

# THE RETIREMENT INCOME COMPASS

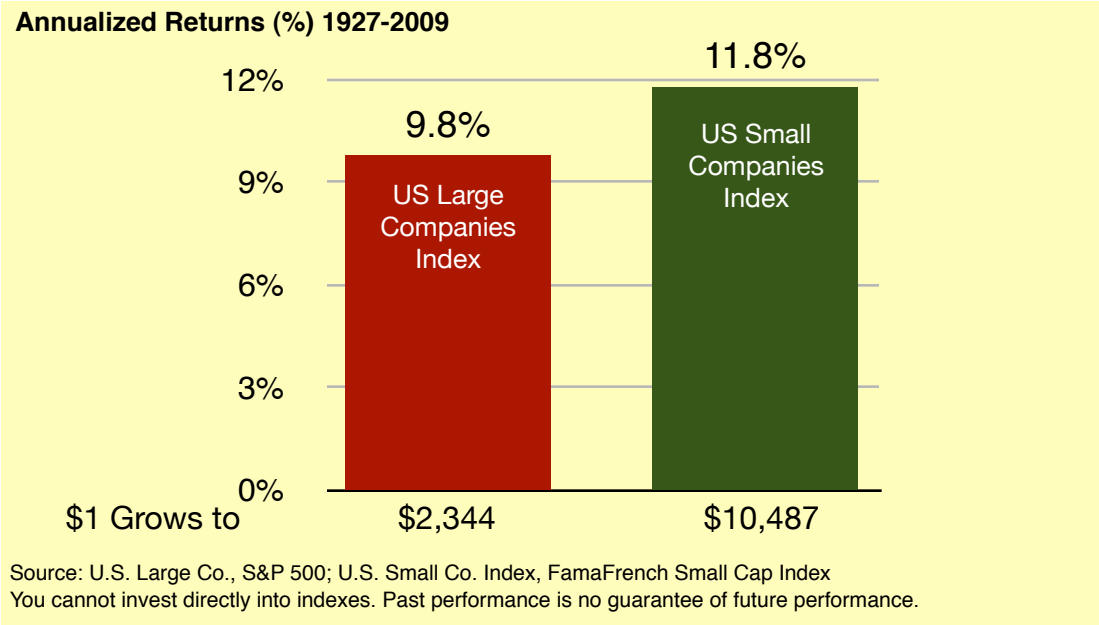
BECAUSE THERE ARE BIG RISKS ON THE ROAD AHEAD

*Investing Challenge/Compass Advantage*

## The Size Effect:

### Small Company Stocks Make a Big Difference

Small Co. Stocks Have Had Significant Outperformance Over Large Co. Stocks



#### DFA's Trading Advantage

DFA's patient, large scale trading brings opportunity for cost-effective and lucrative trades. A vast universe of illiquid stocks is transacted in a coordinated way. The result: performance driven by a potent combination of investment philosophy and trading power.

For more on DFA's trading power, go to:  
[www.dfaus.com/application/trading/](http://www.dfaus.com/application/trading/)

#### Investing Challenge

Everything we have learned about expected returns in the equity markets can be summarized in three dimensions. The first is that stocks are riskier than bonds and, therefore, have greater expected returns. Relative performance among stocks is largely driven by the two other dimensions: the Size Effect—small company stocks vs. large company stocks— and the Value Effect (we'll review the Value Effect in a future issue).

The graphic dramatizes the Size Effect over 83 years: U.S. small co. stocks outpaced large co. stocks by 2.0 percentage points (11.8% vs. 9.8%), more than tripling the growth of \$1 (\$10,487 vs. \$2,344).

These results are for indexes which do not reflect real-world transaction costs. Trading stocks, especially small company stocks, can be expensive. Capturing the Size Effect premium reflected in index comparisons requires expert and patient trading.

#### Compass Advantage

Madden is able to put the Size Effect to work in its managed portfolios through collaboration with its fund partner, Dimensional Fund Advisors (DFA). Careful trading can reduce or even reverse the costs borne by traditional investment managers.

DFA focuses on trading. Their refusal to forecast or follow indexes gives them negotiating strength. Where others feel compelled to trade, the firm can take its time. It is more important that they capture the systematic performance of broad market dimensions than the random fluctuations of any single security. It is more important that to keep costs low with patient buying and selling. Dimensional has developed its trading infrastructure to make this possible. By being patient when others are pushing to transact and by being thrifty when others pay a premium, the savings accrue directly to the managed portfolio's return.

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What to know...  
and how to go

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