



Performance of the Premiums

(and what's a *premium*?)

presented by Dr. Dave Yeske, CFP[®]

LIVE BUIGSM



Performance of “Premiums” in the Stock Markets

- Market Prices Contain Relevant Information
- Dimensions of Expected Returns
- Yearly Observations of the Premiums
- Historical Observations of Five-Year Premiums
- Historical Observations of 10-Year Premiums
- Historical Performance of the Premiums over Rolling Periods



Market Prices Contain Relevant Information

Prices reflect the aggregate expectations of market participants.

Fairly priced securities can have different expected returns.

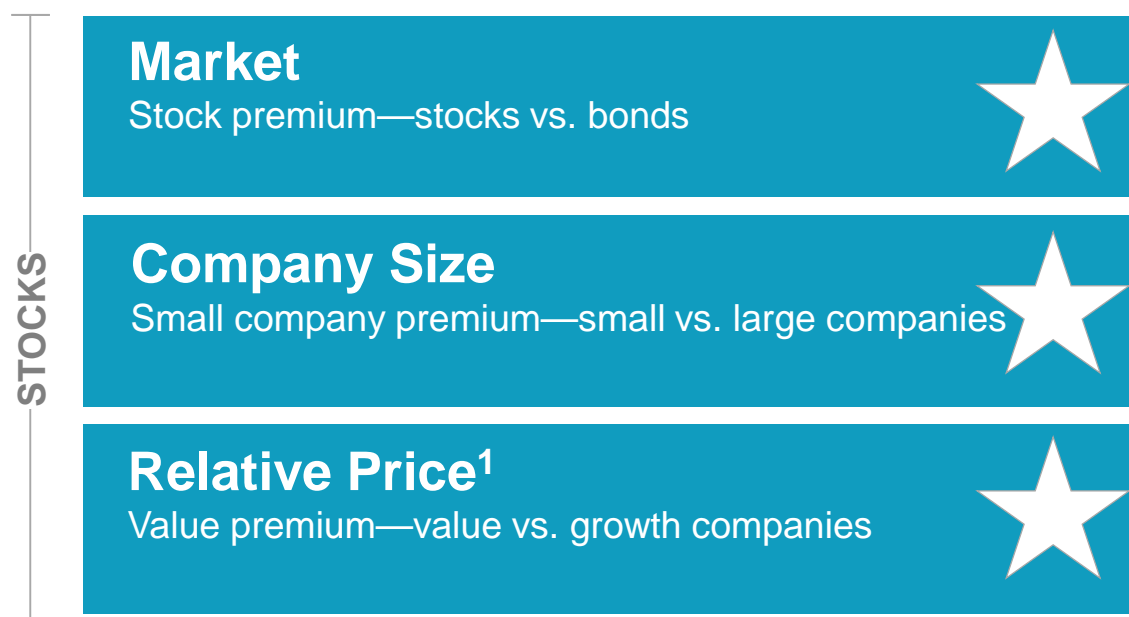
Efficiently capturing higher expected returns requires the rational use of information contained in security prices.



Dimensions of Expected Returns

Expected returns are driven by prices investors pay and cash flows they expect to receive

DIMENSIONS POINT TO SYSTEMATIC DIFFERENCES IN EXPECTED RETURNS



To be considered a dimension of expected return, a premium must be:

- Sensible
- Persistent
- Pervasive
- Robust
- Cost-effective

These are also known as “Risk Factors” or “Priced Risk Factors.”

1. Relative price as measured by the price-to-book ratio; value stocks are those with lower price-to-book ratios.



Relative Price, aka “Value”

The total value of all of a company's stuff is called its “Book Value”



	ABC, Inc	XYZ, Inc
Book value per share	\$3	\$3
Market price per share	\$6	\$15
Price-to-Book Ratio	2.00	5.00
	“Value”	“Growth”

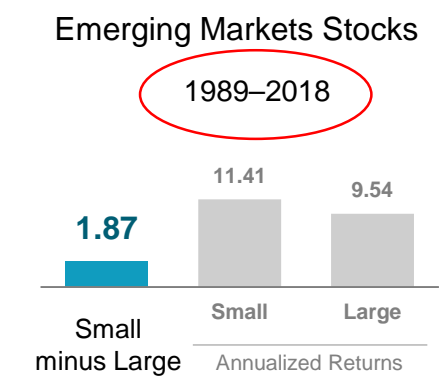
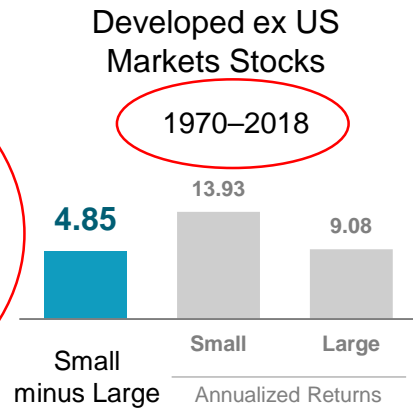
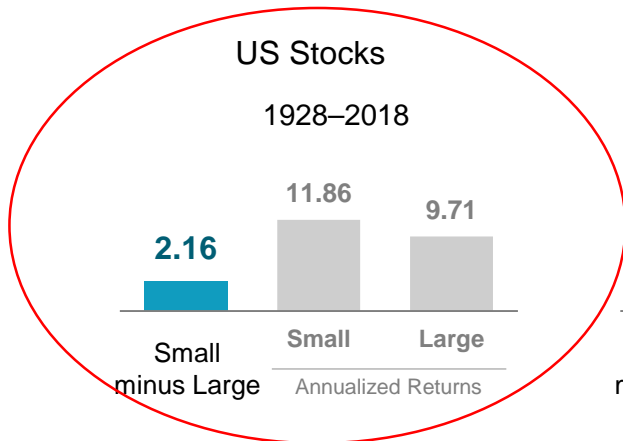


Dimensions of Expected Returns

Historical premiums and returns (annualized): US, Developed ex US, and Emerging Markets

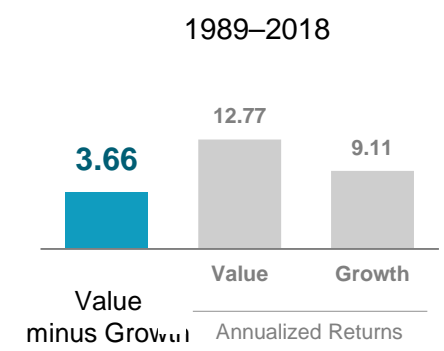
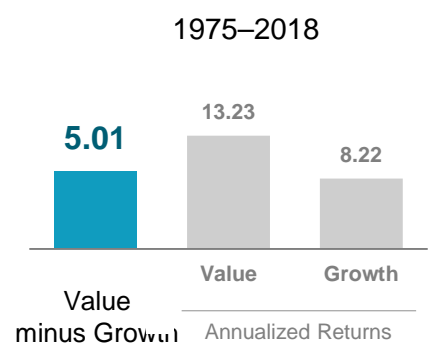
Company Size

Relative performance of small cap stocks vs. large cap stocks (%)



Relative Price

Relative performance of value stocks vs. growth stocks (%)



Information provided by Dimensional Fund Advisors LP.

All returns are in USD. Premiums are calculated as the difference in annualized returns between the two indices described over the period shown. MSCI indices are gross div.

