

## Living in Fear of a Market Downturn?

*Dimensional Fund Advisors' David Booth on why you should change the way you think about investing.*



**BY DAVID BOOTH**

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*David Booth is founder and executive chairman of Dimensional Fund Advisors and a trustee of the University of Chicago, whose Booth School of Business is named after him.*

► **It's easy to feel anxious** about investing these days. Those who claim they can foresee market moves are out in force, on screen after screen, citing factors such as trade wars or the inverted yield curve as signals that stocks will soon go down.

Maybe we will have a recession, maybe we won't—but be wary of predictions on how markets will behave. It's a losing game. The results of those who

try to time markets or pick winners have been studied extensively, and there is no compelling evidence they do better than you would expect by chance.

The good news for investors is you can have a rewarding investment experience without trying to outguess the market. But you may need to change the way you think about investing.

I learned about this different way of investing when I took Gene Fama's eco-

nomics class at the University of Chicago 50 years ago this fall. Professor Fama went on to become a Nobel laureate and remains my close friend and colleague today. One of Gene's many breakthroughs was the efficient market hypothesis, which implied that speculation and stock picking were a waste of time. Market prices reflect all available information—in real time, all the time—by bringing together buyers and sellers who voluntarily agree to transact.

If markets do a good job incorporating information into prices, what does that mean for investors? Answering this question has shaped both my professional and personal journey. In the early 1970s, it led to the development of index funds by my collaborators Mac McQuown and Rex Sinquefeld. Jack Bogle later went on to make index investing available to all investors.

When starting Dimensional in 1981, we wanted to make it possible for investors to choose a path rooted in science and fueled by the power of markets. We were met with skepticism, but we fought on in pursuit of what we saw as a better approach than what was available. We now have nearly four decades of live results. Our strategies were built to draw insights from research and the academic community about what drives expected returns and then focus on implementing those insights well—balancing expected returns against costs and diversification every day.

The power of markets is still not broadly accepted. People continue to make rash decisions in times of volatility instead of waiting things out. Over the long haul, markets have behaved the way we hoped they would. In the nearly 100 years of data we have, for example, the U.S. stock market has returned 10 percent per year on average, though it has rarely returned that in any individual year. Think of the markets' force as a raging river. Any experienced rafting guide will tell you not to fight the rapids. You're better off charting your course, adapting incrementally and not oversteering.

There's more work to be done. The industry has advanced with science, but not enough. Even index funds, which were designed to deliver market returns, are now being used to try to time the markets. We can improve people's lives with better and safer financial services.

That was true 50 years ago, and it will still be true 50 years from now. My hope for young professionals entering finance is that the industry embraces science, challenges norms and comes up with new ways to help more investors.

Many of those who have changed investing for the better are still at it. Just last month, Gene and his research partner Ken French—two of our company directors—published a paper studying the predictive value of the aforementioned inverted yield curve. They found no evidence that inverted yield curves predict stocks will underperform Treasury bills—again choosing scientific inquiry over conjecture.

If you're living in fear of the next downturn, consider shifting your thinking instead of your investments. Focus on controlling what you can control, such as how much you save, or finding the right stock/bond mix. As famous basketball coach John Wooden once said, "Don't mistake activity for achievement." Not doing anything is doing something—think of all those people who sold out of the market in 2008 and missed the last 11 great years for equities.

Know that there is a growing field of professionals fueled by science, not speculation. If you accept a different view of markets, the benefits can go way beyond just investing money. Learn the science, accept a few truths and live your life differently. One bonus may be a portfolio that stays on track even if we do experience another financial crisis. But it's the secondary benefit that really matters: less time worrying about things you can't control. ●

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