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From the Los Angeles Times

## 'Passive' in a Different Sense

Tom Petruno

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Most "passive" investment funds seek to track specific market indexes, like the Standard & Poor's 500. Dimensional Fund Advisors approaches passive investing differently.

"We say we're passive but not index," said Rex Sinquefeld, the firm's co-founder. "We don't worry about perfect tracking of an index."

Instead, the firm's managers essentially create their own indexes, fashioning portfolios from hundreds or thousands of stocks in their market niches — for example, small Japanese shares.

That gives Dimensional more flexibility in how and when to buy or sell stocks. And with smaller shares in particular, deft trading can be crucial in getting the best prices, which can boost investors' returns.

"Even though we come from the efficient market school, we still think there are things you can do to make more money" in a fund, said David Booth, Sinquefeld's partner at Dimensional.

Another way to boost returns, Booth said, is to avoid excessive trading. To that end, Dimensional limits access to its 56 funds: It sells them only through professional financial advisors, rather than directly to investors.

The idea, Booth said, is to keep out "hot" money, people who are short-term traders rather than long-term investors.

But given the surge in cash into Dimensional's main market niches of small stocks, value shares and foreign issues in the last few years, a big test may lie ahead: whether the firm's newer investors will stick with it if those sectors suddenly slump.

— Tom Petruno

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