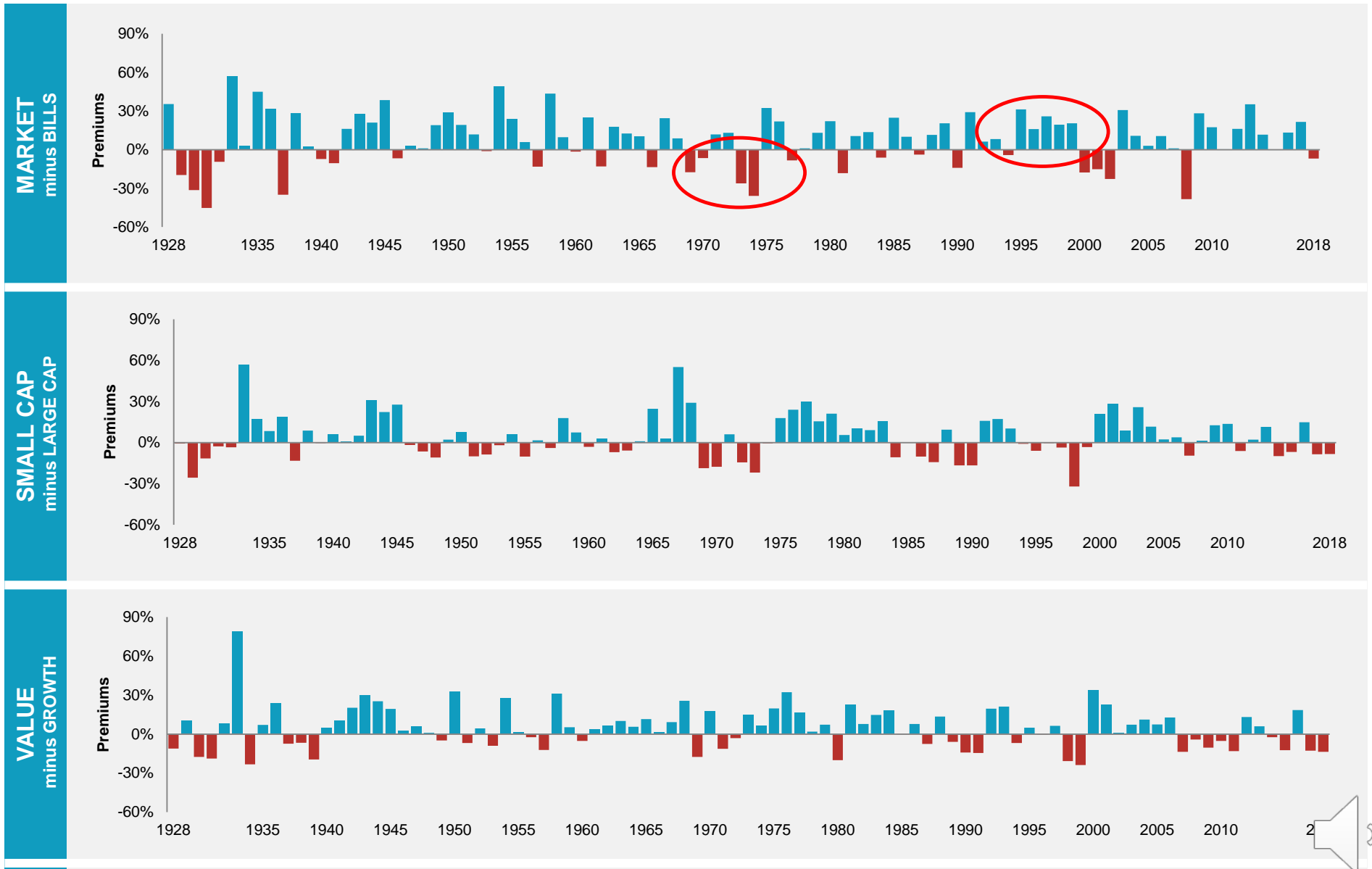
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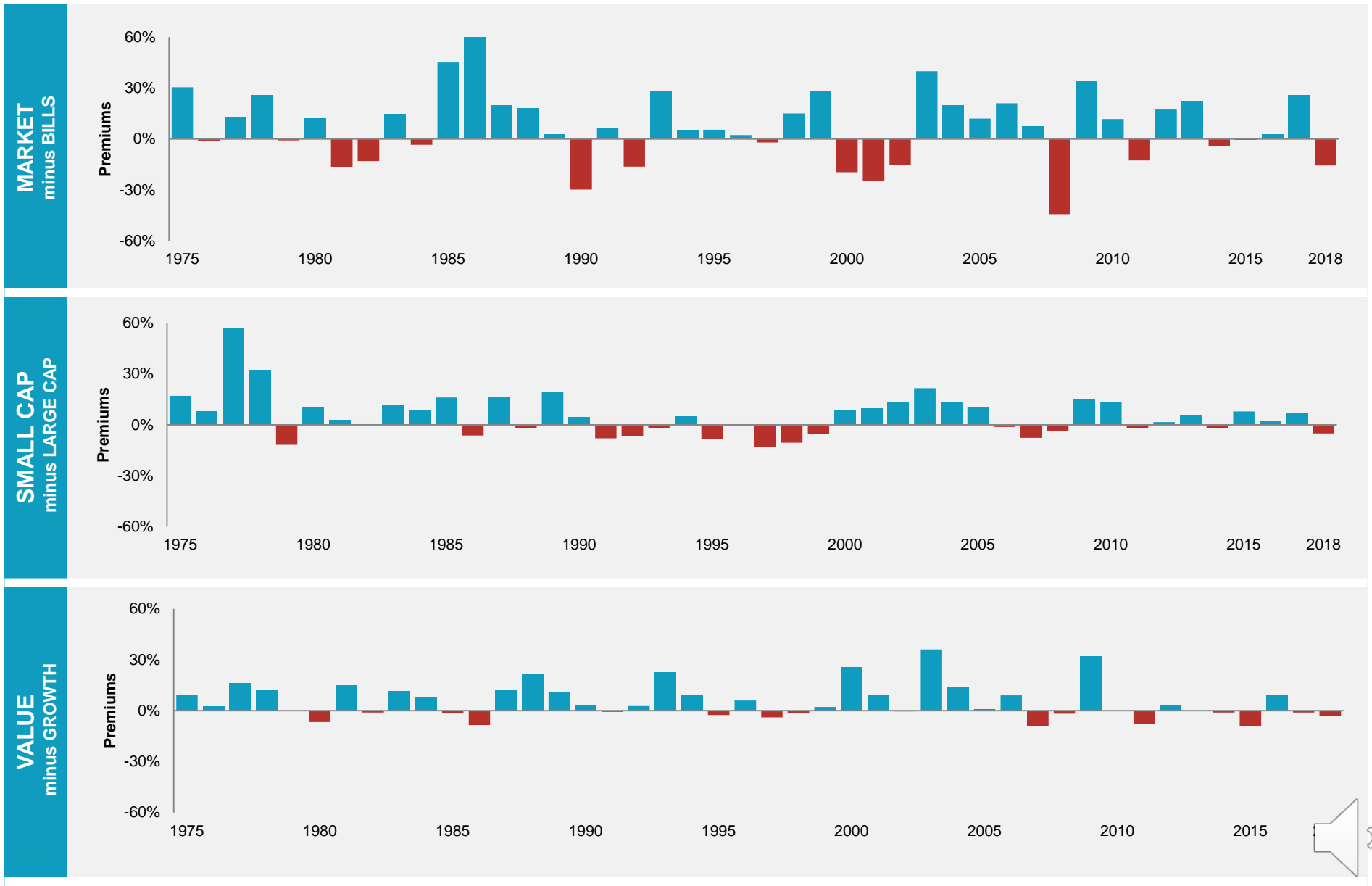
Yearly Observations of Premiums

Equity, size, and relative price: **US Markets**



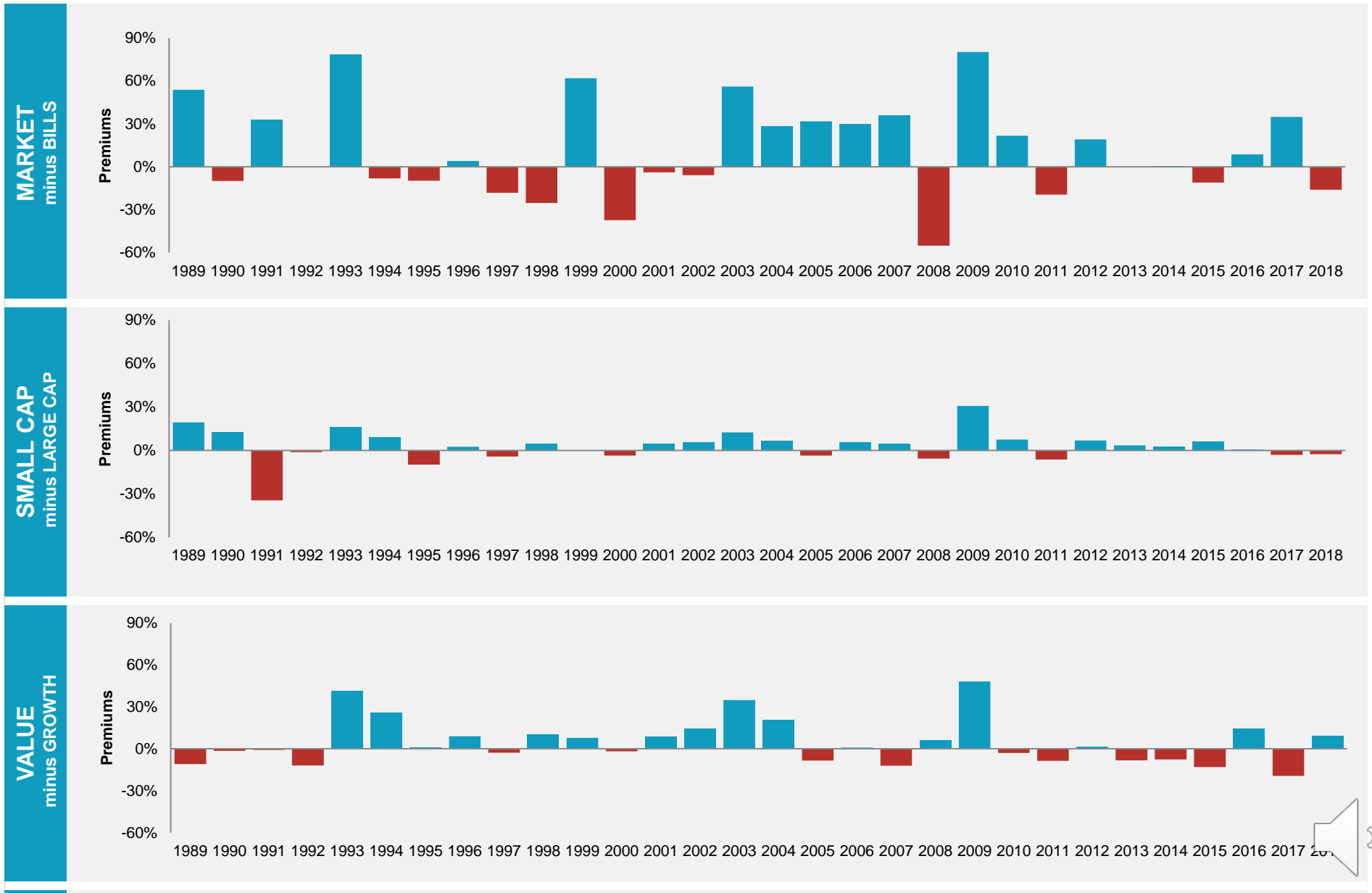
Yearly Observations of Premiums

Equity, size, and relative price: **Developed ex US Markets**



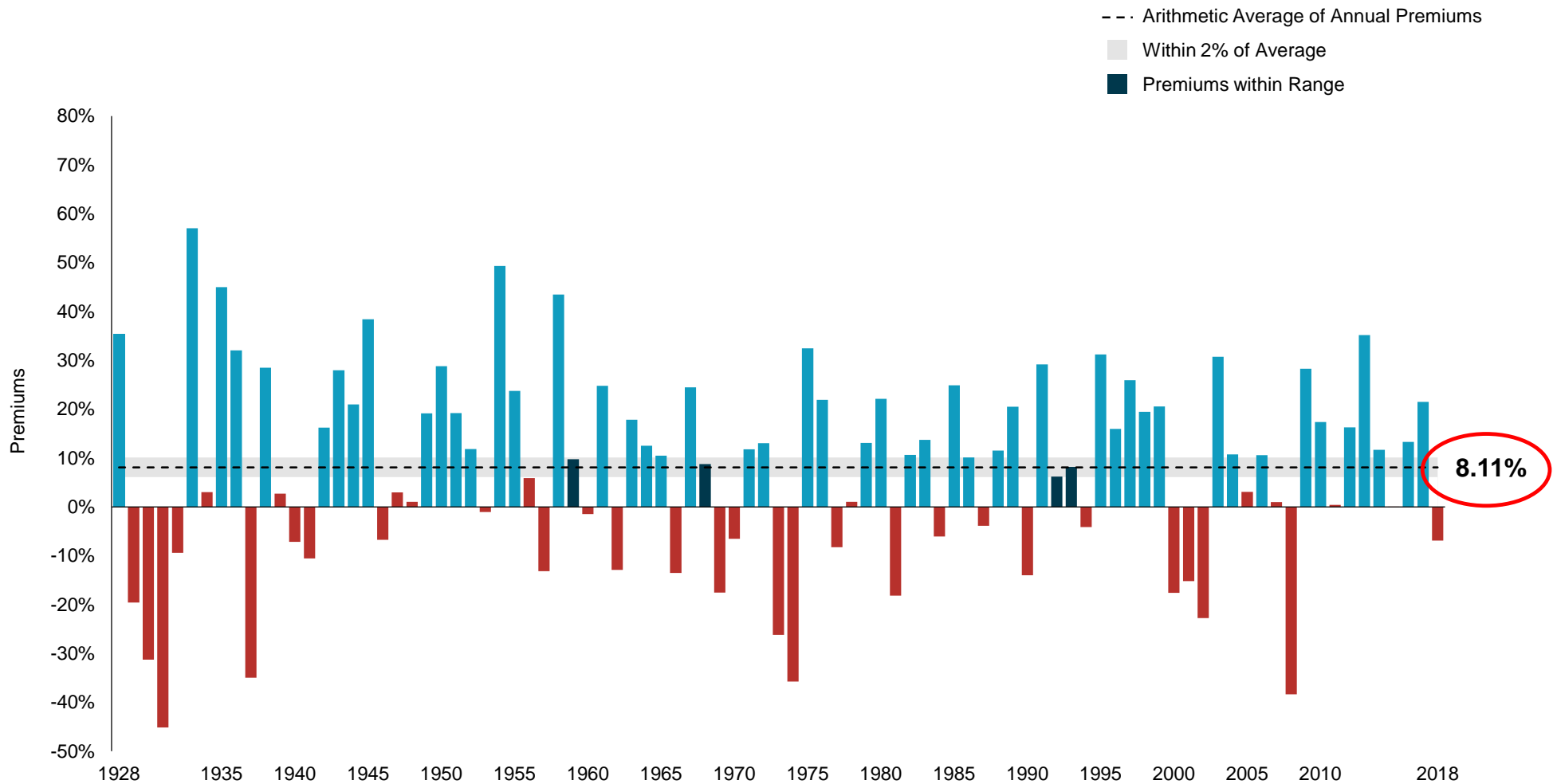
Yearly Observations of Premiums

Equity, size, and relative price: **Emerging Markets**



Yearly Observations of Premiums

Market minus one-month Treasury bills: **US Markets**
1928–2018



Information provided by Dimensional Fund Advisors LP.

