



The True Believer

David Booth, '71, proves his Chicago smarts by refusing to out-think the market.

By Libby Morse
Photos by Matthew Gilson

Feature The True Believer

In 1969, **David Booth** packed up his Valiant convertible and left Lawrence, Kansas, to begin the doctoral program at Chicago GSB. For a diehard Jayhawk, it was a major step. Booth had spent his teenage years in a house just down the street from Allen Fieldhouse. He had already earned a bachelor's in economics and a master's in business from the University of Kansas. And he was certain that once he'd earned his PhD, he'd return to KU as a professor.

But Booth had experienced an epiphany—and it had Chicago GSB written all over it. During his master's program, he took finance from **Frank Reilly, PhD '68**. The syllabus had included the efficient markets theories of **Merton Miller** and **Eugene Fama, MBA '63, PhD '64**, and Booth recognized right away that these were driving “a fundamental paradigm shift.” He wanted to be part of the revolution. Reilly, he recalls, told him Chicago was “the only place to go.”

Booth didn't become a professor. Instead, building almost entirely on what he experienced at Chicago—both the insights he gained into efficient markets and the relationships he forged there—he co-founded the maverick investment firm Dimensional Fund Advisors. Since opening its doors in 1981, the firm has grown into one of the largest institutional fund managers in the United States. As of October 2008, Dimensional managed about \$120 billion in assets, with many of its funds routinely beating the benchmarks.

Booth's arrival at Chicago as a doctoral student is a great example of perfect timing. Over the previous ten years, the business school had emerged as an undisputed if iconoclastic finance powerhouse, with talent that included future Nobel laureates Miller and **Myron Scholes, MBA '64, PhD '70**, and, of course, Fama. These scholars didn't have to go far to get the data demanded by their rigorously empirical work: much of it was supplied by the first-ever historical stock price database, created in 1960 at Chicago's Center for Research in Security Prices (CRSP) by **James Lorie** and **Lawrence Fisher**.

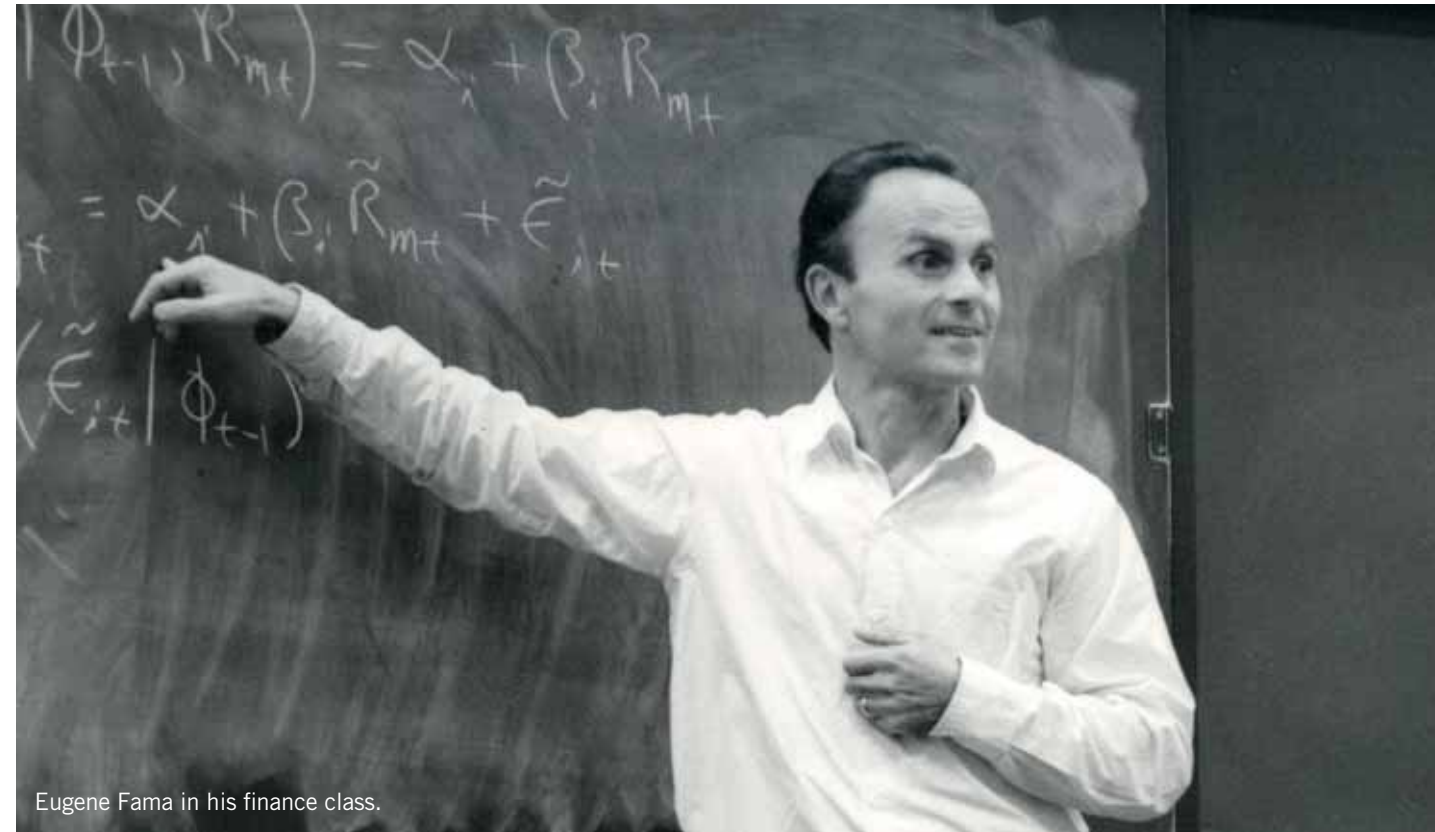
“It was a wild time to be at Chicago,” Booth says. “The world was changing very rapidly, and Chicago was really at the center of it.” The work that was done in Chicago between 1963 and 1973 in finance, he says, has yet to be surpassed by any other business school anywhere.

