CHICAGO GSB MAGAZINE

The University of Chicago Graduate School of Business

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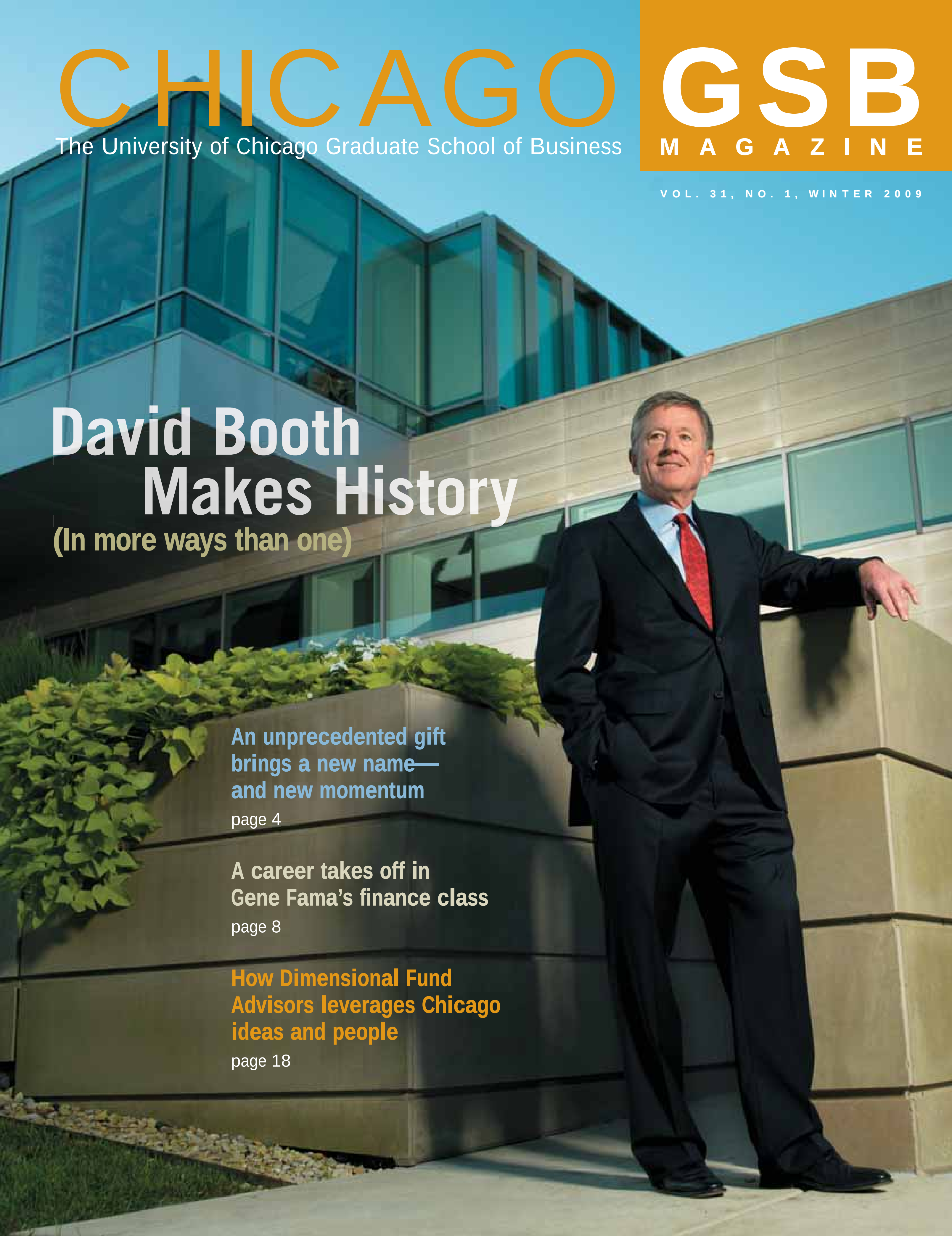

David Booth Makes History

(In more ways than one)

CHICAGO BOOTH.
A MATCH
MADE
IN CHICAGO.

David Booth has always credited Chicago GSB for his success. Now, through his generous financial support and spirited affirmation of our values, his relationship with Chicago GSB has come full circle. We are honored – and privileged – to add David Booth's name to our school. With his unprecedented gift, David has ensured that we will continue to produce generations of world business leaders and remain not just a business school, but a business *force.*

CHICAGO BOOTH

The University of Chicago Booth School of Business

CHICAGO LONDON SINGAPORE

Chicago GSB Magazine
The University of Chicago
Booth School of Business
Vol. 31, No. 1, Winter 2009

CHICAGO GSB MAGAZINE

The University of Chicago Booth School of Business

FEATURES

IN EVERY ISSUE

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Booth Gift Elevates the Credibility of Our Aspiration

To all our Alumni, Students, Faculty, Staff, and Friends,

With the sustaining support of the largest gift to any business school in history—and the largest gift to our university—we are taking the momentous step of renaming our school: *The University of Chicago Booth School of Business.*

This decision, ratified by the trustees with my full personal support, affirms without qualification what we stand for and responds dramatically to our highest aspiration: *to be the best business school in the world and be recognized as such.*

In this special edition of the magazine, you will learn about the extraordinary generosity of the Booth family and the compelling entrepreneurial career of **David Booth, '71**. You will learn that in David, we have a person who embodies Chicago values and who has had a long and fruitful relationship with members of our faculty. In this letter, I can't fully express the deep gratitude I feel toward David and his family. But what I must try to explain to our community is the simplicity of their intention. There is no new design for our school. Instead, David simply offers support for what we are and a wish for yet more.


Karen Carter Lynch

Dean Edward A. Snyder

David started out as a doctoral student of **Gene Fama,** one of the most cited economists in the world. But rather than continue with the plan to return to his home state of Kansas for an academic career, he decided to apply his training to the real world. After founding Dimensional Fund Advisors in 1981 with **Rex Sinquefield, '72,** David leveraged his Chicago education and the ongoing flow of ideas from the GSB to develop strategies for Dimensional that were grounded in the *efficient markets hypothesis* but that also allowed Dimensional to outperform other so-called passive investment funds. As the conceptualist and philosophical leader of Dimensional, over the last 27 years David has sought out visionary ideas of Chicago faculty, especially **Gene Fama,** but also others, including **Ken French, Myron Scholes, Abbie Smith, George Constantinides, Jack Gould,** and the late **Merton Miller** and **Jim Lorie**.

But make no mistake: David did more than translate academic journals. He is an extraordinary business leader with *entrepreneurial vision*. Those close to him have recognized his ability to *market* cutting-edge ideas in the fiercest of competitive environments and his uniqueness as a *financial thought leader*—in particular his ability to leverage new ideas to meet the needs of investors. As a result, Dimensional has done what no other investment fund has done: remain true to the core idea that equity markets should be evaluated in terms of equilibria characterized by efficiency in the practical sense and yet find ways to consistently outperform relevant indices, year after year.