In USD. Yearly premiums are calculated as the difference in one-year returns between the two indices described. Market minus Bills: Fama/French Total US Market Research Index minus the One-Month US Treasury Bill.

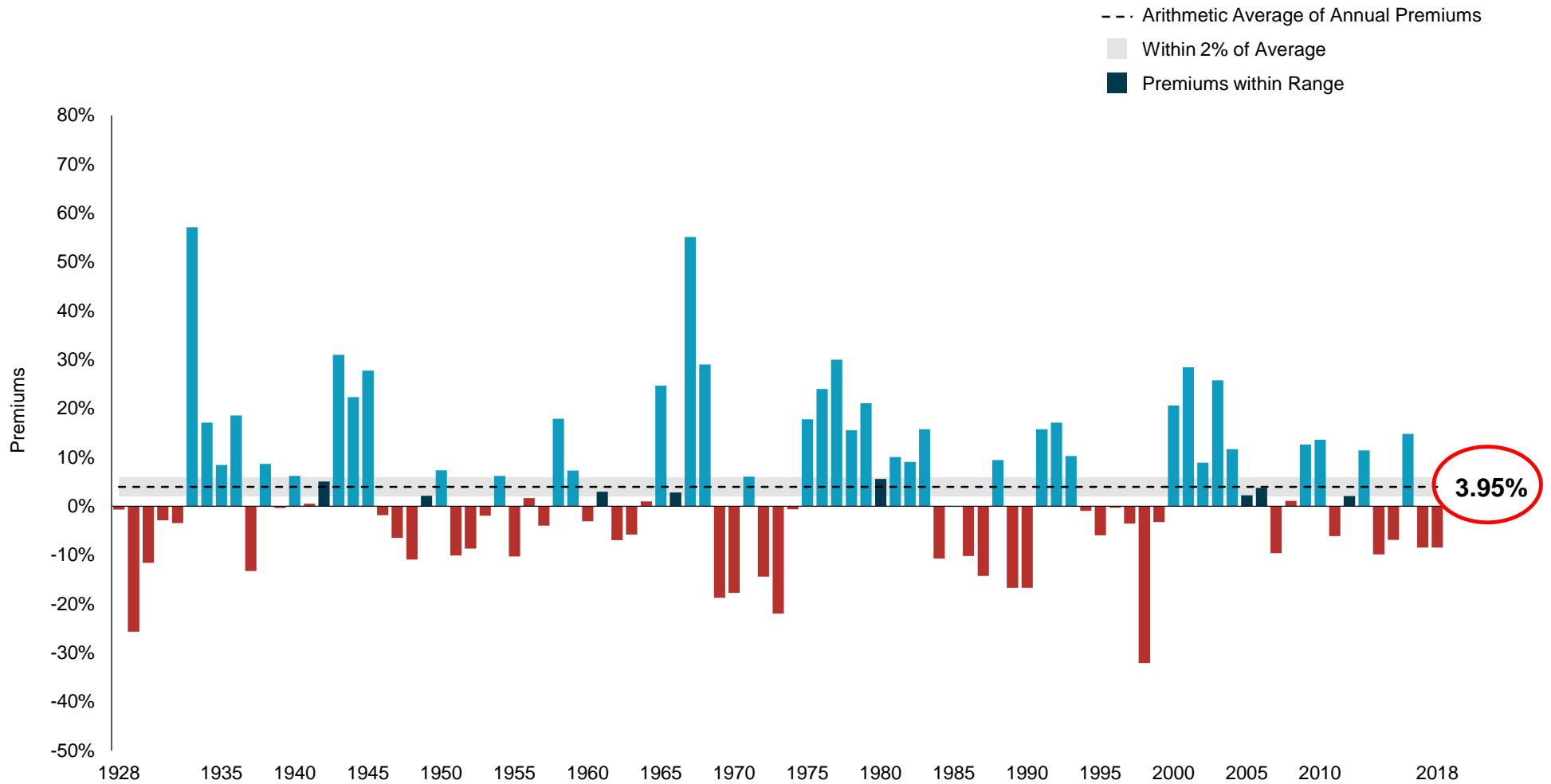
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Yearly Observations of Premiums

Small cap minus large cap: **US Markets**
1928–2018



Information provided by Dimensional Fund Advisors LP.

In USD. Yearly premiums are calculated as the difference in one-year returns between the two indices described. Small Cap minus Large Cap: Dimensional US Small Cap Index minus the S&P 500 Index.

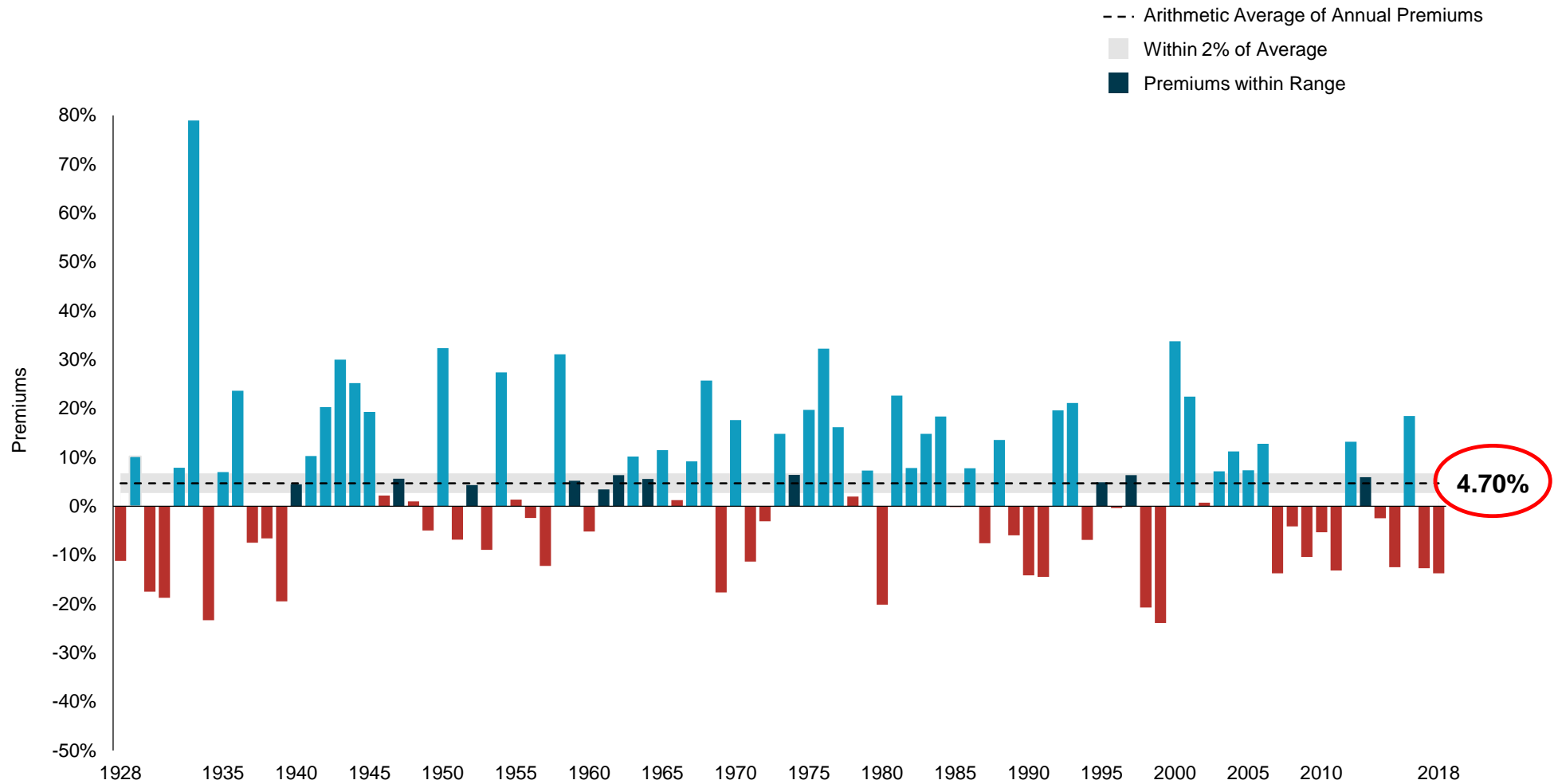
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Yearly Observations of Premiums