Booth's very first course at Chicago was finance, taught by Fama himself. “That was probably my life-changing event,” he says. “It was a two-quarter sequence, and we didn't even have a textbook. It was all photocopies of data material. Fama and Miller had gotten together and decided to write a textbook, and we had the rough draft.” On the first day, Booth recalls, Fama told the students that his class would be the most practical one they would ever take. “I was young and naïve enough to believe him—and it turns out in my case to have been true.”

A Change in Direction

Booth returned to the finance course in his second year, this time as Fama's teaching assistant. He calls the experience “a mixed blessing”—but not, as some may suspect, because of Fama's legendary directness (Booth calls him “an incredibly honest guy” and “abundantly fair”). Rather, Booth still rues that he didn't take full advantage of collaborating with the man whose theories changed his own way of thinking and the world of finance in general. “Every afternoon I would go into his office and he'd hand me pages of handwritten notes of stuff he wanted me to work on,” Booth recalls. “I felt like I was taking this guy's money—he's working harder than me. I don't think I've met anybody as competitive as Gene in my whole career, and one doesn't usually think of that competitiveness when you think of professors.”

Fama's combination of drive and brilliance convinced Booth that maybe academia wasn't for him after all. “He was smarter than I was and willing to work harder—how was I ever going to compete with people like him?” he says. “I thought there must be more like him out there. I didn't realize he was unique.” Fama took the news in stride, and helped Booth, now with an MBA, find his first job: an analyst at Wells Fargo Bank in San Francisco, where he



Eugene Fama in his finance class.

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worked on one of the first index funds with John A. “Mac” McQuown.

Booth's TA experience with Fama was pivotal for another reason: one of the students in the class was a former seminarian turned MBA student named **Rex Sinquefeld, '72**. Their enthusiasm for efficient markets thinking was equally avid, and throughout the decade after they left Chicago, they remained in touch. Like Booth, Sinquefeld also was pioneering index funds as a trust officer at American National Bank and Trust in Chicago. Many of their conversations centered on their shared and growing frustration with the finance sector's reluctance to pursue the implications of efficient markets theories, especially when it came to small cap stocks.