As dean, I am in a unique position to recognize the importance of this gift. Putting aside that its value is orders of magnitude larger than all other gifts to business schools, this comes at the right time in our history. The unrestricted support from David and his family will help ensure that we build the best faculty in the world, now and in the future, and that we will have the flexibility to lead and be bold. We will become a yet stronger *business force* for all who engage it.

With this gift, I believe that the credibility of our aspiration to be the best moves to a significantly higher level. While the consensus view not many years ago was that our goal to be the best felt distant, that view is changing. We have momentum on all fronts. Our faculty is stronger, demand for our programs has grown, our facilities are without peer, and, most important, we are recognized among business schools for our unique role in improving business performance and strengthening the market-oriented economies around the world. This recognition is due to the combination of the world-changing ideas developed by our faculty and the leadership contributions of our alumni in all sectors, in all functions, in all parts of the globe. With our progress, *many in our community believe that our goal is indeed achievable.*

The Booth gift, an extraordinary expression of support, especially given the current turmoil in the world's financial systems, will move us significantly toward our objective of being among the top three business schools in terms of resources. Will it get us there by itself? No. But it is a huge step toward that objective, and, as David has expressed to me, "will encourage other alumni to give back to the University of Chicago Booth School of Business."

> There is no new design for our school. Instead, David simply offers support for what we are and a wish for yet more.

I also look forward to the opportunity to use the renaming of the school to address the uneven nature of our brand name capital. Some in our community will miss referring to "the GSB," but the fact is that we could never establish such a generic term as "Graduate School of Business" as our identity. We will, of course, maintain Chicago as a component of our identity given our place within the university. But we will go forward with a new name with which we can a build an identity that has no geographic limitations. In sum, the Booth gift provides the school with a perfectly timed opportunity to move aggressively forward, capitalize on our current momentum, and compete more effectively against schools with greater resources, in terms of both financial and brand name capital.

As suggested at the outset, I am struck by the uniqueness of David's intentions. Other naming gifts were intended to establish a business school, shore up a problem, or fundamentally change a school. By contrast, this gift affirms who we are, encourages us to move further on our path, and to be guided by our values. We can, with this support, accelerate our progress for the benefit of our community and society.

My hopes going forward for all of us, not surprisingly, are no different than before. I want our students to experience Chicago Booth. I want our faculty to have freedom to do great work. Our two-part strategy will remain the same: (1) strengthen our values, which we share with the University of Chicago, and (2) get yet better aligned around relationships that matter. Our intentions will remain the same. We will maintain the integrity of our school and work hard so that many talented people will want to join what will henceforth be the University of Chicago Booth School of Business.

TED

Edward A. Snyder
Dean and George Pratt Shultz Professor of Economics

BREAKING NEWS

Unprecedented Gift Will Rename Business School

> It is imperative that the person who names the school embodies its values… In David Booth, we have a person who exceeds all the relevant criteria.
>
> **Dean Edward A. Snyder**

David Booth, '71, has always said that he built his investment firm, Dimensional Fund Advisors, on principles he learned at the University of Chicago Graduate School of Business. Now he, his wife Suzanne, and their family have returned the favor by making the largest donation in the university's history—and the largest ever to any business school.

The Booth gift includes an economic interest in shares of Dimensional Holdings, Inc., parent company of Dimensional Fund Advisors. The business school will receive an income stream from the shares based on Dimensional's performance and the terminal value of the shares if they are sold. The combination of up-front payment, income stream, and equity provided by the Booth gift is valued at $300 million.

In recognition of the gift, the school is being renamed the University of Chicago Booth School of Business.

"Given the profile of our school and its role in the world, it is imperative that the person who names the school embodies its values and, moreover, is a person who is of great integrity and who commands respect," said dean **Edward Snyder.** "In David Booth, we have a person who exceeds all the relevant criteria."

Booth and Dimensional co-founder **Rex Sinquefield, '72,** have become legendary in finance circles for rejecting active management and stock picking. Instead, they base their investment management approach on the efficient markets theory of their Chicago finance professor, **Eugene Fama, '63, PhD '64.** President **Robert J. Zimmer** called Booth's gift a vivid illustration of the power of ideas.

"This gift is extraordinary in both its generosity and its endorsement of the university's mission," said Zimmer. "The relationship between David Booth and Eugene Fama—and the idea that captivated them both—is another example of how groundbreaking theory, rigorous examination, and application of principles come together often at the University of Chicago."

Booth entered the business school's doctoral program in 1969 and was both a student and teaching assistant of Fama. Rather than continuing with his plan to embark on an academic career, he decided to apply his training to the real world. He founded Dimensional with Sinquefield in 1981. Fama, the Robert R. McCormick Distinguished Service Professor of Finance, was one of the first members of Dimensional's board of directors and also serves as director of research.

The firm now manages about $120 billion for institutional investors and clients of financial advisors. The firm has U.S. offices in Austin, Chicago, and Santa Monica, and international offices in London, Sydney, and Vancouver.

The business school plans to use the money for several new initiatives including aggressively attracting and retaining star faculty. Other uses being considered include developing new faculty groups in academic areas not normally associated with business schools, expanding existing research centers, and launching ambitious programs to better leverage the school's intellectual capital.

Booth, who is also a trustee of the university, played a leadership role in the campaign to build the Charles M. Harper Center on the school's Hyde Park campus. In addition, Booth individually and Dimensional as a company have endowed several chaired professorships, provided start-up funding for the business school's NASDAQ database, and underwritten doctoral stipends, faculty research, and prizes for term papers. In 1999, the business school honored Booth and Sinquefield with the Distinguished Entrepreneurial Alumni Award.

Photo courtesy of David and Suzanne Booth

A philanthropic force: The gift from David and Suzanne Deal Booth and their family will help sustain the quality of Chicago's faculty and fund new initiatives.

A native of Texas, Suzanne Deal Booth is the founder and director of Friends of Heritage Preservation, *www.fohpinfo.org*, a nonprofit organization based in Los Angeles that is dedicated to the recognition, preservation, and conservation of artistic and cultural heritage. She currently serves on the board of the Los Angeles County Museum of Art and numerous arts-related boards and committees, including the Art Committee for the University of Chicago Booth School of Business.—L.M.

> This gift is extraordinary in both its generosity and its endorsement of the university's mission.
>
> **President Robert J. Zimmer**

BY THE NUMBERS

Major Gifts to Business Schools

Darden Graduate School of Business at the University of Virginia
1999 gift

$60m

Stephen M. Ross School of Business at the University of Michigan
2004 gift

$100m

Stanford Graduate School of Business
2006 gift (largest gift to a business school before today)

$105m

University of Chicago Graduate School of Business
2008 gift

$300m

(up-front payment, income stream, and equity combined)

BREAKING NEWS

Chicago Booth FAQs

Everything you want to know about this historic gift—and what it means for *you*.

What is the new name of the school?

The formal name of the school is the University of Chicago Booth School of Business. For short, we'll call ourselves Chicago Booth.

When will the name change go into effect?

The change will officially occur on January 1, 2009, but you will begin seeing the Chicago Booth name right now.

How and when will we announce the change to the business community?

As you read this, we are engaged in a campaign to share this terrific news with the world. The media have been notified—check our homepage for media coverage—and an advertising campaign was launched this fall in the *Wall Street Journal*, the *New York Times*, and the *Chicago Tribune*, to name a few. Check out a couple of the new ads on the inside front cover and on page 35 of this issue.

