The following is in response to Robert Huebscher's article, *A Conversation with DFA’s David Booth*, which appeared last week:

I want to pass along some statistics as it relates to simulations DFA ran on their small/value-tilted indexes pre- and post-profitability inclusion (using data starting in 1975). The data are summarized in the table below.

Over the period from 1975-2011 (the last date I have handy on the pre-profitability indexes), adding profitability to the US Large Value index added 1% per year without additional volatility. The U.S. Micro-Cap index added almost 2% per year with more than 1% lower standard deviation, and U.S. Small-Value index saw a 0.9% return bump with about 2% less volatility.

In each case, between 50% and 100% of the higher returns *didn’t* come from additional exposure to small cap and value (as you can see from comparing annual alphas). At least historically, screening out stocks with negative profitability and holding a few more "relative value" stocks with higher profitability has increased returns while decreasing volatility. The only index of the three that changed materially (based on Fama-French three-factor sensitivities) was U.S. Micro Cap, which doubled its value exposure (a result of screening out high-priced growth stocks with below-average profitability). The size exposure of the U.S. Large-Value index increased a bit, but was more than offset by the decreasing size exposure of the U.S. Small-Value index.

How much of this advantage will persist and can DFA capture in their funds? Time will tell, but I think Booth has given you the low-end range of the estimate, and these numbers below are closer to the top end.

I also looked at the return differences from 2005-2011, this being approximately "out-of-sample" data after the original studies on profitability began to surface. The (profitability-adjusted version of) U.S. Large Value index did 1.5% better, Micro did 1.1% better, and Small Value did +1.8% better. So this phenomenon doesn't look like an artifact of data dredging from many decades ago.
<table>
<thead>
<tr>
<th>Strategy</th>
<th>% Return</th>
<th>Standard Deviation</th>
<th>Annual 3F alpha (thru 12/09)</th>
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</thead>
<tbody>
<tr>
<td>Pre-Profitsility Indexes</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>US Large Value Index</td>
<td>+13.7%</td>
<td>18.5</td>
<td>-0.96%</td>
</tr>
<tr>
<td>US Micro Cap Index</td>
<td>+14.7%</td>
<td>24.1</td>
<td>-0.96%</td>
</tr>
<tr>
<td>US Small Value Index</td>
<td>+18.1%</td>
<td>25.8</td>
<td>-0.60%</td>
</tr>
<tr>
<td>Post-Profitsility Indexes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US Large Value Index</td>
<td>+14.7%</td>
<td>18.6</td>
<td>-0.48%</td>
</tr>
<tr>
<td>US Micro Cap Index</td>
<td>+16.6%</td>
<td>22.8</td>
<td>0.12%</td>
</tr>
<tr>
<td>US Small Value Index</td>
<td>+19.0%</td>
<td>23.7</td>
<td>0.48%</td>
</tr>
</tbody>
</table>

I also quantified the fund return premia that likely led to your (and my) admiration of DFA in [this recent blog article](http://www.ourblog.com). Morningstar recently reported that 50% of actively managed funds haven't even survived the last 10 years, and of those surviving less than 20% of the fund categories beat their benchmarks.

Sincerely,

Eric D. Nelson, CFA
Managing Principal
Servo Wealth Management
Oklahoma City, OK

The following is in response to Dan Solin’s article, *The Secret to Selling to Women*, which appeared on April 8:
This article is complete nonsense. The only true or relevant statement in it is the last one: “Regardless of gender, no one likes to be patronized, lectured to (in the guise of ‘education’) or trivialized.”

This Mars/Venus thinking is not true. There are no “brain differences” between men and women and putting anything about hormones and gender in an article about thinking and making informed decisions is completely misguided and, frankly, insulting to intelligent, thinking people of both sexes everywhere. And it is biological sex we are talking about, not notions of socialized gender.

The only good thing about your publishing this sort of thing is that when I meet a man or a woman who has also talked to a male advisor who was all “boys network” with him and “little lady” with her, working with me becomes a no-brainer since I just act with that one sentence (noted above) from your article.