Value minus growth: **US Markets**
1928–2018



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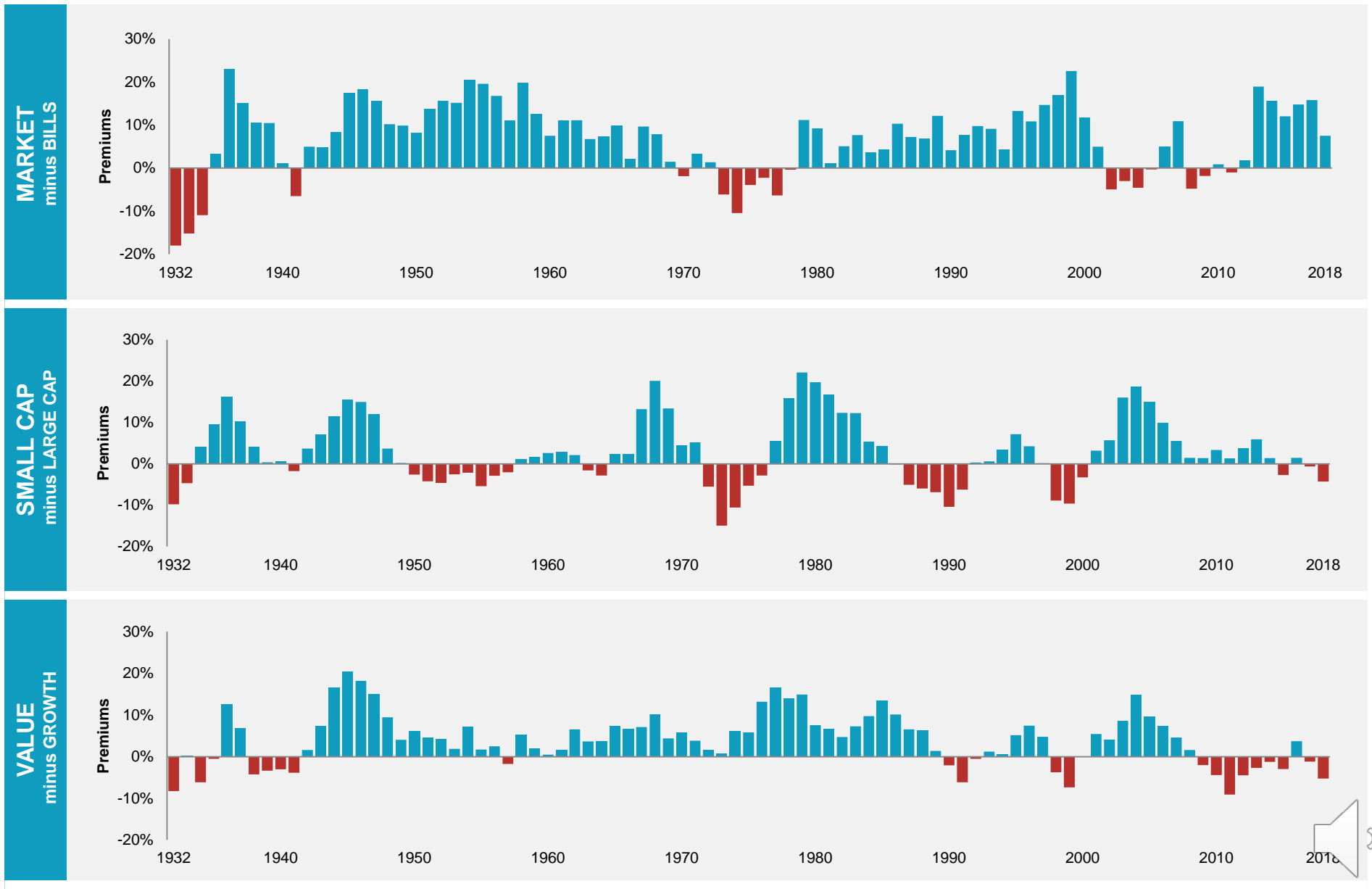
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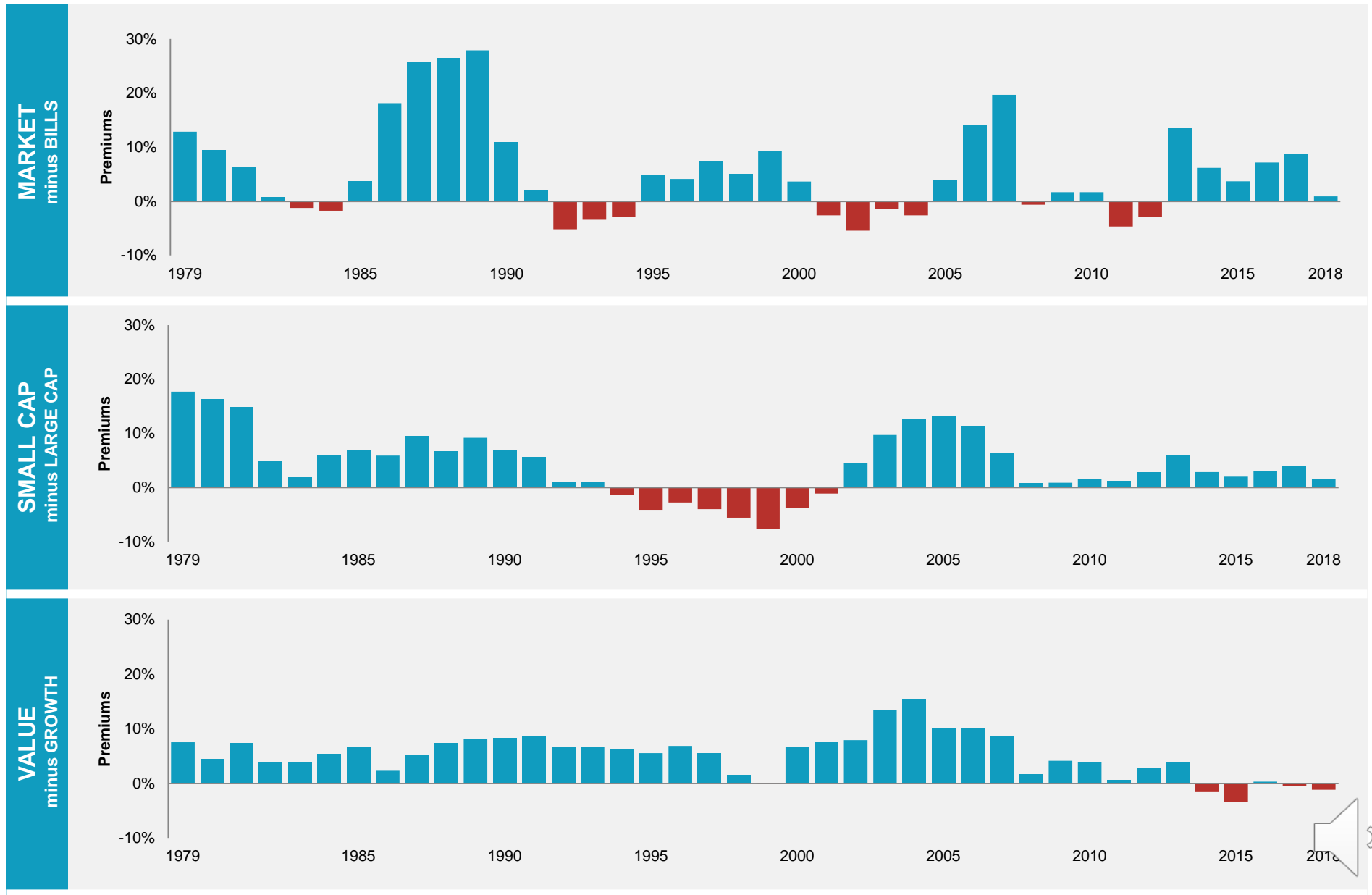
Historical Observations of Five-Year Premiums

Equity, size, and relative price: **US Markets**



Historical Observations of Five-Year Premiums

Equity, size, and relative price: **Developed ex US Markets**



Historical Observations of Five-Year Premiums

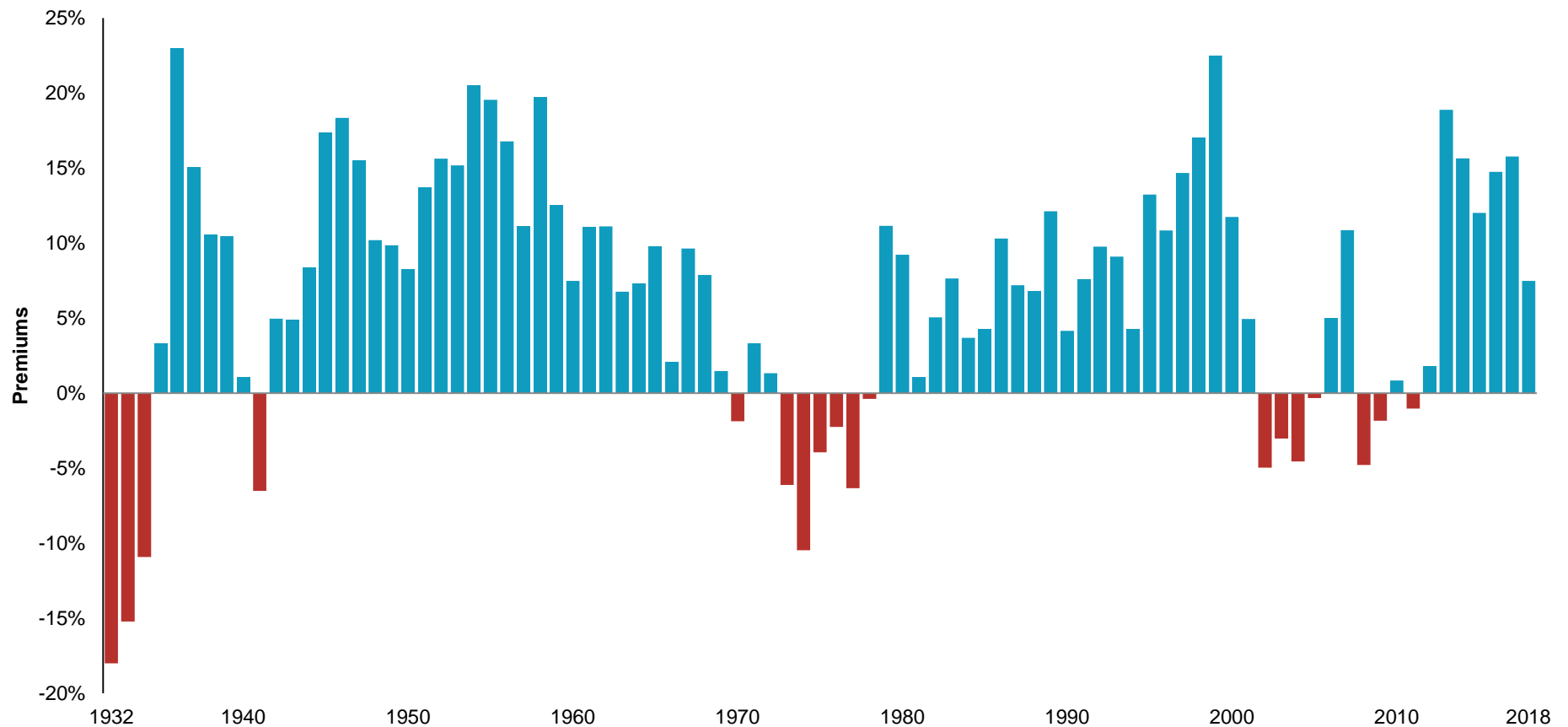
Equity, size, and relative price: **Emerging Markets**



Historical Observations of Five-Year Premiums

Market minus one-month Treasury bills: **US Markets**

1932–2018



Information provided by Dimensional Fund Advisors LP.