Why did the university trustees decide to rename the school now?

"They recognized that this gift provides our school with a perfectly timed opportunity to move aggressively forward, capitalize on our current momentum, and literally jump ahead to compete more squarely against schools with much greater resources, in terms both of financial and brand name capital," said dean Edward Snyder. "The gift from David and his family ensures that we will have the best faculty in the world now and in the future, and that will make us a stronger business force for all who engage us."

How does this compare to other gifts given to the university, and to other business schools?

Before today, the largest gift to a business school was $105 million given to the Stanford Graduate School of Business in 2006 by Philip H. Knight, founder and chairman of Nike. Other large gifts to business schools include $100 million to the University of Michigan in 2004 from Stephen M. Ross, and $60 million to the Darden Graduate School of Business at the University of Virginia in 1999.

The previous largest gift to the University of Chicago was $100 million from an anonymous donor, who created the Odyssey Scholarship Challenge to benefit students in the College from low- and moderate-income families.

What does this change mean for alumni?

The value of your degree has just gone up. This gift will enable the school to compete at a higher level—and will help us get closer to our goal of being the best business school on all dimensions and to be recognized as such. We're not using the gift for bricks-and-mortar improvements or new buildings—it will be used, among other things, to recruit and retain the very best faculty.

Are you planning to change our logo?

Yes, we want a wordmark that reflects the new name.

What will the new one look like? How was it created?

"This gift is about David Booth's partnership with Chicago, and we wanted a logo to reflect that. It's simple and bold, consistent with a leading brand for the future," said **Chris Iannuccilli,** executive director of marketing. To create the logo (below), the GSB marketing team

The University of Chicago Booth School of Business

partnered with the firm that designed the wordmark and graphic identity we've been using for the last decade. "The Booth gift is an affirmation of the school's current philosophy and direction," Iannuccilli noted. "The new mark builds upon the same visual voice of the previous Chicago GSB mark to further position the school as a business force."

How do I get Chicago Booth gear?

A full line of gear will be coming to our GSB store in the months to come. Watch the next issue of the magazine for more information.—M.M.B.

> The new mark builds upon the same visual voice of the previous Chicago GSB wordmark to further position the school as a business force.
>
> **Chris Iannuccilli**
> **Executive Director of Marketing**

The True Believer

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

By Libby Morse
Photos by Matthew Gilson

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**.

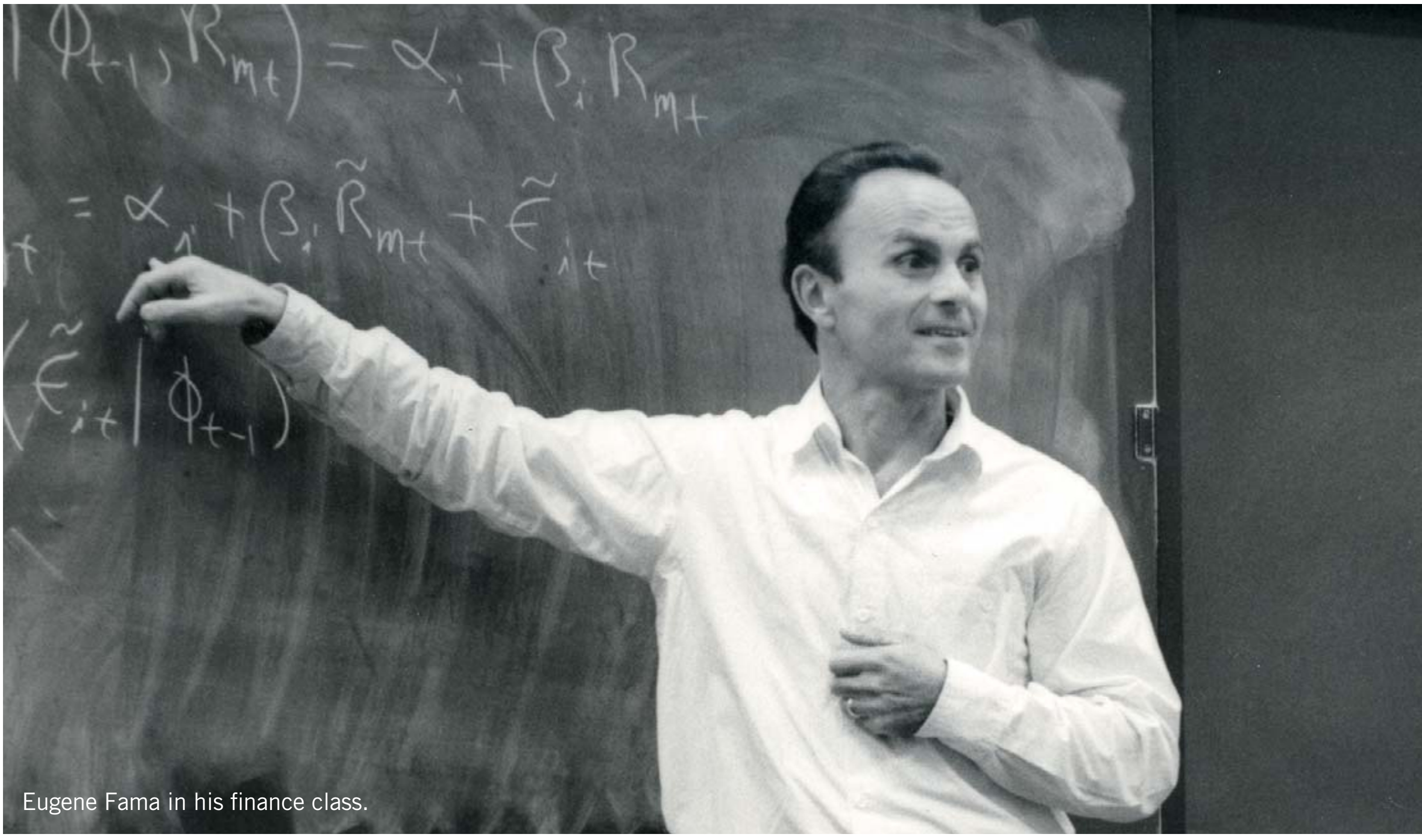
"It was a wild time to be at Chicago," Booth says. "The world was changing very rapidly, and Chicago was really at the center of it." The work that was done in Chicago between 1963 and 1973 in finance, he says, has yet to be surpassed by any other business school anywhere.

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 Sinquefield, '72**. Their enthusiasm for efficient markets thinking was equally avid, and throughout the decade after they left Chicago, they remained in touch. Like Booth, Sinquefield 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 Sinquefield 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*

> "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."
> —**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.

