Institutional Investor

David Booth Brings Academic Research to Life

The Kansas native headed to the University of Chicago to study economics. Now the graduate school of business bears his name.

By Julie Segal

MANAGER LIFETIME ACHIEVEMENT WINNER DAVID BOOTH, CHAIRMAN AND CO-CEO, DIMENSIONAL FUND ADVISORS

In 1981, David Booth co-founded an asset management firm that nurtured the innovative theories about market efficiency that had been coming from the University of Chicago Graduate School of Business since the mid-1950s. Along with his partner Rex Sinquefield, another Chicago graduate, Booth shaped Austin, Texas–based Dimensional Fund Advisors into a manager that both refined these academic theories and applied them so investors could profit in the real world.

Dimensional, which has more than $400 billion in assets, has developed a fiercely loyal following among advisers and investors who are true believers in the philosophies and processes that underpin its performance. Booth, 69, is chairman and co-CEO of Dimensional, the birthplace of what is now known as strategic beta and multifactor investing. The firm offers strategies in U.S. and non-U.S. developed-market equities, global equities, emerging markets and fixed income.

Booth studied economics at the University of Kansas, in his hometown of Lawrence. As a graduate student at the university, where he received an MS in 1969, he came across Eugene Fama's Ph.D. dissertation on the unpredictable nature of stock prices. Fama was a finance professor at Chicago; Booth applied and got in. "One day I'm minding my own business in Kansas, and the next day I'm taking Fama's class," boasts Booth, who got his MBA in 1971. "But I decided I'd rather apply ideas than teach them."

Thanks to an introduction by Fama, Booth went to work for John (Mac) McQuown, who was starting the first index fund at Wells Fargo & Co. A decade later, when Booth and Sinquefield started Dimensional, the firm was the first manager to treat small-cap stocks as a separate asset class. "We sold it as a diversification story," Booth says. "Institutions weren't holding small caps in any meaningful amount, and we pointed it out." Once Booth started the small-cap fund, he found research examining the performance of small-cap stocks versus large caps. "The numbers were eye-popping," he says. Dimensional expanded from there into fixed income and other asset classes.

From the start, Booth's idea was to launch an investment firm that would use the latest research. He brought on Fama, who became a Nobel laureate in 2013 for his contributions to the Efficient Market Hypothesis, as a founding director. Fama had helped develop the three-factor asset-pricing model, which identifies the main drivers of investment returns and was the basis of Dimensional's multifactor approach. The model's other creator, Kenneth French, is now co-chairman of Dimensional's investment policy committee.

Booth is most proud of his firm's ability to keep clients invested during hard times. When investors withdrew $500 billion from U.S. equity funds during the crisis of 2008–'09, Dimensional had positive flows. "It wasn't because returns were better; we actually lost more than the market," Booth says. "But clients trusted us."