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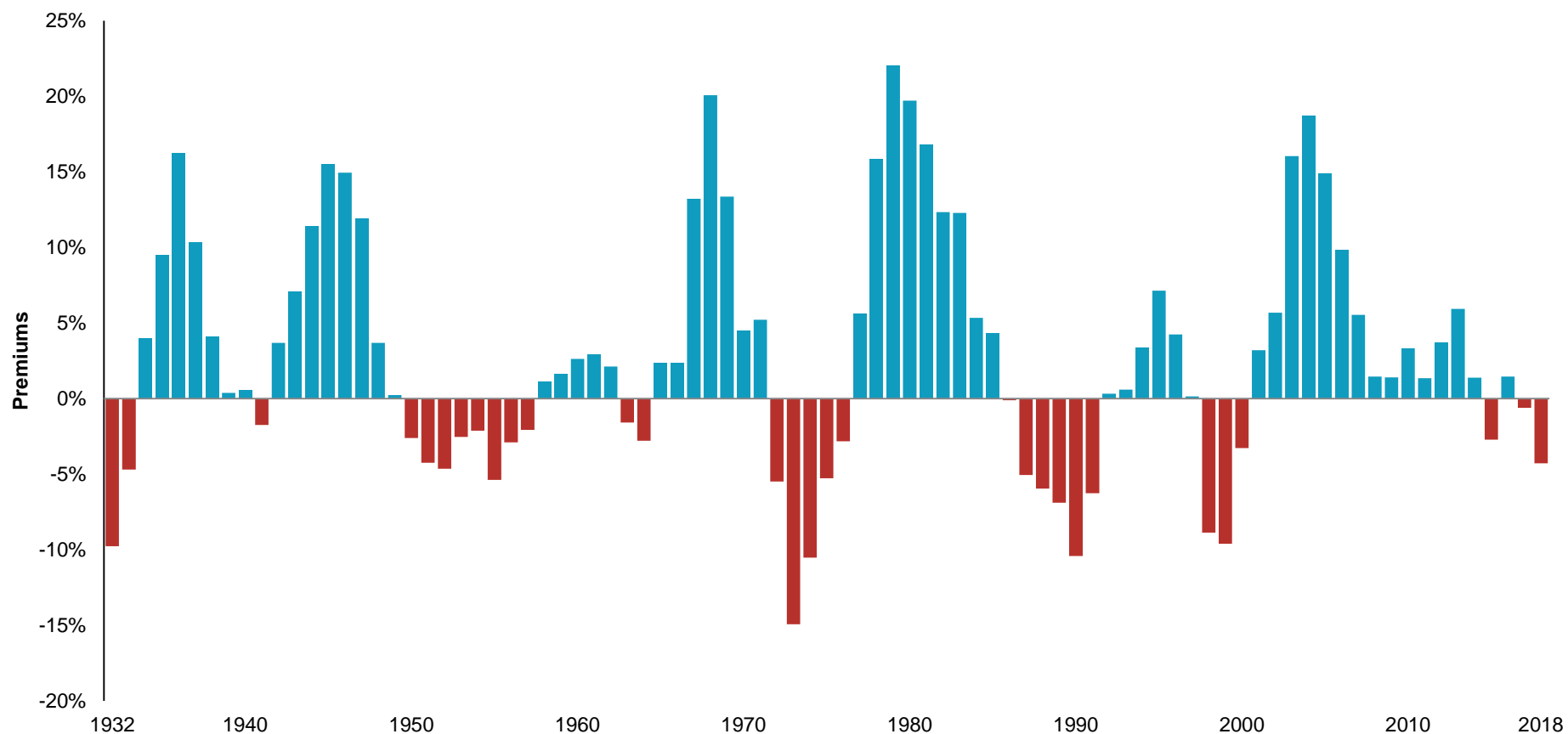
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Historical Observations of Five-Year Premiums

Small company minus large company returns: US Markets

1932–2018



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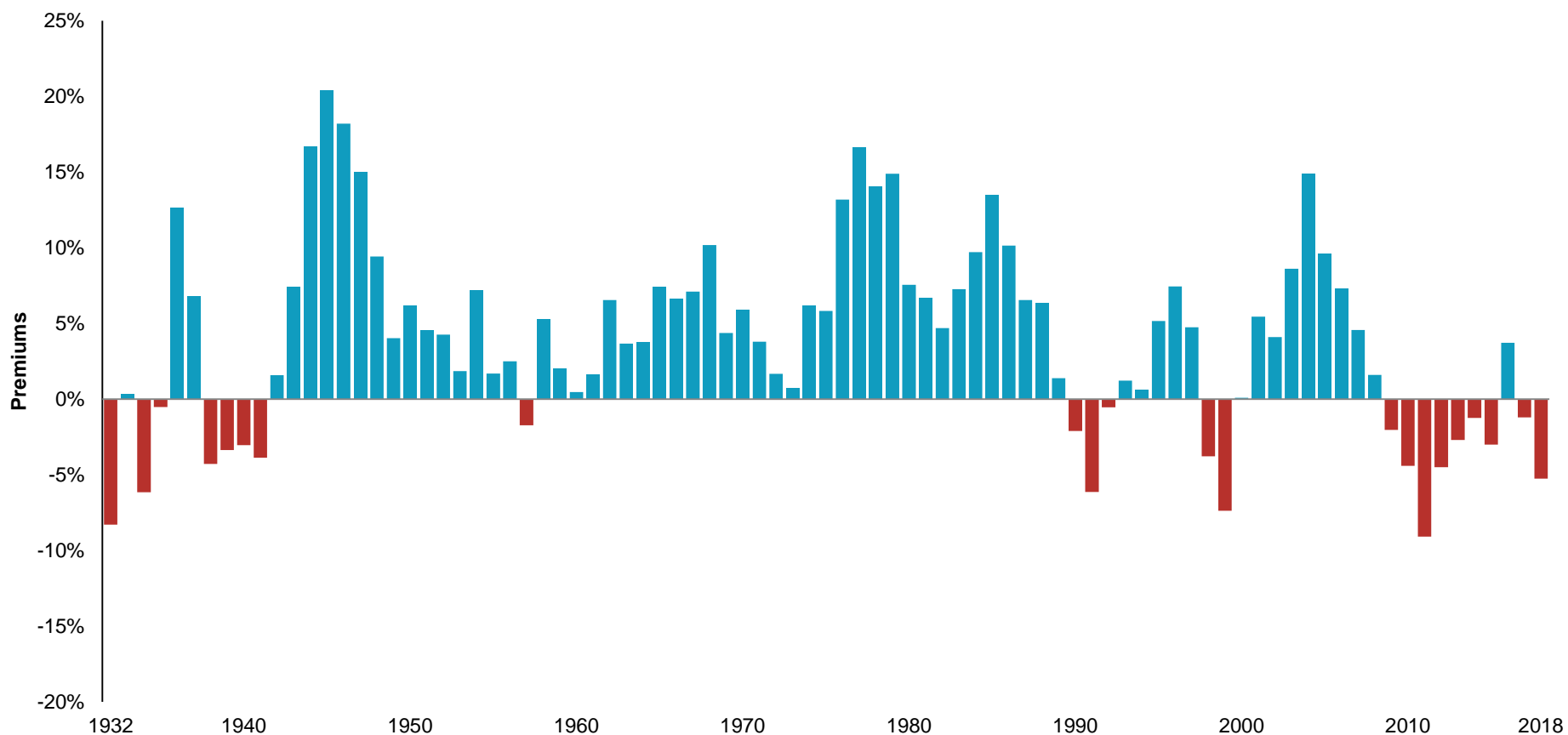
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Historical Observations of Five-Year Premiums