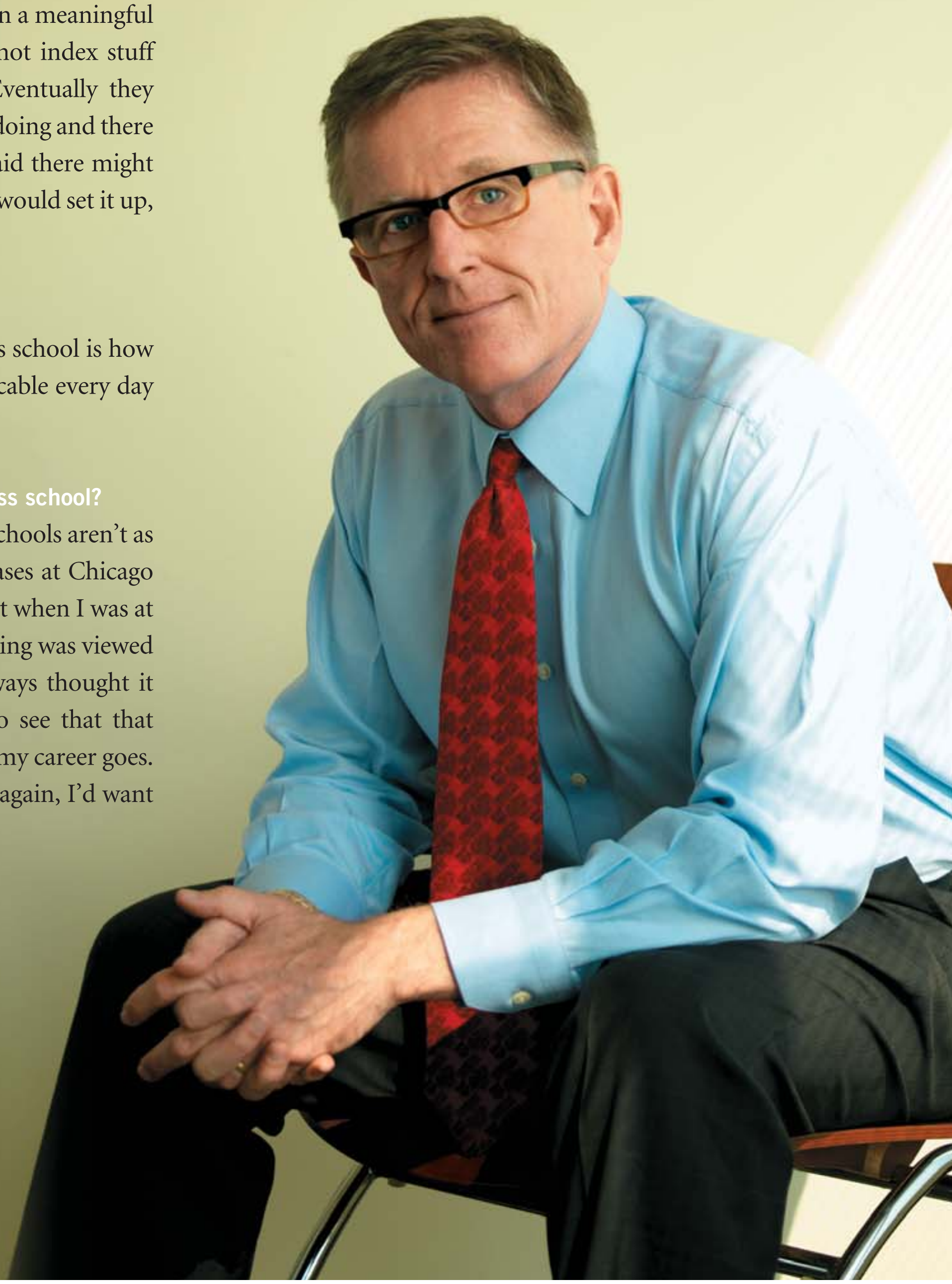
Have you had a critical moment in your career where you were able to succeed, perhaps when failure felt imminent?
When we started the firm, we had a long registration process with the mutual funds that we wanted to get started. It took about nine months. And one day the lawyer called up and said, "You're 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.

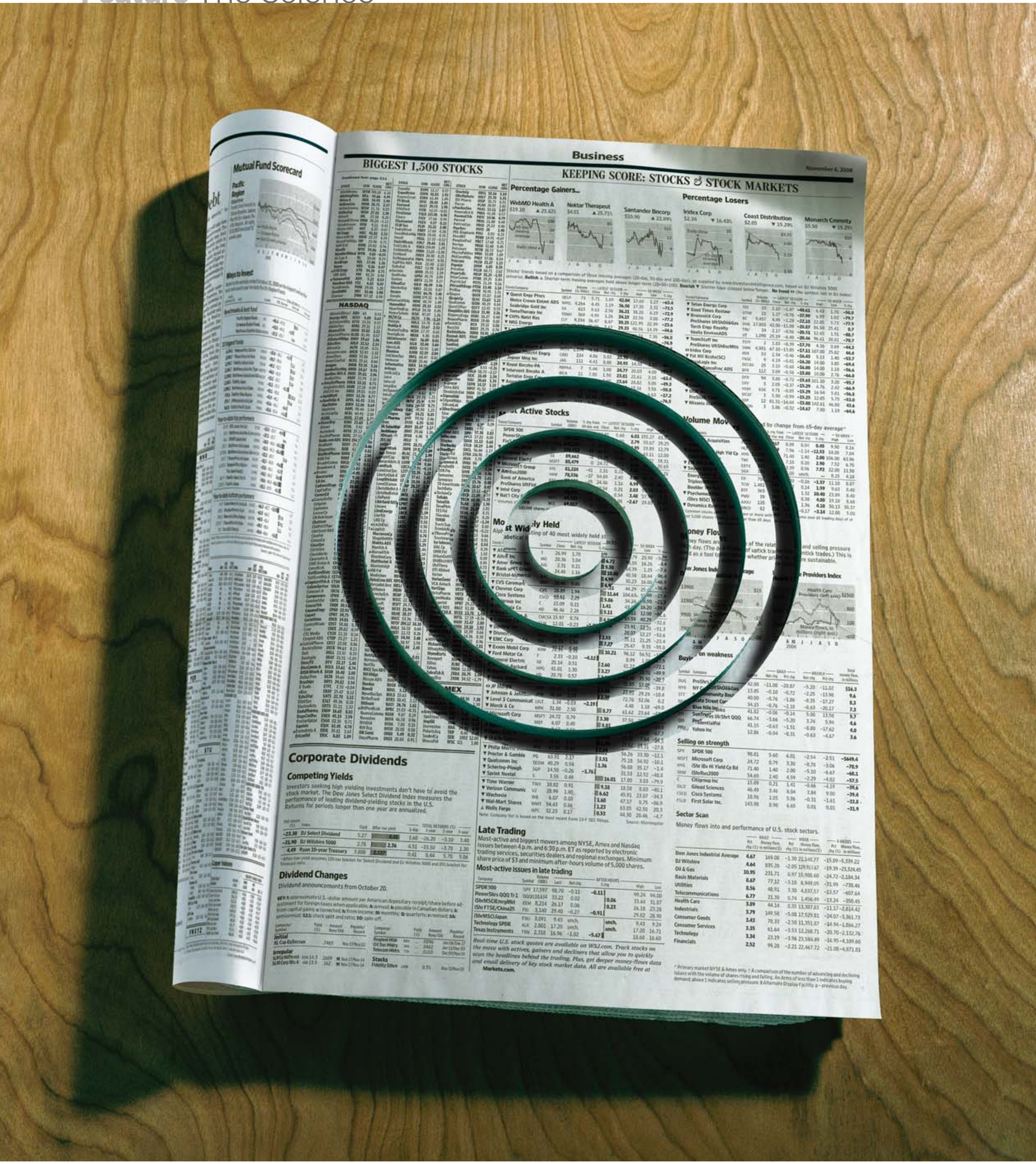
"It's been brewing for a while," says Suzanne Deal Booth of her and her husband's decision to make a precedent-setting gift to the business school. But she also sees it as a natural progression of their shared personal interests, as well as their professional and philanthropic commitments.