So thanks for that at least…

Most sincerely,

Liz Winfeld, FA, AAMS
INVEST Financial
Cape Elizabeth, ME

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Dan Solin replies:

All of the statements in my article are supported by research which is referenced in an extensive bibliography in my book, The Smartest Sales Book You’ll Ever Read.

Ms. Winfeld states “there are no “brain differences” between men and women…”

There are many studies to the contrary. A recent study from Penn Medicine, one of the world’s leading academic medical centers (funded in part by the National Institutes of Mental Health), found “striking differences in the neural wiring of men and women that’s lending credence to some commonly-held beliefs about their behavior.”

Ms. Winfeld was offended by references in my article to hormones and gender, which she found “insulting.” It was not my intention to offend anyone. I was only summarizing well-documented research. Here is a summary:

For a discussion of the different impacts oxytocin may have on men and women, see Lauren A. McCarthy, “Evolutionary and Biochemical Explanations for a Unique Female Stress Response: Tend-and-Befriend,” on the Great Ideas in Personality website.


For a discussion of how men and women have difficulty communicating, see Deborah Tannen, *You Just Don’t Understand: Women and Men in Conversation* (New York: William Morrow, 1990). Other research shows that men speak more loudly than women, are less inquisitive and are more accusatory, as discussed by Lillian Glass in *He Says, She Says: Closing the Communication Gap between the Sexes* (New York: Perigee, 1995). Ms. Glass also notes differences in body language and facial expressions. She found that women engage in close-eye contact more often than men and that men tend to lean back, whereas women lean forward.

As I noted in my article, these principles are not universally applicable. However, it is important for advisors of both genders to be aware of the research on this subject so they can be guided accordingly.

The following is in response to Joe Tomlinson’s article, *Providing Better Social Security Advice for Clients*, which appeared on February 11:

I strongly disagree with Tomlinson’s findings. He wrote:

"To examine the benefits of delaying from age 62 to 70, we should compare giving up of $1,981 (a month) for eight years to receiving an additional $1,505 ($3,486 - $1,981) for the remainder of life."

Here are two things wrong with that reasoning:

1. First of all, what if the wait-till-70 retiree dies at age 63 -- or 64, 65, 66, 67, 68, 69, 70 or well before the break-even point with the early bird?
2. Tomlinson apparently presumes that the early bird will stuff all his $190,176 worth of Social Security checks under the mattress. What if he invested them in Vanguard’s Wellesley Income fund in the eight-year period from 2006 through 2013? His $190,176 would have become $277,943. How long would it take the wait-till-70's additional $1,505 a month to pay off the $190,176? Answer: 10.5 years.

More realistically, how long would it take for the additional $1,505 a month to pay off the $277,943? Answer: It never would. If the early bird's Social Security investment fund continued to perform the way it did in the previous eight years – 7.83% – in 10 years the early bird's Social Security investment fund would have grown from $277,943 to $309,664 – and of course that is after paying off the annual $18,060 shortfall in Social Security checks.

You cannot compare the advantages of waiting till 70 to collect Social Security unless you account for what the early bird does with his Social Security checks in those eight years. And, of course, if you should have the audacity to die at age 70 your heirs would be out a potential $277,943.

Steve Maersch
Joe Tomlinson replies:

I disagree with the points in Mr. Maersch’s letter.

In terms of probabilities of dying at various ages, there is less than a 5% chance that a healthy 62-year-old will die before age 70, but there is a 50% chance of living beyond life expectancy, which, for typical financial planning clients, I estimated as age 86 from males, 89 for females, and 92 as the last-to-die of couples. My own belief is that the downside of living past life expectancy without adequate income sources (and having to depend on younger relatives, government welfare or private charities) far outweighs the downside of dying early and leaving less of a bequest.

Key in this analysis is the choice of interest rate (or rate of return) used for comparison. I made the case in my article that, since Social Security offers inflation-adjusted benefits guaranteed by the U.S. government, the appropriate basis for comparison is the yield on Treasury Inflation Protected Securities (TIPS). Using average stock returns in this analysis, without adjusting for the additional volatility, is not a valid comparison. However, if you analyze Social Security delay in a total financial-planning context, the extra secure income provided by Social Security delay makes it feasible to take more stock market risk with the remainder of the savings than would be prudent if Social Security were not delayed.