By 1981, they were convinced that the entrepreneurial route was the only way to go and they formed Dimensional Fund Advisors.

Rather than be one more management firm to assert they could beat the market through stock picking, Dimensional would base its ability to look at the interplay of all three dimensions “and engineer solutions around it.” The first of these “solutions” was exactly what Booth and Sinquefeld had lobbied for unsuccessfully at their previous jobs: a small cap fund that was fully indexed.

Another early move by Booth was to call Fama and ask him to serve on the board of the mutual funds managed by Dimensional, building the brain trust that has become one of Dimensional's most unusual and frequently singled-out features. In short order Miller, Scholes, and **Roger Ibbotson, PhD '74**, also signed on; **George Constantinides**, **Ken French**, **Jack Gould**, and **Abbie Smith** would join them in the years to come. Only one Dimensional director, Nobel Prize winner Robert Merton, does not have Chicago on his vitae. According to *Financial Advisor*

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—David Booth '71

Magazine, one consultant who has worked with Dimensional described the firm as “an applied think tank from the University of Chicago.”

Brownstone Beginnings

But while Dimensional’s academic bench was stellar from the start, its original corporate trappings were decidedly down-to-earth. Dimensional’s first world headquarters was in a spare bedroom of Booth’s Brooklyn Heights brownstone. When he requested six phone lines, New York Telephone initially refused. “They thought we were running a bookie joint,” he says. “I ended up having to call up the VP of finance and say, ‘Look, we’re a struggling firm out here in Brooklyn, can you send somebody out?’ So they did—and they became a client.”

It wasn’t just Dimensional’s phone requests that initially seemed outlandish to outsiders. While indexing would one day become an industry standard, in 1981, it was regarded as radical at best. Dimensional’s principals and sales teams made more than one thousand calls in the first two years of the firm’s existence, and rejections were the norm.

But it didn’t take too long for their way of thinking to gain traction. When the *New York Times* profiled newcomers to the pension management business in 1983, the story opened with the sentence, “David Booth makes it look easy.” By then, Dimensional had landed 48 corporate pension fund accounts worth \$650 million. “And he still has time to take midday jogs across the Brooklyn Bridge,” the story gushed.

Booth told the *Times* he expected Dimensional’s approach to investing wouldn’t be unique for long. He was wrong. “Nobody else has tried to imitate what we do,” he says now. “It’s really funny—and staggering—because to my mind it’s Economics 101. And I think it’s because at this basic level, we have this belief in how markets work that we learned at the GSB that’s difficult for most people to accept. It’s a

strong belief system that gives us a degree of freedom to be innovative.”

For its part, the financial press has always been somewhat flummoxed by the way Dimensional has leveraged intellectual heft and data-driven certitude to reap mind-boggling results. Reading the firm’s clips conjures up an image of Albert Einstein meets Elmer Gantry, with writers evoking a vocabulary that includes “wonky,” “brainiac,” and “über intellects” as well as “crusade,” “revival meeting,” “zealots,” “religious cult,” and “fundamentalists.” It’s not lost on Booth that these are often the same words used to describe the business school itself. The success of his company, he says, should offer more than enough proof that Chicago theories pay off with real-world rewards. “Our business proposition is the value added by implementing these ideas,” he says.

While Booth himself decided against a career in academia many years ago, he’s never left it completely behind. He’s written numerous scholarly articles, and one he co-authored with Fama, “Diversification Returns and Asset Contributions,” won a Graham and Dodd Award from the *Financial Analysts Journal* in 1992. And he’s still very much committed to passing on to others the ideas that changed his life. Classrooms are standard features at Dimensional’s offices. Potential clients not only have to pass a rigorous screening process, they also have to attend a mandatory and decidedly un-cushy two-day seminar on the theories behind Dimensional’s success. Expenses are not paid. (“We don’t even give them pens,” Dimensional’s Daniel Wheeler, told Bloomberg News.)