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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The Science

A deep appreciation for markets and scientific research are the foundations of Dimensional Fund Advisors's success

By Vanessa Sumo

When **David Booth, '71,** was working for investment firm A.G. Becker, he noticed that his clients didn't have any exposure to small company stocks. Sensing an opportunity to offer investors a new type of product, Booth decided to quit his job, rip out the sauna in his Brooklyn apartment to make way for a noisy Quotron terminal, and start his own investment management company in 1981. He called his former professor **Eugene Fama** to discuss his idea of creating a "small cap" index fund.

"It was just in time," Fama says. He told Booth that **Rolf Banz, PhD '78,** had recently finished a dissertation about how the investment returns of small company stocks could not be explained by the standard asset pricing paradigms at that time. Banz had discovered that stocks of smaller firms had higher risk-adjusted returns than the stocks of larger firms. Although Booth came up with the idea of a small cap fund even before he found out about Banz's thesis, he understood the value of having sound academic research to back it up. In fact, it is this desire and the talent to bring together the theoretical and practical worlds of finance that truly sets Booth's company, Dimensional Fund Advisors, apart from other investment firms.

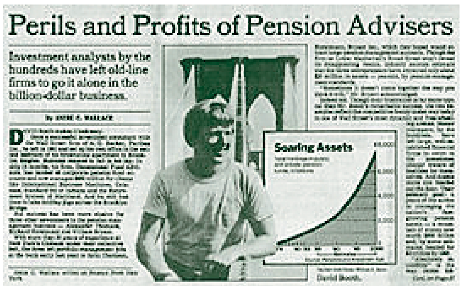
Banz went on to work for Dimensional, and Fama came on as a consultant. Throughout the decades, Dimensional has not only chosen to keep tabs on the latest research but also to work closely with the scholars behind it—including some of the greatest minds in finance. Widely recognized as the efficient markets guru, Fama is one of Dimensional's foremost advisors. Many of Dimensional's equity products were created based on his groundbreaking work with Dartmouth College professor **Kenneth French,** a former Chicago GSB faculty member. Nobel Prize winner and GSB professor **Merton Miller** was on the firm's mutual fund board until he died in 2000. Fellow Nobel laureate and retired Stanford University professor **Myron Scholes, MBA '69, PhD '70,** currently sits on that Chicago-dominated board, and so do GSB professors **George Constantinides, Jack Gould,** and **Abbie Smith.**

Booth's deep connection with Chicago GSB and the school's strong influence on Dimensional's investment philosophy is unmistakable. A staunch believer in the power of free markets, Miller once said in an interview for the book *Investment Gurus* that "markets are amazingly successful devices for incorporating information into stock prices." He argued that "information is not some big thing that's locked in a safe somewhere" and that "it exists in bits and pieces scattered all over the world." In fact, it was Miller who advised Fama, his first PhD student at the GSB, to pursue the development and testing of the efficient markets theory—a proposition that securities prices fully reflect the information in the marketplace.

Booth "took away the Chicago thinking about investments," says Fama. Booth and his long-time partner and co-pioneer at Dimensional, **Rex Sinquefield, '72,** now retired, were students of Fama and Miller at the GSB. "Both of them took my course. They took Miller's course," Fama says. "So, they got the full treatment."

If markets are truly efficient such that information about a company or the economy that could affect securities prices are diffused in the hands of many and not just a few, then no one would be able to consistently pick winners and beat the market. Booth and Sinquefield took these lessons very seriously—and built a successful firm around it.

The *New York Times* covered Dimensional's rise in 1983


Perils and Profits of Pension Advisers

Investment analysts by the hundreds have left old-line firms to go it alone in the billion-dollar business.

And *Fortune* touted them in 1998

Markets Know Best

Fama is well known for organizing the knowledge on efficient capital markets and for making it more precise. Along with Fama, researchers inside and outside of Chicago were doing similar work to contribute to the understanding of this concept, whether it was to show that stock price changes are unpredictable based on past prices, that prices quickly adjust to public announcements of earnings or stock splits, or that the average professional money manager cannot systematically outperform the market. It is thus fair to say that the idea that markets are efficient was a prevailing view in the academic community in the 1960s. However, the same could not be said for an investment community that relished the idea of "adding value" by picking stock winners and losers.

If markets were not efficient, money managers would find it worthwhile to painstakingly gather and analyze information so they could choose stocks that they think will generate superior returns in the hopes that no one else spots that the stock isn't correctly priced. Moreover, if it is truly skill rather than luck that drives the performance of such "active managers," then they should be able to choose the right stocks year after year.

But many studies have shown that the returns made by active managers are not very different from the returns on simply holding the market portfolio. The problem is that they have to be paid for their effort. "Active managers charge high fees, but there's no evidence that they provide returns commensurate with the fees," explains Fama. "In fact, there is evidence that they don't." Booth likes to compare the situation to a roomful of orangutans picking stocks by throwing darts at the *Wall Street Journal*. The orangutans always look better than active managers after expenses since they only work for bananas. The underlying message is that although there may be a few lucky ones out there, most active managers are probably wasting their time and, more important, their client's money. Investors might as well just buy a share of the market.

This idea was revolutionary in the 1960s because passive as opposed to active investing did not exist until the first index funds were introduced in the early 1970s. Index funds aim to track the performance of the market by buying all of the stocks in an index rather than selecting a few. Both Booth and Sinquefield saw the birth of the first index funds into the financial world. Booth was at Wells Fargo in San Francisco while Sinquefield managed to convince American National Bank in Chicago to introduce one of the first Standard & Poor's 500 index funds in 1973.

When Booth and Sinquefield joined forces to found Dimensional, it was clear to them that a healthy regard for markets and what that means for investors would form the company's core investment philosophy—one that avoids active management of the classical sort and provides investors with a simple way to cover the kind of risk exposures they want at a low cost.

By not trying to pick winners or losers, Dimensional allows its clients to hold thousands of stocks in a diversified portfolio that balances out individual companies' risks. There's still an overall risk involved that can't be avoided, but a well-functioning market assures investors that they will be compensated for that risk. Riskier assets will naturally command a higher expected return. Similarly, an investor can expect to get a bigger payout only by accepting a higher level of risk.

