

DFA Beats Bogle, Grantham— They All Beat Buffett: Analysis

Advisor and DFA proponent Eric Nelson puts the tactical genius of Jeremy Grantham under the microscope and finds it does no better than a balanced index fund

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shares lost 31.8% in 2008. (Photo: AP)

Buffett's BRK.B

In perhaps his most provocative post, advisor and investment thought leader Eric Nelson measures Warren Buffett, Jeremy Grantham and John Bogle and finds them all wanting in comparison with his own favored DFA approach to investing.

Nelson, a CFA and registered investment advisor with Servo Wealth Management, regularly analyzes the relative merits of asset-class investing, most particularly with the value-based and small-cap tilt associated with Dimensional Fund Advisors' funds.

His current [post](#) in his “Servo Thoughts” series compares asset-class investing — combining assets with low or negative correlations — by setting up the best known proxies for various approaches.

To stand in for active management, Nelson hauls in Warren Buffett, specifically his Berkshire Hathaway Class B shares (NYSE:[BRK.B](#)).

As a proxy for tactical management, Nelson brings in Jeremy Grantham’s GMO Global Asset Allocation Fund III ([GMWAX](#)).



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Representing an indexing approach is the Vanguard Balanced Index Admiral Shares ([VBIAX](#)), the 60-40 U.S. stock-bond portfolio that John Bogle recommends for his own family.

And for the asset-class approach, Nelson used a globally diversified 60-40 stock-bond portfolio made up of seven DFA funds ([DFUSX](#); [DFLVX](#); [DFSVX](#); [DFIVX](#); [DISVX](#); [DFEVX](#); [DFGBX](#)), whose stocks tilt toward small value and whose bonds are short-term, high-quality and global.

Over 10 years through February 2014, Buffett’s returns were lowest (6.3%) and BRK.B’s performance in the market mayhem of 2008 was the worst of the four approaches (-31.8%).

(Notably, in his annual letter to shareholders released Saturday the [Sage of Omaha recommended](#) his heirs invest in a Vanguard index fund.)

Meanwhile, Nelson notes that in a 10-year period witnessing two bull markets and the worst bear market since the Depression — in other words, an ostensibly “fruitful environment for tactical management” — Grantham’s GMO fund took risks and produced returns (7%) that merely matched the index fund (6.9%); their 2008 results were similar, losing 19.4% and 22.1% respectively.

The DFA portfolio, on the other hand, bested the bunch, with 7.8% returns — nearly a percentage point above GMO and Vanguard and 1.5 points above Buffett, with similar 2008 losses to the index fund (22.9%).

Nelson notes that this superior performance came during a decade not particularly favorable for asset class investing since global diversification offered little benefit and was a drag on performance in 2008, and because short-term quality bonds underperformed in a falling-rate environment.

“And that is probably the greatest testament to an asset class approach — it still ‘worked’ despite the fact that not all of its central tenets were ‘working,’” Nelson writes.

The asset class investing proponent concludes that “what *has worked* in investing *is what works* in investing.” Asked by [ThinkAdvisor](#) if asset-class investing’s superior approach in a less favorable environment implies a likelihood of an even better results in the next 10 years (when, through mean reversion, a more favorable environment is likely), Nelson quipped:

“There might be something that’s gonna work better, but you’re not gonna be able to find it in advance.”