

PERSPECTIVES

Value's Rebound Rewarded Investors Who Stayed in Their Seats

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Value's recent turnaround has rewarded investors who remained disciplined following its prolonged slump. In addition to reminding us how quickly premiums can show up, the past few years reinforce an important factor in determining how much one should tilt toward higher expected returns: The upside is beneficial only if you can stay invested through the down times.

THE PENDULUM SWINGS

The three-year period ending in June 2020 was [one of the worst ever](#) for the US value premium, with the Russell 1000 Value Index underperforming the Russell 1000 Growth Index by 17.2 percentage points annualized. Since then, value has been mounting a comeback, beating growth by 8.1 percentage points annualized through June 2022.

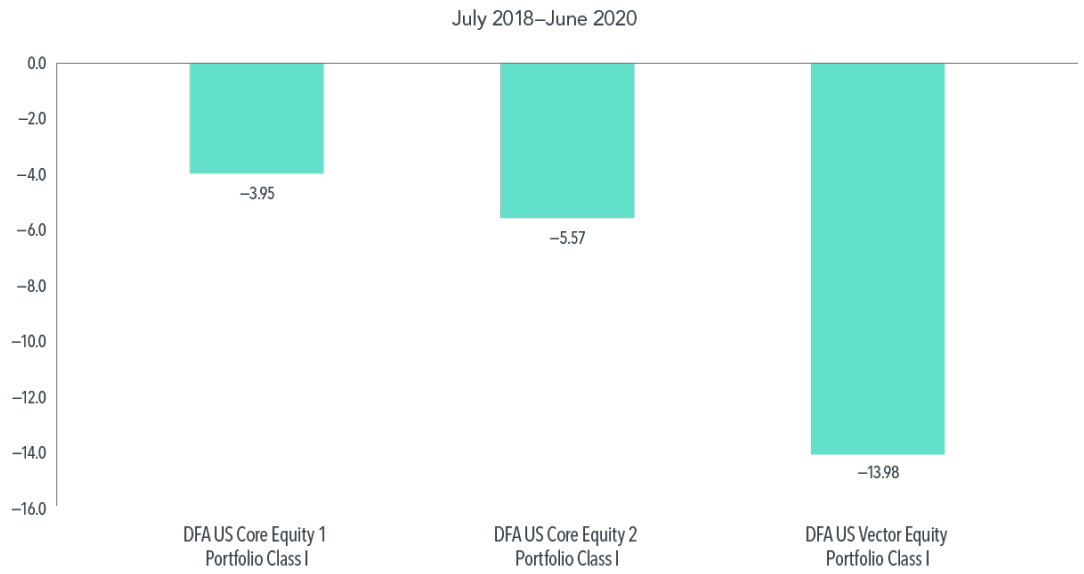
Investors' experience during these times depended, in part, on their degree of value emphasis. The more one deviates from the market along drivers of expected returns, the greater the tracking error relative to the market—but the greater the expected outperformance when targeted premiums are positive.

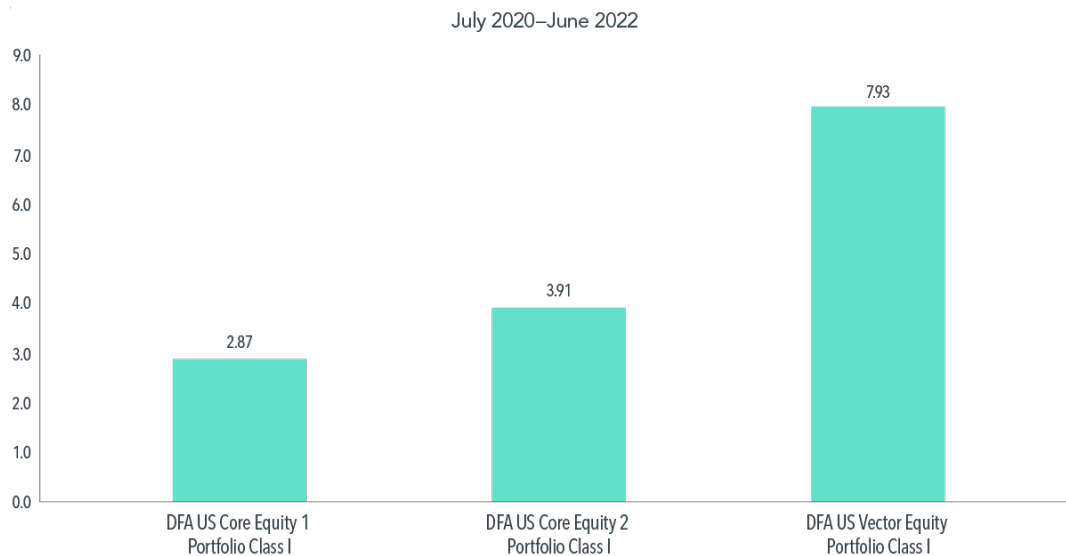
Three of Dimensional's US marketwide strategies convey the range of outcomes for various levels of tilt (see [Exhibit 1](#)). During the value swoon from 2018 through 2020, the relatively lower-tilted US Core Equity 1 Portfolio underperformed the Russell 3000 Index by 3.95 percentage points per year. At the other end of the spectrum, US Vector Equity trailed the index by 13.98 percentage points.

The script has since flipped.¹ Value's rebound helped push Core 1 to a nearly three-percentage-point advantage over the market in the two-year period ending in June 2022. On the other hand, Vector's heavier tilt led to outperformance of nearly eight percentage points per year.

Exhibit 1
Switch Back

Annualized return difference (in percentage points) vs. Russell 3000 Index





Performance data shown represents past performance and is no guarantee of future results. Current performance may be higher or lower than the performance shown. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain performance data current to the most recent month-end, visit dimensional.com.

Short-term performance results should be considered in connection with longer-term performance results.

Source: Dimensional. Returns in USD and net of all fees and expenses.

FINDING BALANCE WITH YOUR TILTS

It's important for investors to balance their enthusiasm for higher expected returns with their tolerance for underperformance. Reining in one's tilts toward the premiums following a period of underperformance—and consequently forfeiting a portion of the eventual rebound—could lead to an unfortunate scenario. Land on a tradeoff you can stick with and you may find April showers are followed by May flowers.

Value Premium: The return difference between stocks with low relative prices (value) and stocks with high relative prices (growth).

Appendix

As of June 30, 2023

	Symbol	Average Annual Total Returns (%)			Total Operating Expense Ratio
		1 Year	5 Years	10 Years	
US Equity Mutual Funds					
US Core Equity 1 Portfolio	DFEOX	18.54	10.78	11.88	0.14%
US Core Equity 2 Portfolio	DFQTX	18.28	10.44	11.32	0.18%
US Vector Equity Portfolio	DFVEX	14.71	7.52	9.49	0.28%

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1. Wes Crill, "Expectations vs. Reality in Value Funds" *Insights* (blog), Dimensional Fund Advisors, July 2022.

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Risks include loss of principal and fluctuating value. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. **Equity Market Risk:** Even a long-term investment approach cannot guarantee a profit. Economic, market, political, and issuer-specific conditions and events will cause the value of equity securities, and the portfolio that owns them, to rise or fall. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. **Value investing** is subject to risk, which may cause underperformance compared to other equity investment strategies.

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