10 Ways Investments and Markets Have Evolved

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This year, Dimensional is celebrating 30 years of working with financial advisors, a collaboration that has helped change the way the world thinks about investing. To recognize that impact, we have compiled 30 ways that investors can benefit from the industry's transformation. In this second of a three-part series (click here for the first installment), we consider 10 ways that capital markets and investment approaches have realigned for the better.

—Dave Butler, Co-CEO

1. Financial science becomes a driving force in well-designed portfolios.

Academic evidence casts light on the challenges with traditional investment approaches, such as security selection and market prediction, and pushes advisors toward more robust, research-informed investment strategies.

2. Theoretical and empirical research identifies drivers of investment returns.

Research shows that stocks offering higher expected returns can be identified using company size, relative price, and profitability. For bonds, information in the yield curve and credit spreads reveals higher expected returns.

3. Global information and competition further advance the market's pricing power.

Each day, the global security markets process billions of dollars in trades between buyers and sellers—and their collective wisdom helps drive securities prices toward fair value.

4. Commissions on securities trades have dropped.

The rise of electronic trading networks diminishes the influence of large market exchanges, while reduced broker commissions bring lower average trading costs across markets.

5. Bid-ask spreads on securities trades have compressed.

Advanced technology, decimalization, and multiple trading venues reduce implicit costs by narrowing bid-ask spreads across trades. Investment strategies that have more trading flexibility can further reduce these spreads.

6. Improved access to global markets enables broad portfolio diversification.

Advisors once had limited fund choices for building global portfolios. Today, they can work with fund managers that offer diversified, value-added access to US, international, and emerging markets.

7. Average mutual fund expense ratios have fallen.

The market's information-processing power works against high-cost mutual fund managers, who struggle to outperform through stock picking and market timing. Investors increasingly favor lower-cost, transparent investment approaches.

8. Cost-effective implementation has become a key differentiator in asset management.

Research into the capital markets is publicly available. What matters is how asset managers can effectively implement the ideas in real-world investment strategies.

9. Securities lending has become a source of added value in well-run investment vehicles.

The best investment managers continually work to incrementally improve returns. One value-added approach is to lend a portfolio's securities to third parties for a fee.

10. Financial advisors gain access to investment solutions used by sophisticated institutions.

The investment industry has evolved along with markets. Advisors can now apply strategies and tools that were once available only to large institutional investors.

Diversification does not eliminate the risk of market loss.

Securities lending involves risks. Revenue is not guaranteed and may fluctuate. Lending activities are conducted by the Custodians for the funds.