Value minus growth: US Markets
1932–2018



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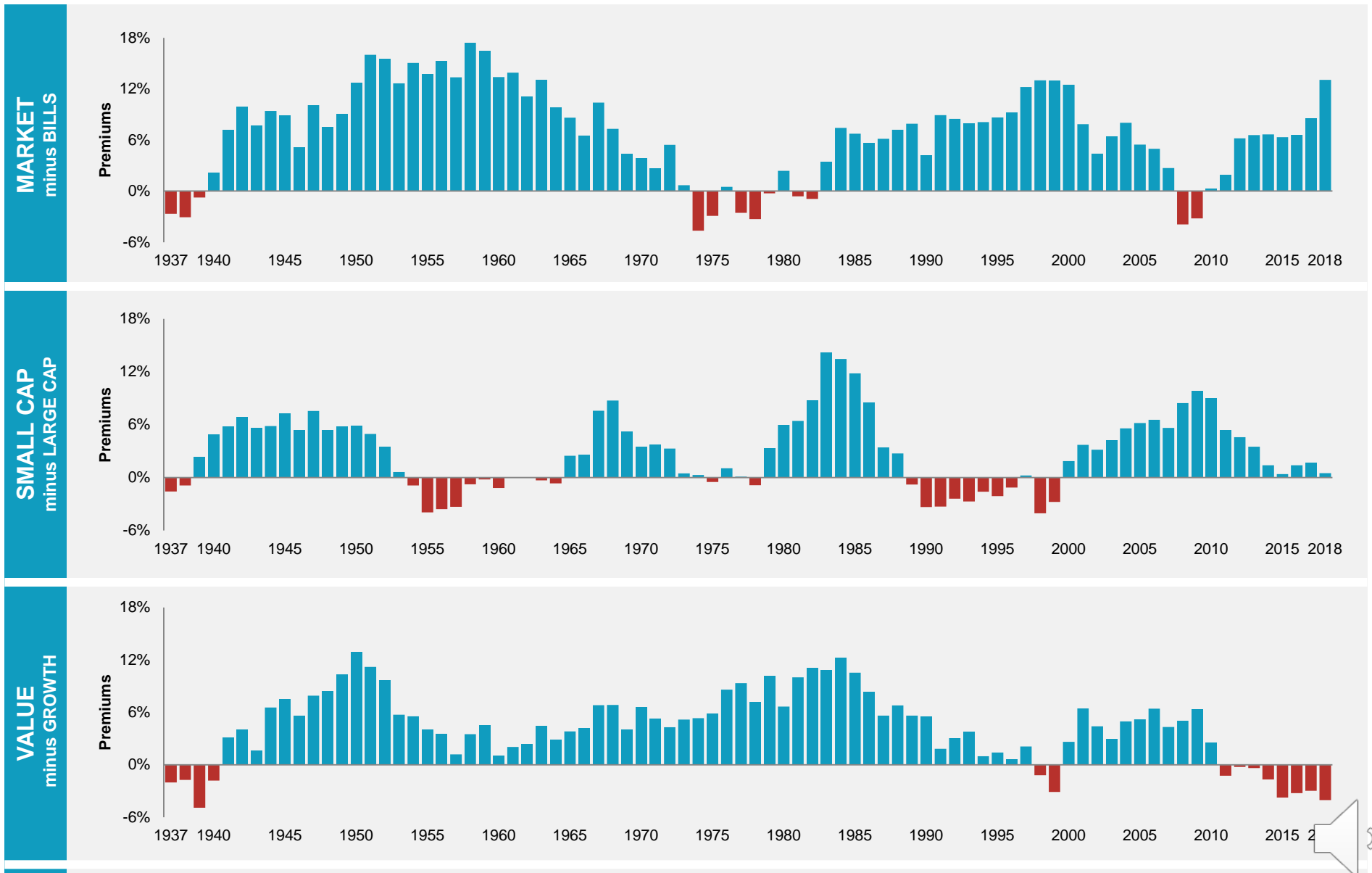
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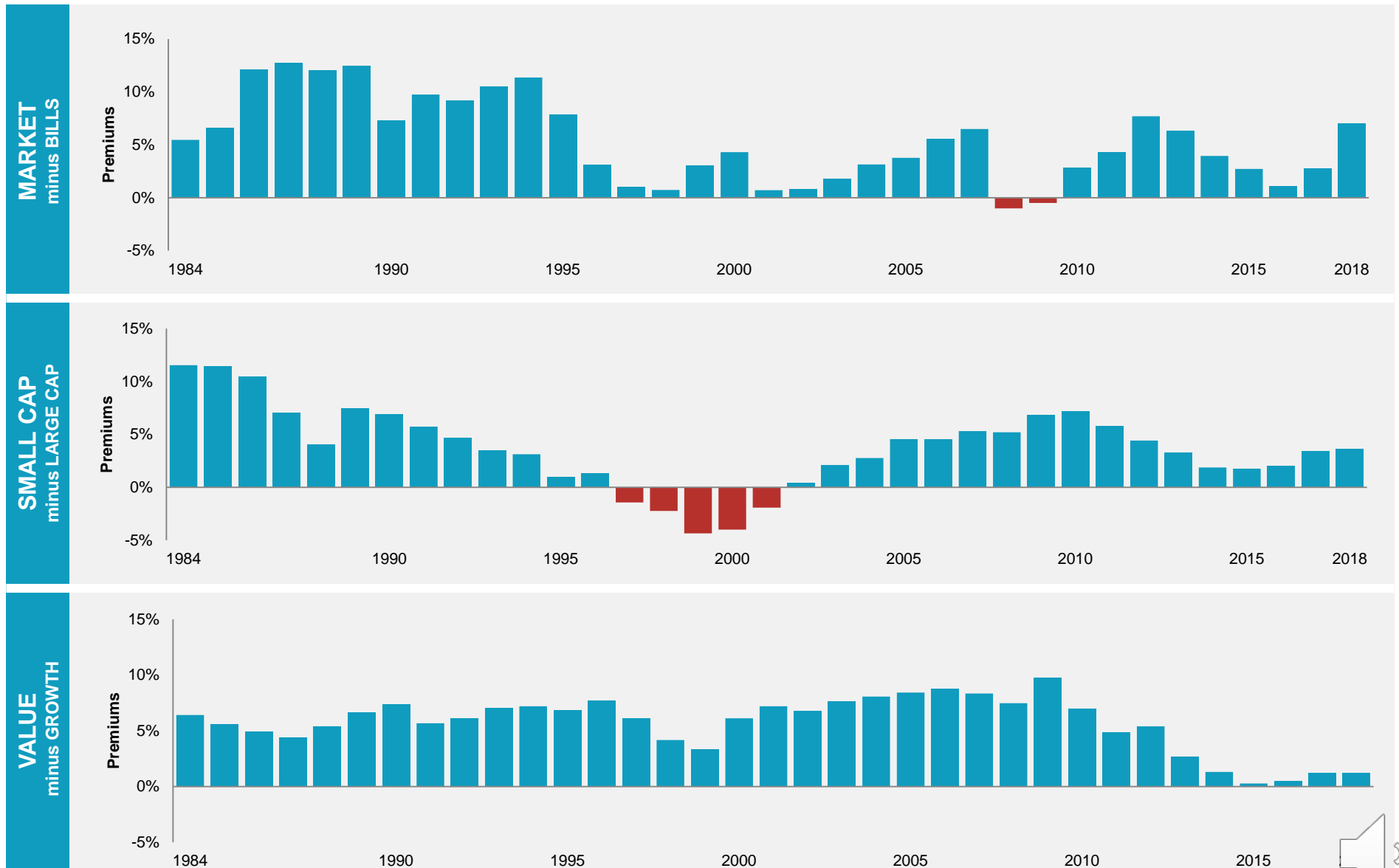
Historical Observations of 10-Year Premiums

Equity, size, and relative price: **US Markets**



Historical Observations of 10-Year Premiums

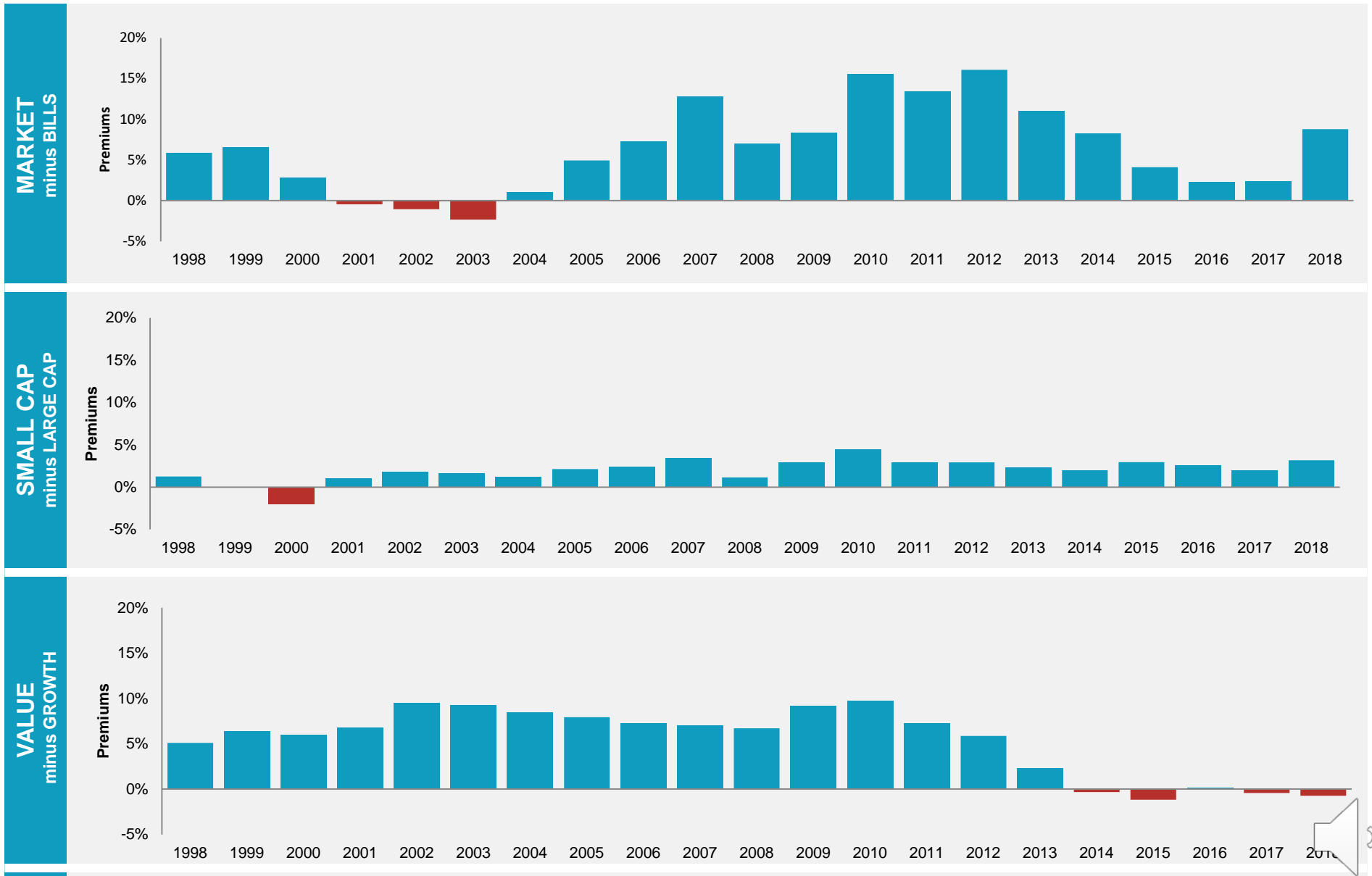
Equity, size, and relative price: **Developed ex US Markets**



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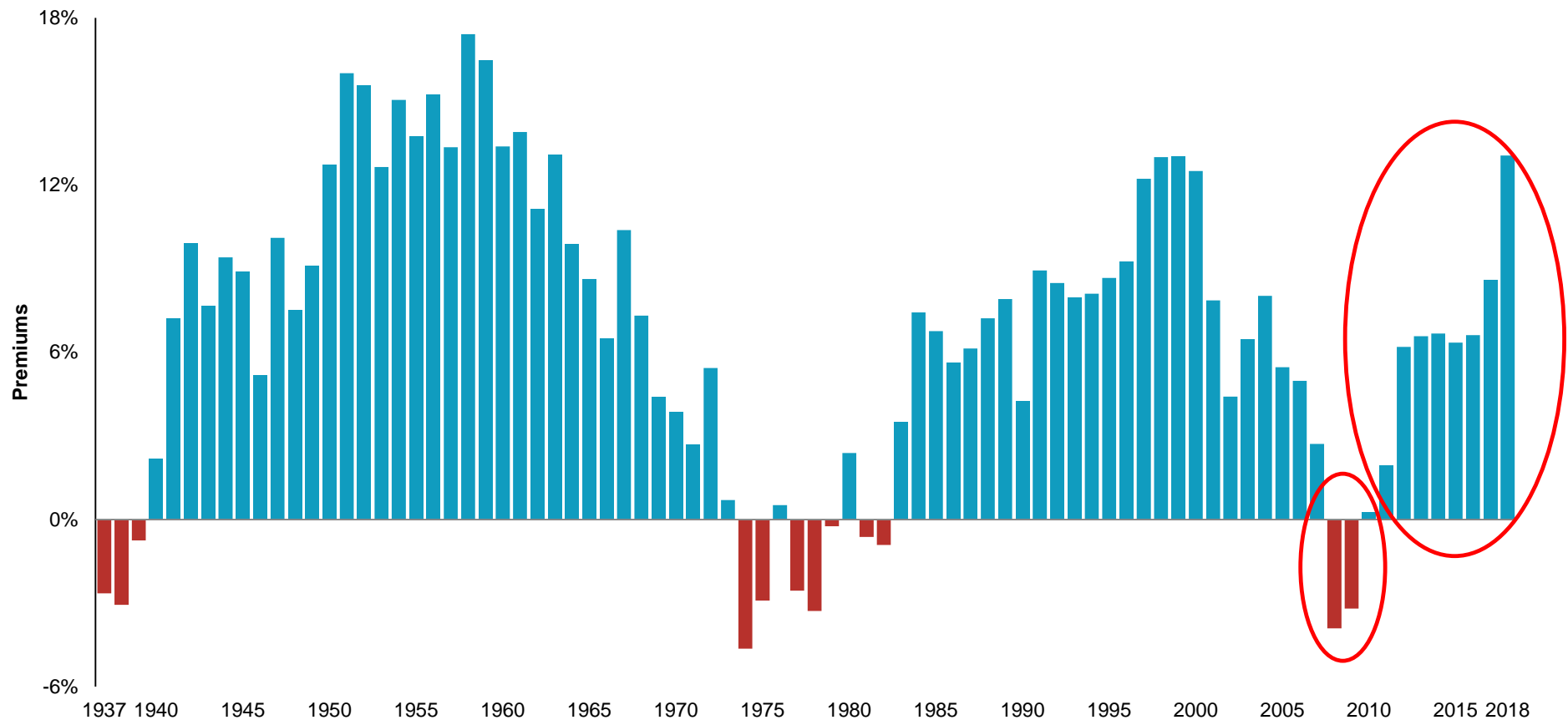
Historical Observations of 10-Year Premiums

Equity, size, and relative price: **Emerging Markets**



Historical Observations of 10-Year Premiums

Market minus one-month Treasury bills: US Markets
1937–2018



Information provided by Dimensional Fund Advisors LP.

