

# THE RETIREMENT INCOME COMPASS

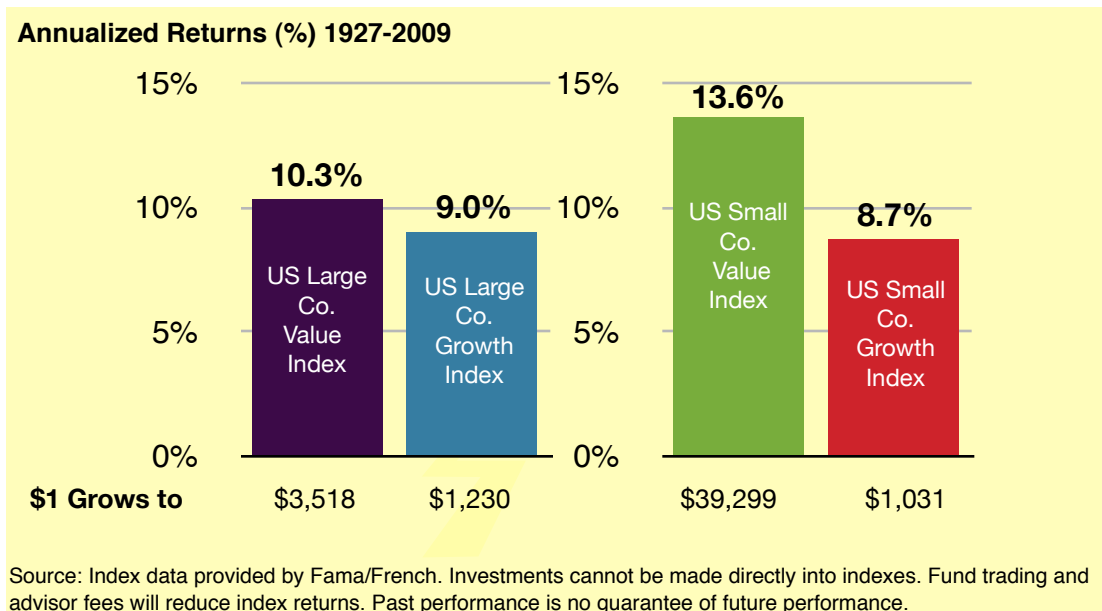
BECAUSE THERE ARE BIG RISKS ON THE ROAD AHEAD

Investing Challenge/Compass Advantage

## The Value Effect:

## A Premium from Owning What Others Don't Want

Value Stocks Have Had Significant Outperformance Over Growth Stocks



Evidence from practicing investors and academics points to an undeniable conclusion: returns and risks are related. Gains are rarely accomplished without taking a chance, but not all risks carry a reliable reward.

- Financial science over the last fifty years has brought us to a powerful understanding of the types of risks worth taking. The graphic illustrates the reward of one such risk—The Value Effect:
- Over 83 years U.S. large company *value* stocks outpaced large company *growth* stocks by 1.3 percentage pts./yr., almost tripling the growth of \$1 (\$3,518 vs. \$1,230).
- U.S. small co. *value* stocks outpaced small company *growth* stocks by 4.9 percentage pts./yr., more than a thirty-fold greater growth of \$1 (\$39,299 vs. \$1,031).
- The rationale for this counterintuitive return/risk performance: Growth companies are relatively stronger (less risk) than value companies (more risk).

### Compass Advantage

- 83 years of history shows that investing in value stocks is a risk worth taking.
- Really-smart investors don't buy value stocks one by one. There are almost always valid reasons why any particular value stock is out of favor.
- The best way to buy value stocks is by the thousands through mutual funds that specialize in the value asset classes.
- The ideal value fund would be passively managed (allowing a low expense-ratio) and would have a trading strategy that minimizes transaction costs.
- The value funds managed by Dimensional Funds Advisors (DFA), Madden Funds Management's fund partner, meet the criteria described above.
- We use the DFA funds to create portfolios that have a bias toward value stocks but also with a liberal allocation to growth stocks, both large and small.

### DFA's Trading Advantage

Value stocks of both large and small companies are less liquid than growth stocks. The difference in the bid/ask trading spread could quickly erode the expected return premium for value if trading is executed without a careful cost-conscious trading strategy.

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 strategy and tactics, go to: [www.dfaus.com/application/trading/](http://www.dfaus.com/application/trading/)

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What to know...  
and how to go

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