Booth and Fama at a business school event

"If you step back and try to figure out how this company has been so successful, there's been a lot of intelligence and thoughtfulness and energy from people like David." — **Jack Gould**

That risk and return are related is the story that Dimensional has been telling its clients ever since it introduced its first product—a small cap index fund that invested in stocks of the smallest 20 percent of companies on the New York Stock Exchange. Banz's dissertation had shown that stocks of small firms tend to perform well. But the trouble was that the fund's first nine years were actually the worst for small company stocks—bad news for a firm that was just starting out. But Dimensional stuck to its story: small cap stocks offer higher expected returns in normal times, but there is a greater risk that they will do badly in bad times. Dimensional stayed the course and its belief in the markets paid off. Today, the company's assets under management have grown to about $120 billion in just over 27 years.

Taking Risk and Reaping the Reward

Banz's research as well as the work of an entire generation of financial economists have benefited tremendously from a massive historical data gathering project known as the Center for Research in Security Prices (CRSP), which was established at the GSB in 1960. Before that time, nobody could even say what the average rate of return was from investing in the stock market. Initially funded by Merrill Lynch, CRSP made it possible for researchers to work with quality data to test a model's predictions and understand the way the stock market works. This, in turn, has helped Dimensional because it relies so much on scientific research for developing new products.

One body of research that has benefited from the CRSP database is a series of empirical papers that challenged the predictions of the Capital Asset Pricing Model (CAPM). Risks that are unique to each stock can be diversified away when combined in a portfolio that contains all stocks in the market. The risk that is left over in the market portfolio after diversification is the risk that is common to all stocks and that is the only risk that is rewarded. Therefore, the CAPM says that the expected return of an individual stock must depend on its relation to the risk of the market portfolio. This relation is measured by a stock's "beta."

The CAPM predicts that if one looks across stocks, the difference in betas should be the only reason that expected returns differ. However, a very influential 1992 paper by Fama and French that brings together earlier papers that test the CAPM finds that beta actually does a poor job of explaining average returns. And of all the likely candidates that have come up in the literature, company size and book-to-market value seem to provide a good characterization of returns. In particular, small companies and firms whose stocks trade at a low price despite having substantial assets on their books (a high book-to-market value) show higher returns.

If stocks are always correctly priced, then investors must think that such companies are riskier compared to large companies and firms with a low book-to-market value. Small companies and firms that the market judges to have poor prospects have to offer investors a higher return to convince them to buy their stocks. This suggests that size and the financial health of a company are true "risk factors" that cannot be diversified away.

That has implications for how investors decide to allocate their portfolios. Investors now understand that they have the option of tilting their investments to get more exposure to small cap stocks and to so-called "value" stocks. But that depends entirely on their appetite for risk. "You're basically giving a little more complicated risk story," says Fama. "But that doesn't imply that everybody will tilt in the direction of higher returns, because the higher returns are at the expense of higher risk."

The Results

How Dimensional delivers high returns over the long term—and why it's in a class by itself

One puzzle with respect to the success of Dimensional Fund Advisors is that nobody has tried to imitate its business model. "What they do is not all that secret," says Jack Gould, Steven G. Rothmeier Professor and Distinguished Service Professor of Economics. "But nobody has effectively competed with them."

Chairman and CEO David Booth thinks that's because it's harder for others to believe as firmly as Dimensional does that markets work well, that is, that stocks trade at fair prices. It just isn't worth spending the time and money to try to outperform the market by finding mispriced stocks. By dispensing with the idea that money managers can consistently pick winners, Dimensional is free to focus on ways that truly add value for their clients, which is translated into higher returns over the long term.

Dimensional's U.S. small cap value product, for instance, has gained an average of 12.5 percent per year since its inception in 1993, compared with only 10.99 percent for the benchmark Russell 2000 Value Index. Its U.S. micro cap fund has been around since 1981, and that has increased 12.21 percent per year compared with the Russell 2000 index's 10.52 percent.

Thus, while Dimensional favors a "passive" rather than an "active" style of managing investments, the way it runs its business as a whole isn't passive at all.

Gould thinks Dimensional's innovative quality is what sets the company apart. "It's always changing and adapting," he says. Dimensional follows a continuous "feedback loop" that brings together science and practice. It begins by taking academic research and using those ideas to engineer portfolio strategies. New products are introduced and strategies are fine tuned as research advances, often with the help and advice of the academics themselves. Dimensional maintains close ties with an impressive group of scholars, many of them affiliated with the GSB. Clients are also an important part of the process and Dimensional works hard to understand what they want through dialogues, which lead to questions from clients, more research on Dimensional's part, and further refinement of its products.

A big part of Dimensional's success is being able get clients to understand the company's long-term investment approach and, in particular, to view the world through the lens of efficient markets. It's a message that Dimensional has gotten good at telling over time, and its list of followers has grown rapidly in the past 27 years.

Most of this growth comes through a select group of intermediaries called registered investment advisors (RIAs). Dimensional offers funds directly to institutional investors only, but RIAs allow the company to reach a huge number of individuals—something that would be costly for Dimensional to do on its own because talking with clients is a key part of their strategy. RIAs are paid by their clients, not by Dimensional. This removes conflicts of interest that might arise if RIAs were instead paid by Dimensional on commission.

Today, Dimensional manages about $120 billion in assets for RIAs and institutional investors.—V.S.

Sinquefield and Booth in 1999

Dimensional's small cap value fund, for instance, has outperformed the Russell 2000 Value Index, a recognized benchmark, by an average of one and a half percentage points per year since the fund's inception in 1993.

Dimensional comes in by offering its clients products to capture these dimensions of risk and return. Dimensional already had a small cap strategy in place when Fama and French told Booth and Sinquefield about their results, but the Dimensional heads were very eager to turn the new finding on value stocks into a product. The company immediately introduced a U.S. small cap value fund in 1993. And based on Fama and French's later analysis of international stocks, international value funds made their debut just a year later.

The Dimensional Difference

Because Dimensional believes that markets work well, it avoids the complex and expensive business of analyzing every firm and timing the market. Once that's stripped away, what's left is a very coherent and orderly way of investing that gives Dimensional the freedom to innovate and create much value for its clients. "If you step back and try to figure out how this company has been so successful, there's been a lot of intelligence and thoughtfulness and energy from people like David," says Gould. "He brings a great deal of talent to it, which is seeing a way to carry the [research] ideas into a viable commercial product in the marketplace."

Putting together a small cap fund, for instance, can be tricky because buying stocks of a very small company could move up its price substantially. Dimensional realized early on that one way to get around this is to let the seller come to them. Over time, Dimensional has come to be known as the largest buyer of small company stocks, so they often get calls from brokers with large amounts of shares to sell. Because it provides liquidity to the market, Dimensional can negotiate an attractive discount to get this stock off the seller's hands.

Even if a broker offers a Dimensional trader more than what he needs, the trader may decide that it's worthwhile to overweight one stock and underweight another in order to get a good overall price. This is the sort of flexible yet methodical thinking that goes into each trade. Dimensional makes sure that its funds are broadly diversified but it doesn't slavishly track the performance of an index because it understands that precisely matching an index would come at the cost of forgoing discounts or paying premiums.

The savings are passed on to its clients in the form of higher returns. Dimensional's small cap value fund, for instance, has outperformed the Russell 2000 Value Index, a recognized benchmark, by an average of one and a half percentage points per year since the fund's inception in 1993. "One of the things that emerged over time is that they got better and better at getting returns, even if they are a passive fund," Gould says.