Back to School, Chicago-Style

Learning Dimensional’s fundamentals isn’t everyone’s cup of tea, Booth admits. The ideas don’t lend themselves to a 30-second sound bite, and “our challenge is to find people who are willing to invest enough time to learn the message.”



Booth, shown here at a meeting at Dimensional in Austin, said the business school taught him the importance of encouraging debate.

Seeing that happen, he adds, has been one of the great rewards of his professional life. “You see the light go on,” he says. “It’s a transformative experience.”

Bloomberg News has wryly noted that many Dimensional advisors “travel in a parallel universe where the rest of the world seems to be completely out of its mind.” But one seminar attendee has a retort to such charges: “People say it’s like drinking Kool-Aid, that we’re in a trance,” he said. “That’s a bunch of BS. All we did was become educated, and everyone who is doing active management is not.”

As an added bonus, attendees are often schooled in Dimensional’s fundamental principles by the very people who invented them—most notably Fama. “I’ve known Gene Fama now for 39 years and he still uses the same types of transparencies,” Booth says laughing. “The whole world has gone to PowerPoint except Gene.”

Booth continues to believe that there’s also a lot to learn from Chicago that isn’t in theories or curricula. He credits the business school for showing him the value of encouraging intense, open debate. “It had a pronounced effect on the way

we manage our firm,” he says. And he feels his own personal belief system has been shaped by the principles of uncertainty and randomness that underlie efficient markets. “Before the University of Chicago, I had a tendency to always connect, to always look for causality,” he says. “Chicago made it easier for me to accept uncertainty and the effects of random outcomes. Studying it in detail makes you much better prepared to go through life and be more accepting.”

Booth has never forsaken his beloved Jayhawks—KU’s Booth Family Hall of Athletics, a gift from all the Booth siblings in honor of their parents, is testimony to the family’s enduring bonds. But he also counts himself among Chicago’s biggest fans. “My adult life has been just one continuous exposure to the ideas at Chicago,” he says. “I was thinking this the other day: too often people outside of business think of businessmen as people who make some sort of Faustian pact in order to get ahead. I see my career as spreading the word about efficient markets and helping people have a much better investment experience. So my pact with Chicago is a kind of anti-Faustian pact.” ■

Five minutes with David Booth

What do you consider your greatest accomplishment?

Professionally, it's participating in the development of Dimensional Fund Advisors from its inception. Personally, it's having a family.

Is there something you wish you had known at the start of your career?

I wish I would have known how important cash flow is in the first few years of a firm. Everybody knows it's going to be tight, but however tight you think it's going to be, it's going to be tighter than that.

What has been your most humbling moment?

There have been a lot of humbling moments. When you're out competing for clients, it's humbling when you don't get the business. It's humbling when a client becomes disappointed enough to leave. Every time there's a market crash, that's pretty humbling.

Career Highlights

Education: BA, MS, University of Kansas
MBA, University of Chicago

After receiving his MBA, David Booth worked on the first index funds at **Wells Fargo** and later served as vice president at A.G. Becker.

His publications include "**Diversification Returns and Asset Contributions**" co-authored with **Eugene Fama**, which won a **Graham and Dodd Award** from *Financial Analysts Journal* in 1992.

He is chief executive officer at **Dimensional Fund Advisors**, which he co-founded in 1981.

What's the single hardest part of your job?

It's developing appropriate organizational skills as the firm grows. When you're small, you don't need to have much of a management philosophy; as you get bigger and more structured, you need more standard solutions.

What's the best part of your job?

The very best part is that I don't really have to do things that I don't want to do any more. When you start up, there are certain things that have to get done and there isn't always somebody else around to do it. Now, it's like not having to eat your vegetables anymore.

Is there a particular part of your job that you would never want to give up?

The dialogue we have with clients and academics. It's very stimulating.

Have you had a critical moment in your career where you were able to succeed, perhaps when failure felt imminent?

When we started the firm, we had a long registration process with the mutual funds that we wanted to get started. It took about nine months. And one day the lawyer called up and said, "You're effective." We had clients, and they wired the money in, and it was a real company. Any time you get people's money it's a big reality check, an "a-ha" moment. There wasn't any one moment when we thought, now we're going to survive. But just getting the first few clients was amazing—you always remember the first few clients for every investment strategy.

