behind the Numbers, we have included the transcript of a recent interview with David Booth. David Booth is the Co-Founder and Executive Chairman of Dimensional Fund Advisors, a private investment firm headquartered in America with \$609 Billion in Assets Under Management. David Booth was a doctoral student at the University of Chicago School of Business, where he was mentored by Nobel Laureate Eugene Fama. David started Dimensional Fund Advisors in 1981, and utilizes the Fama & French Three Factor Asset Pricing Model for investing. We have partnered with Dimensional Fund Advisors on our past projects.

In this interview David Booth discusses the lessons from 2019 that investors can apply to 2020.

AN INTERVIEW WITH DAVID BOOTH:

"I have worked in finance for over 50 years, and it seems that every January the same thing happens. Lots of folks look back at last year's performance to draw conclusions they can use to predict what markets will do in the year to come. I don't make predictions, but I do think it's worth answering this question: What are the lessons from 2019 that we can apply to 2020?"

Let's go back to where we were this time last year. The words running across CNBC's home page were, "US stocks post worst year in a decade as the S&P 500 falls more than 6% in 2018." The Wall Street Journal summarized the state of market affairs with this headline: "U.S. Indexes Close with Worst Yearly Losses Since 2008." Amidst gloomy predictions for 2019, I posted a video on the limitations of forecasting.

Things felt ominous. We started the year with a lot of anxious people. Some decided to get out of the market and wait for prices to go down. They thought that after 11 years, the bull market was finally on its way out. They decided to time the market.

We all know what happened. Global equity markets finished the year up more than 25% (Source: MSCI World Index), and fixed income gained more than 8%. (Source: Bloomberg Barclays Global Aggregate Bond Index)

Missing out on big growth has as much impact on a portfolio as losing that amount. How long does it take to make that kind of loss back? And how is someone who got out supposed to know when to get back in?





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The lesson from 2019 is: The market has no memory. Don't time the market in 2020. Don't try to figure out when to get in and when to get out—you'd have to be right twice. Instead, figure out how much of your portfolio you're comfortable investing in equities over the long-term so you can capture the ups and ride out the downs. A trusted professional can help you make this determination, as well as prepare you to stay invested during times of uncertainty.

Not enough "experts" subscribe to this point of view. They're still trying to predict the future. You've probably heard the saying, "The definition of insanity is doing the same thing over and over again and expecting a different result." I've been seeing people make this same mistake for 50 years.

We'll never know when the best time to get into the market is because we can't predict the future. And if you think about it, that makes sense. If the market's doing its job, prices ought to be set at a level where you experience anxiety. It's unrealistic to think the market would ever offer an obvious time to "get in." If it did, there would be no risk and no reward.

So what should you do in 2020? Keep in mind 2019's most important lesson (which is the same lesson from every year before): Stay a long-term investor in a broadly diversified portfolio. Reduce your anxiety by accepting the market's inevitable ups and downs. Make sure the people advising you align with your perspective. Stop trying to time the markets, and you'll find you have more time to do the stuff you love to do."

CONCLUSION

We agree with David Booth's perspective that the market has no memory and that it is best to stay invested. Consistent investment actions form strong investment behaviors, which helps mitigate market anxiety, and increases the comfort level to stay invested long-term.

A well-constructed portfolio of diversified index investments, coupled with consistent investment behavior, gives you the highest probability of long-term investment success.



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Sources:

- 1) Dimensional Fund Advisors Canada ULC. (2020). The Market Has no Memory. Retrieved from Dimensional Fund Advisors (<https://www.mydimensional.com/the-market-has-no-memory>)

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