Dimensional has proven that research carried out in the academic world—combined with the ability to implement ideas—can produce significant value in business. Research will no doubt continue to stimulate Dimensional and the firm will always be surrounded by the best scholars in finance. Booth likes to say that it is a luxury to be able to accomplish all that his firm has without him having to be the smartest guy in the room.

He also argues that it would be hard to find anybody that benefited more from [the GSB] faculty than he has. But Gould thinks that the University of Chicago has gained just as much, if not more. "I think from the point of view of the University of Chicago, it's great to have alumni who can point specifically to how useful Chicago was to them," Gould says. "It's good to have an enthusiastic spokesperson on behalf of the University of Chicago, and David is certainly that." ■

In his own words, Eugene Fama talks about the power of markets and friendship.

The Mentor

Every year I ask the best PhD students in my class to be research and teaching assistants. David Booth was the best of his group.

He went through the academic part of the program with flying colors but then came to me and said, "I don't think I want to do research and teaching. I want to go out into the world of business." I said, "Fine, there are a lot of rich and famous people who don't have PhDs from the University of Chicago."

So I called up Mac [John A. McQuown] who was head of investments at Wells Fargo and had come to all of the Center for Research in Security Prices (CRSP) conferences, and I said I had a very good student he might want to hire. So David went to work for Mac. In 1980 or 1981, David came back to me and said he was thinking of starting his company, Dimensional Fund Advisors.

The idea was that people to whom he was selling institutional products weren't getting exposed to small stocks, and he thought products that gave them that exposure would sell well. I told him we just had a PhD thesis here that studied the returns on small stocks, and it said they seemed to be somewhat higher than what can be explained by the asset pricing model we had at that time. What a way to kick the game off.

David also asked me to join him and Mac on his company's management board. The boards of directors of the funds have always been Chicago people, either graduates or current professors, and the company is very Chicago oriented. The general philosophy is that prices work, and you want to give people a way to develop risk profiles that they find acceptable. But basically no stock picking.

Then in 1992, Ken French and I developed material on the returns on stocks with high book-to-market ratios. I told David about it, and he said, I think I have a client who would be interested in that. He brought this fellow to my office and—the paper hadn't even been written yet—he just looked at my computer screen and I showed him the results. That launched Dimensional's value products, which subsequently became big portfolios in the package.

Now they have value products everywhere in the world and they have more general kinds of stock portfolios. But all of it is based on the proposition that you want to give investors a way to get exposure to various dimensions of risk that seem to be compensated in long-term returns, with a bottom-line presumption that everything is priced correctly and you get returns in the long term appropriate to the risks that you take. Asset allocation rather than stock picking is the motivation behind it, so it's very "Chicago efficient markets."

Michael Girard

You have this theory that you believe is going to work, but to actually see someone base a company on it and succeed has been fun.

I'm nominally the director of research of the company, but as far as I can tell, I've never directed anything. **Rex [Sinquefield, '72],** David, Ken French, and I would just sit down and talk and talk. Rex retired and there's now a fellow from Cal Tech, Eduardo Repetto, who's the chief investment officer. The four of us develop the products, raise questions about the existing products, and monitor the process. The time I spend with them is much less time than I spend on research, and research is, in the end, what generated the big stuff that gave them these products to begin with.

Dimensional opened an office in Newport Beach and eventually moved up to Santa Monica, around the time I was starting to visit UCLA. We became much more friendly in that period of time—David and Suzanne are great friends of ours.

Gene Fama, Myron Scholes, and David Booth celebrate Dimensional's ninth anniversary at the Santa Monica pier, 1990.

You know, you have this theory that you believe is going to work, but to actually see someone base a company on it and succeed has been fun. In the beginning, it wasn't clear if the firm would survive or not because, although small stocks on average have generated higher returns than big stocks, during the first few years we were in business, it went the other way. That's not usually very good for an investment company just coming on line. Even with the recent crash, we're near the top of U.S. money managers, in terms of funds under management. That's not so bad.

I've always had a philosophy here at the university that we want the business school—the faculty—to be more than the sum of its parts. That requires an openness and an acceptance among faculty so that even if you disagree with others extremely, you accept that they believe in what they're doing, and they're doing work that we want to have here. **Dick Thaler** and I are great friends even though we're on opposite ends of the spectrum.

It's similar at Dimensional. We've never had harsh words among us—Ken, Rex, David, and me. This is part of the success of the company. David and Rex are not your typical corporate executives. They're very humble people. They listen and think they have something to learn from almost everybody. I think that's a quality to have in a business leader—and I don't think a lot of business leaders have it. If they listen and disagree, they say we'll disagree with you. Usually I'll say OK, but on other things, I'll dig my heels in and say, I don't think you're right on this one. In the end, no one cares, and in that sense, it's very much like the best academic discussion. ■

Interviewed by Patricia Houlihan

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CHICAGO BOOTH

The University of Chicago Booth School of Business

CriticalDialogues

is a series of conversations with members of the Chicago GSB community who play key roles in shaping business and economic policy worldwide. **This discussion features David Booth, '71, who came to Harper Center to talk with dean Edward Snyder about his relationship with the GSB and his decision to support the school with a record-breaking gift.**

The Co

Edward Snyder

The Power of Ideas

By Melissa M. Bernardoni
Photos by Matthew Gilson

nversation

This fall, David Booth, ’71, sat down with dean Edward Snyder to talk about founding Dimensional Fund Advisors, his relationship with the faculty whose research have shaped the firm, and why he made the largest gift in the history of the school.

Edward Snyder: **You’ve always had strong philanthropic ties to our school. Why this gift now?**

David Booth: Because I can. For years it’s been a dream of mine that the firm would grow to a size that it could support this, and now it’s possible.

Part of the motivation is very personal. I’ve had such a terrific adult life and the University of Chicago has been a big part of why I’ve been able to live the way I have.

Chicago has great students, but a lot of schools have great students. What makes Chicago unique is the faculty, and the faculty have been truly amazing, especially when you consider the school has one of the smallest endowments among the elite business schools. I’m motivated by the desire to help maintain and grow the outstanding faculty. There’s a huge need, much bigger than my gift would satisfy. All of us who went to the GSB in the ’60s and ’70s and benefited tremendously can stand up and help. That’s part of the motivation as well.

Snyder: **How do you see your gift strengthening the faculty?**

Booth: This is an unrestricted gift. I want to enable the dean to do special projects that might be difficult in the ordinary course of running a business school. But the top priority is to make sure you, as dean, can get any faculty member you want.

Snyder: **From a dean's perspective, this is perfect. It's flexible; it gives the school the ability to focus on new initiatives and the fundamental work of building and retaining faculty. It recognizes that we have to work on the endowment. This gift will allow us to accelerate our progress in a way that I couldn't have imagined.**

Regarding faculty, building the best faculty in the world is central to our strategy. If we continue to do that, the students will come. And we'll develop alumni like you who do amazing things. We have a lot going for us in terms of attracting faculty. We're the least bureaucratic of any business school I know. Faculty are free to do what they want. In our world, hiring faculty has gotten expensive. Real salaries have gone up, and the set of people who can meet expectations—in terms of teaching, in producing high quality academic research and colleagueship—is very small. We're going for the very best people in the world.