If you had to choose another line of work, what would it be?

I would stay in the finance area. This is what I've always wanted to do. Whatever the second choice is, it would be a big drop from what I'm doing now. If I couldn't do what I'm doing, I guess the next best thing would be to teach. That was the plan I'd started with.

Can you pinpoint the moment when you decided you wanted to create Dimensional, when you got the seed for the idea?

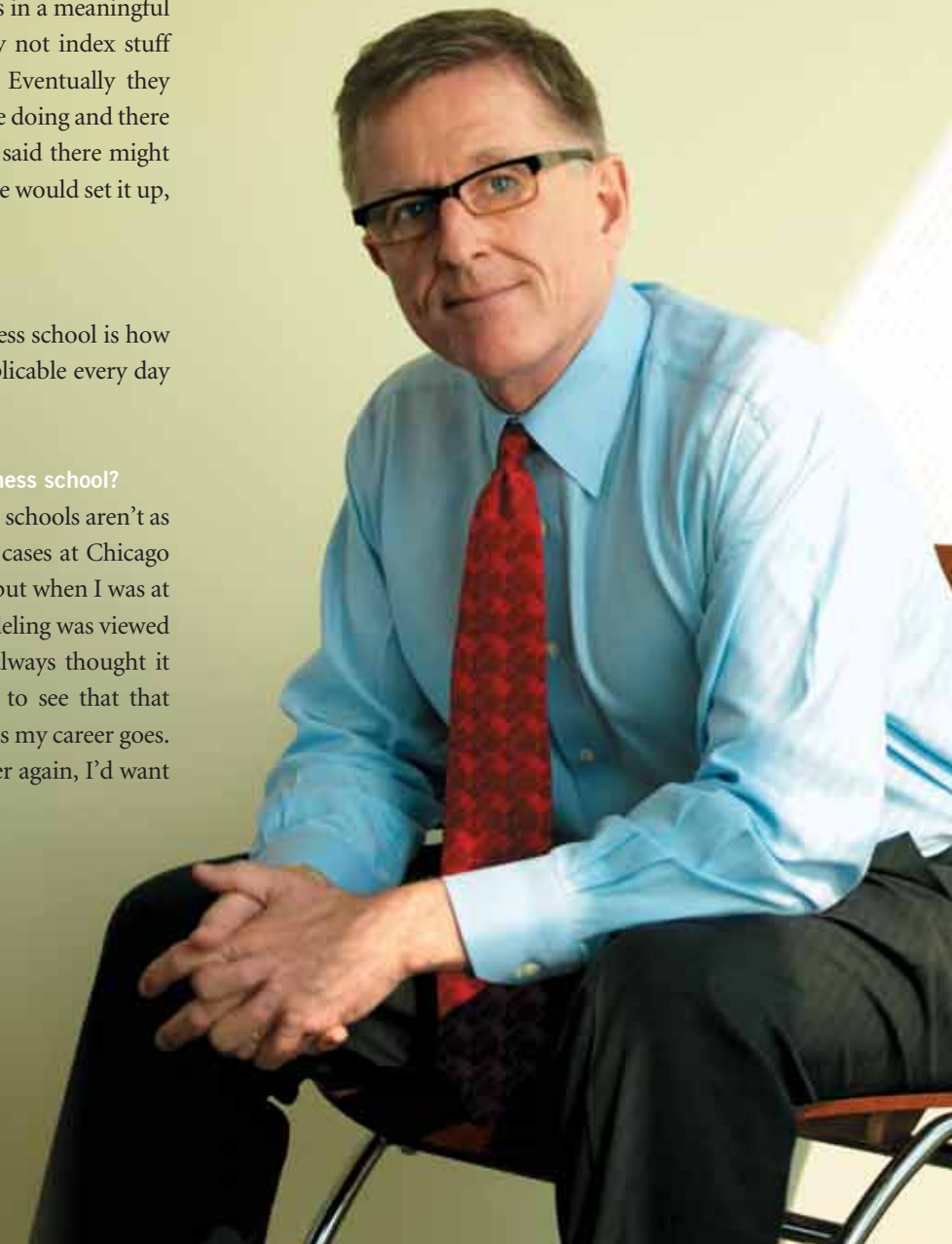
Yes, I had done consulting work for AT&T and helped them set up an S&P 500 index fund that they managed internally. Along the way, I said, you really don't need an S&P 500 index fund because they had 100 managers managing equities for them and one big index fund, and none of these 100 managers was holding stocks of smaller companies in a meaningful way. If you want to index something, why not index stuff outside the S&P, the smaller companies? Eventually they agreed to do that. I told people what we were doing and there was a lot of interest. One of my colleagues said there might be a business in this. I thought about how we would set it up, and that was really the genesis.

