With a Little Help from My Friends

A popular Beatles tune contains the lyrics, “Oh, I get by with a little help from my friends.” These comforting words of wisdom can apply to many aspects of life, including the investing world. Sometimes it takes the help of a few friends to provide better solutions for clients, and that’s exactly what happened back in 2003.

At the time, RCG and our friends at the other ZAG firms struggled to provide an efficient solution for smaller accounts such as custodial accounts, small IRAs, and Roth IRAs. We searched for funds that would provide broad global diversification and simultaneously keep the cost of trading and rebalancing minimal. This was no small task. RCG and the other ZAG firms brainstormed about the ideal fund that would include the elements mentioned above. Although these solutions would be suboptimal for large accounts, the conceptual funds would solve many of the problems associated with trying to properly manage small accounts.

We approached Dimensional Fund Advisors (DFA) with several ideas to solve the small account dilemma. DFA was willing to jump on board and build a fund to help us meet our clients’ needs. In December 2003, thanks to a little help from several friends, DFA launched their Global Strategy funds. Since its inception, RCG has utilized the Global Strategy funds to provide the highest value when managing portfolios with lower account balances.

Currently RCG uses three of the Dimensional’s global strategy funds in client portfolios: DFA Global Equity (DGEIX), DFA Global 60/40 (DGSIX), and DFA Global 25/75 (DGTSX). The first fund is 100% equity, the 60/40 is 60% equity and the 25/75 is 25% equity. One benefit of these funds is that investors are not limited to only the specific allocations Dimensional created. By combining any of the three funds we can build an allocation that is in line with our client’s risk tolerance.

Dimensional’s Global Strategy funds use the same transparent and academically driven approach to investing as DFA’s other mutual funds. In an effort to increase return, each Global Fund captures the four dimensions of expected returns through exposure to equity premium, size premium, relative price premium, and profitability premiums. The equity portion of each global portfolio provides exposure to 11,992 securities in 45 countries around the world.

The fixed income approach applied inside the Global Strategy funds differs slightly from RCG’s fixed income approach. Although still only investing in short term and high quality bonds around the globe, the fixed income approach used in the Global 60/40 and the Global 25/75 fund is slightly riskier than RCG’s approach. Both global funds contain some exposure to longer maturity and lower credit quality bonds than what RCG utilizes in its fixed income model portfolio.

The main purpose for and the biggest advantage to employing Dimensional Global Fund strategies are the transaction cost savings and the rebalancing cost savings. To minimize these costs, each global fund does its own rebalancing at the fund level. Rebalancing is done every business day with the net inflows to the funds. Each fund also carries a very low cost to the investor. The annual expense ratios vary between .28% and .33%, depending on the equity exposure of the fund.
As of October 31, 2015 the aggregate assets under management in the three global strategy funds was just over $8 billion, landing the strategy solidly in the top 5% of all U.S. mutual funds in terms of assets. Pretty impressive for funds that have only been around for twelve years!

Our involvement in the creation of these funds has benefitted our clients. It just goes to show you the powerful benefits associated with seeking a little help from your friends.

If you’d like to learn more technical details about any of the funds, the links below take you to additional information on each global strategy.

DFA Global Equity
DFA 60/40 Global
DFA 25/75 Global