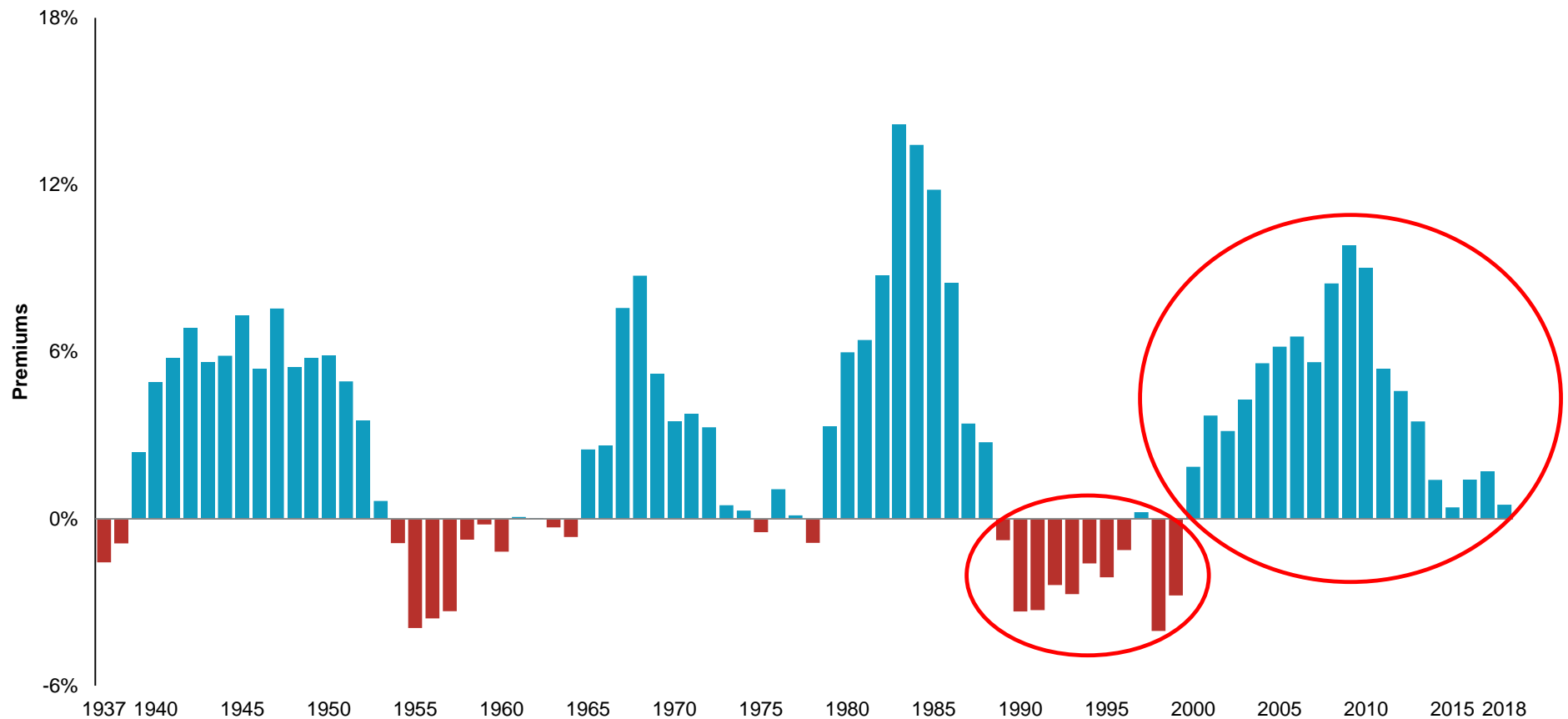
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Historical Observations of 10-Year Premiums

Small company minus large company returns: US Markets
1937–2018



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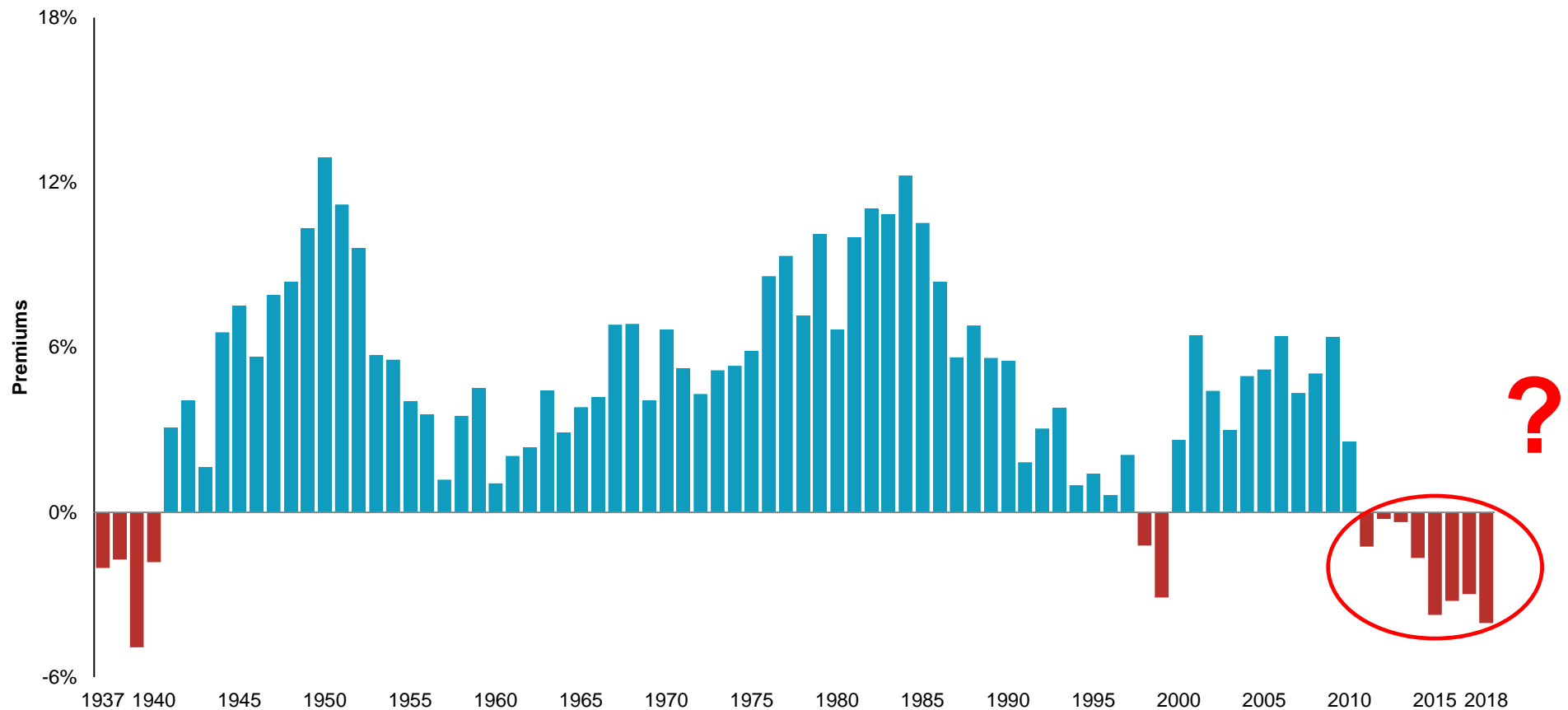
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Historical Observations of 10-Year Premiums

Value minus growth: **US Markets**
1937–2018



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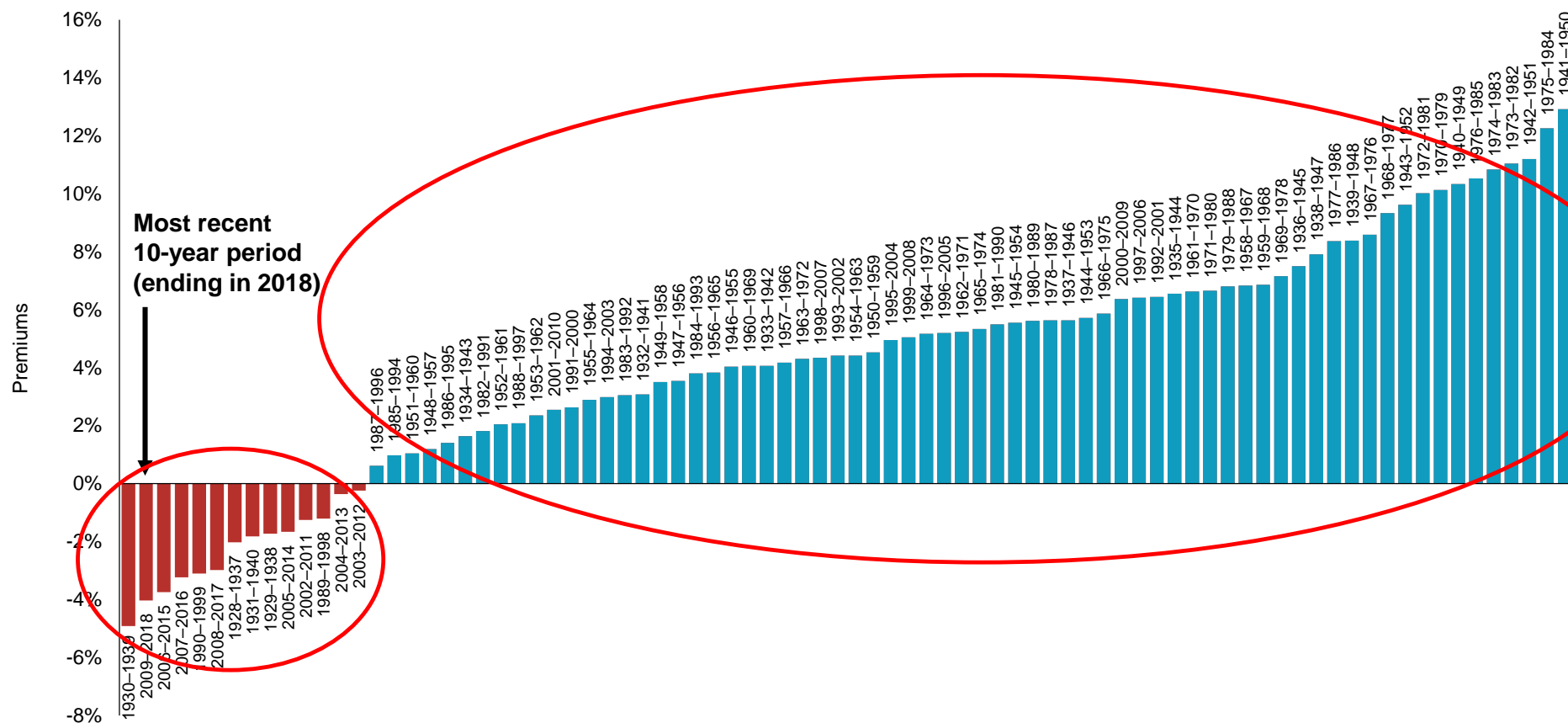
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Historical Observations of 10-Year Premiums