Is there anything else you'd like to share?

What's really been remarkable about business school is how much the principles I learned there are applicable every day at the firm.

Did you expect that when you went to business school?

No. Today the differences between business schools aren't as great as they used to be—they teach some cases at Chicago and they teach a little theory at Harvard—but when I was at school, the idea of teaching theory and modeling was viewed as "ivory tower," not all that practical. I always thought it was worthwhile, and I've been impressed to see that that approach has been validated, at least as far as my career goes. It's been terrific, and if I had to do it all over again, I'd want the same kind of business education.—M.M.B.



The Family Ethos Suzanne Deal Booth

Family Highlights

Suzanne Deal Booth

Education: BA in Art History, Rice University
Conservation Diploma, Institute of Fine Arts, NYU
MA in Art History, Institute of Fine Arts, NYU

Suzanne's postgraduate studies in art conservation took her to Paris where she restored important 20th century paintings in the permanent collection at the Centre National d'Art et de Culture Georges Pompidou. She also has worked at the J. Paul Getty Trust in Los Angeles and at the Menil Collection in Houston.

Suzanne currently serves on many boards, including the Los Angeles County Museum of Art, the Geffen Playhouse at UCLA, and the American Academy in Rome. She launched the Rice University Humanities Advisory Board.

She is director of the Friends of Heritage Preservation, which has accomplished 29 preservation and conservation projects spanning four continents.

David and Suzanne were married in Los Angeles on August 8, 1988, and celebrated their 20th wedding anniversary last August with a family trip to see the total eclipse in Mongolia and to visit the Beijing Olympics.

Erin Deal Booth

Erin, 18, is an art history major at Georgetown University in Washington, DC.

D. Chandler Booth

Chandler, 11, is a fifth grader with interests in judo, Chinese, and basketball.

"It's been brewing for a while," says Suzanne Deal Booth of her and her husband's decision to make a precedent-setting gift to the business school. But she also sees it as a natural progression of their shared personal interests, as well as their professional and philanthropic commitments.

Booth has made her career in the field of artistic and historic preservation; she met David Booth shortly after moving to Los Angeles to work at the Getty Conservation Institute. She describes her husband as someone who "loves history" and is an avid reader of nonfiction. Even family vacations have been built around exploring cultural legacies. "We don't go to the beach," she adds with a laugh. "We go look at what past civilizations have left behind."

In 1998, the couple created the Friends of Heritage Preservation, www.fohpinfo.org, which acts as kind of rapid response team for initiatives encompassing everything from entire sites to single works of art. In 2001, the family moved to Rome for a year to immerse themselves in similar projects there. "We arrived on September 5, 2001, so we were there less than a week when the world changed," she says. The experience was so illuminating that the family is now talking about continuing their in-depth exploration of cultures with a similar sojourn to Asia (their son, a fifth grader, is studying the Chinese language).

It's this same strong sense of history and legacy that prompted the Chicago gift. "David and I have both been thinking about our lives lately, and we believe what goes around comes around," she says. Giving to educational institutions, she adds, is a way of both conserving the past and building upon it. "Every generation is different," she says. "What David is doing at Chicago, and what I'm currently doing at Rice University (her alma mater), is to honor the experiences we had, but also provide the flexibility for new ideas and experiences to thrive." —L.M. ■



The Booth Family