Value minus growth: **US Markets**
1937–2018

LOWEST TO HIGHEST



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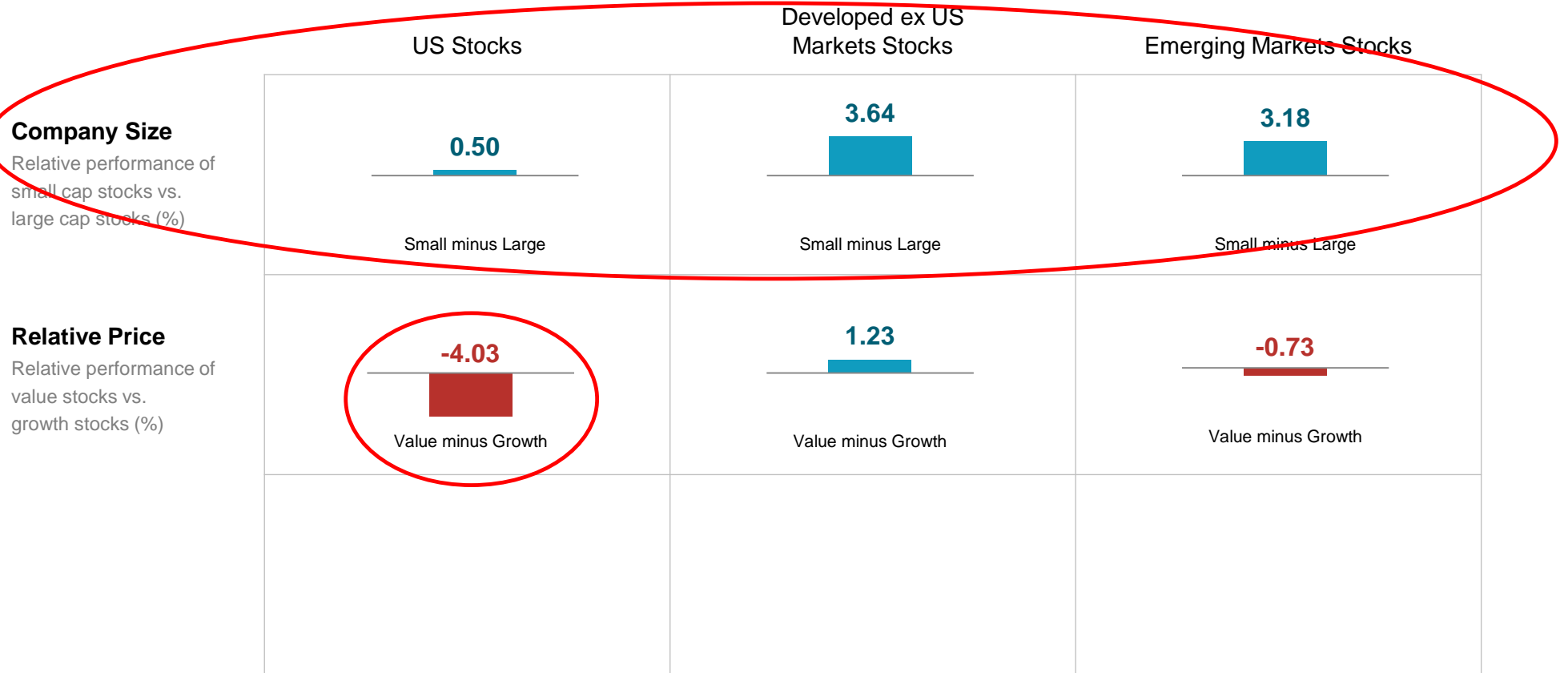
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Dimensions of Expected Returns

10-year annualized premiums (2009–2018): US, Developed ex US, and Emerging Markets



Information provided by Dimensional Fund Advisors LP.

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Historical Performance of Premiums over Rolling Periods

US Markets

Overlapping Periods: July 1926–December 2018

MARKET beat T-BILLS



Market is Fama/French Total US Market Research Index.
T-Bills is One-Month US Treasury Bills.

There are 991 overlapping 10-year periods, 1,051 overlapping 5-year periods, and 1,099 overlapping 1-year periods.

Overlapping Periods: July 1926–December 2018

VALUE beat GROWTH



Value is Fama/French US Value Research Index.
Growth is Fama/French US Growth Research Index.

There are 991 overlapping 10-year periods, 1,051 overlapping 5-year periods, and 1,099 overlapping 1-year periods.

Overlapping Periods: June 1927–December 2018

SMALL beat LARGE



Small is Dimensional US Small Cap Index.
Large is S&P 500 Index.

There are 980 overlapping 10-year periods, 1,040 overlapping 5-year periods, and 1,088 overlapping 1-year periods.

Information provided by Dimensional Fund Advisors LP.

In USD. Based on monthly rolling differences in annualized returns over the periods listed. Rolling multiyear periods overlap and are not independent.

Profitability is measured as operating income before depreciation and amortization minus interest expense, scaled by book.

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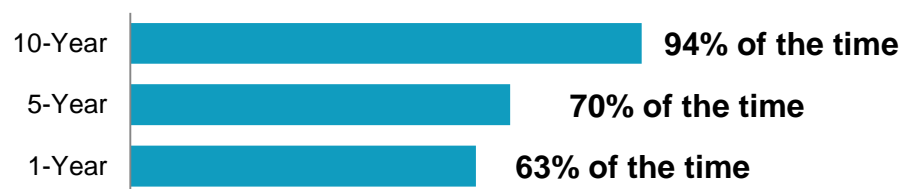


Historical Performance of Premiums over Rolling Periods

Developed ex US Markets

Overlapping Periods: January 1975–December 2018

MARKET beat T-BILLS

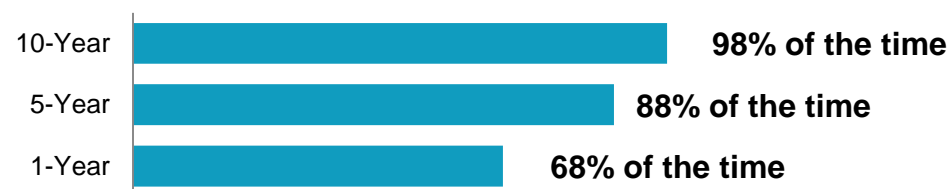


Market is Fama/French International Market Index.
T-Bills is One-Month US Treasury Bills.

There are 409 overlapping 10-year periods, 469 overlapping 5-year periods, and 517 overlapping 1-year periods.

Overlapping Periods: January 1975–December 2018

VALUE beat GROWTH

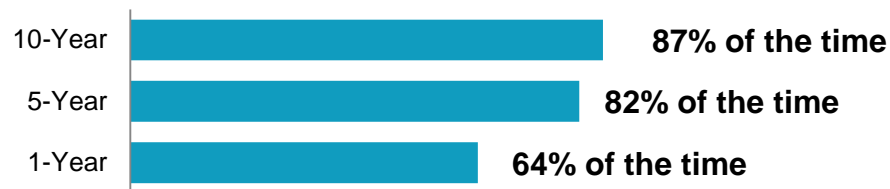


Value is Fama/French International Value Index.
Growth is Fama/French International Growth Index.

There are 409 overlapping 10-year periods, 469 overlapping 5-year periods, and 517 overlapping 1-year periods.

Overlapping Periods: January 1970–December 2018

SMALL beat LARGE



Small is Dimensional International Small Cap Index.
Large is MSCI World ex USA Index (gross div.).

There are 469 overlapping 10-year periods, 529 overlapping 5-year periods, and 577 overlapping 1-year periods.

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Historical Performance of Premiums over Rolling Periods

Emerging Markets

Overlapping Periods: January 1989–December 2018

MARKET beat T-BILLS

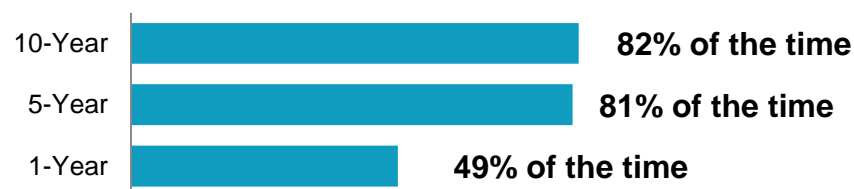


Market is Fama/French Emerging Markets Index.
T-Bills is One-Month US Treasury Bills.

There are 241 overlapping 10-year periods, 301 overlapping 5-year periods, and 349 overlapping 1-year periods.

Overlapping Periods: January 1989–December 2018

VALUE beat GROWTH



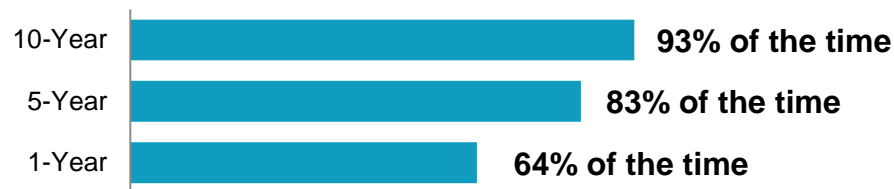
Value is Fama/French Emerging Markets Value Index.

Growth is Fama/French Emerging Markets Growth Index.

There are 241 overlapping 10-year periods, 301 overlapping 5-year periods, and 349 overlapping 1-year periods.

Overlapping Periods: January 1989–December 2018

SMALL beat LARGE



Small is Dimensional Emerging Markets Small Index.

Large is MSCI Emerging Markets Index (gross div.).

There are 241 overlapping 10-year periods, 301 overlapping 5-year periods, and 349 overlapping 1-year periods.

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