Booth: The business community has a strong demand for PhDs that didn't exist when I was in school, and that puts pressure on business schools to compete with the corporate world.

Snyder: **We compete with the business world, other business schools, and top academic departments. Because we fit so closely with our university, psychologists, sociologists, and economists feel comfortable here. We find ourselves competing against Princeton's economics department, for example—Princeton doesn't have a business school. One of our top recent hires was from Harvard—but not HBS, Harvard psych. It's a different kind of competition for Chicago. Your gift is a statement of trust that we're on the right path, because you understand the power of our faculty.**

Booth: It would be hard to find anybody that benefited more from your faculty than I have. When we met with [University Professor] **Gary Becker,** we talked about his experience at Chicago, and before that at Columbia. What became clear to me is the importance of having resources to compete for the faculty when you're in an intense, competitive battle. It can make all the difference. That's how Chicago ended up with Gary Becker and **George Stigler** and Columbia didn't.

Snyder: **And people like that have anchored and transformed the university. Over a year ago, Gene Fama told me—unprompted—that he thought the faculty was in better shape now than he's ever seen it before, not just in finance, but across the board. This gift is moving us forward from a current position of strength.**

Booth: I'd like to emphasize one point: the gift doesn't solve the problems. It helps create a lot of momentum, hopefully, but what happens depends on follow-up with other alumni.

Snyder: **This is important in light of our competitive situation. Obviously it's very good in terms of faculty, facilities, recognition, demand for our programs, support from alumni. We just finished the Chicago GSB Campaign, and this gift is great. But David mentioned endowment, and we've made a lot of progress there. When I arrived in fall 2001, the endowment was $200 million. In the last seven years, we reached $500 million. That's spectacular, and we're grateful for all the people who helped. We're now in a set of seven schools worldwide with endowments greater than $500 million.**

But, as you said, even with this unprecedented gift, our endowment is small compared to our toughest peers. Endowment income allows you to do many things: technology, scholarships, investment in facilities, investment in faculty. We're in good shape, but we're not competing to be in the top seven. We're competing to be the best in the world. That's why endowment has to be part of the outcome of your gift. This gets us much closer to where we need to be, which is in the top three. I hope other people see this as a step toward that and join in.

Booth: Should we say anything about special projects? And just to clarify for readers, the gift is structured not as one lump sum, but as an economic interest in shares of the firm, and then the stream of earnings from the firm. That's why we're talking about a flow of money rather than one big pool.

Snyder: **The gift allows me the flexibility to get things moving, or to push further on things that are going really well. You mentioned Gary Becker, who was one of the three founding members of the Initiative on Chicago Price Theory with Steve Levitt and Kevin**

Murphy. **It became the Becker Center, it has an endowment, and they're doing great things. Sometimes you want to take something like the Becker Center and give it some more ammo.**

Booth: The rough criterion is that I don't want to fund normal business activity. That's well handled by tuition. It's the extraordinary items that I'd like to help with. And I agree with you that we want to continue to be the best business school in the world—but I've felt that way for 35 years. Chicago is unique. It's hard to describe, but for people that get Chicago, they know what you're talking about. My goal is to help Chicago keep that uniqueness and stay ahead of our closest competitors.

There are two avenues in business education. It used to be that nearly all schools used the Harvard approach, using the case study, where you learn by studying what other people have done. It's a fine institution, but along comes Chicago with a different approach—one that will always have fewer acolytes. By sheer numbers, the Harvard approach will be the basic paradigm for most business schools, because it's easier to implement. The Chicago approach has more theory and modeling, and rigorous analysis is not for everybody. Chicago has cut out a unique brand name in that area and for people who understand it and love it, there's no place like it. I don't look at the ranking systems much because I know Chicago is the best. It's the best for what I want and comparing it to Harvard is apples and oranges. With the proper funding, Chicago will not only continue to be the best business school indefinitely, but do more of what makes it so distinctive.

"When you consider gifts that have named business schools, this is in a completely different category…it's fundamentally an affirmation." —Edward Snyder

Snyder: **When you consider gifts that have named business schools, this is in a completely different category. In some cases there were founding names, Wharton and Tuck. There was Darden, which was a recognition name to say thank you to someone who helped the school and university. The naming of Kellogg was a "let's change direction" event for what was then Northwestern's business school.**

But your gift is totally different. It's fundamentally an affirmation. When you talk about this already being the best business school—that you've known that for 35 years—it's not a change in direction at all. You are someone who decided—as a fundamental piece of his career development and business strategy—to stay close to the faculty, to position himself at the cutting edge. You said, I'm going to continue to learn and to be the marketer, the finance thinker, and the entrepreneur leveraging Chicago ideas.

Leveraging Chicago Ideas

Snyder: **Could you talk about Dimensional's core strategy and how it has leveraged Chicago ideas?**

Booth: We view ourselves as evolving in a process, a feedback loop. There are models that are cause and effect, and then there's a feedback loop system, where you can start in any number of places. Let's begin with academic research. That leads to ideas about how to invest money. If you have ideas, then you acquire clients for the strategies you develop based on those ideas.

Next is implementation, which is our strength. After you implement, you review your results, which leads to a dialogue, which leads to questions, which requires more research, which leads to more strategies, clients, implementation, evaluation, and attribution analysis, more dialogue—and then more research.

That's the feedback loop. One of the key components is research. It's a luxury to build a business knowing that when you need serious research, you have access to the highest quality. That's something as a firm we couldn't hope to monopolize. But all the finance professors in the world work for us, they just don't know it.

Snyder: **You're reading the research?**

Booth: Fama, Ken French, and our other board members are reading it. They pass along the research they think is relevant so I don't have to read it all. That way, we can focus on the parts where we have direct control, which is the implementation.

Ideas are great, but somebody has to engineer them, package and present them to clients, and execute them. We have access to the great minds, and hope we provide a great service for our clients in terms of value added. From the academic viewpoint, the firm can apply these ideas and make things come alive. It's a good partnership.

It's intriguing because we build a firm around the view of the efficient markets, as Fama calls it, or equilibrium markets, but taken to an extreme, it can't really be right. This idea of efficient markets breaks down at some level, but that depends on your vantage point. From the vantage point of our clients and firm, we accept the idea that markets are efficient, because on a cost-benefit basis, it doesn't pay to behave any other way.

That's a pretty subtle argument to say we build a firm around this set of ideas, and this is how we choose to behave, what we choose to believe—when in reality we know that there's got to be somebody out there who can pick stocks. But the cost of identifying and giving them the money is one difficulty. Secondly, all economists must agree that if there is anything in scarce supply, it's that ability to outguess the market. If there are people out there that have it, why would they share it with anybody else? The academics are really focused on the question, are markets efficient. As a businessman, that's only part of the question. We ask, are markets efficient and will our clients get any of it?

Snyder: **The extras.**

Booth: Right. We believe totally in this notion of market efficiency, but you can have a have a career talking about this issue in a way where reasonable people can have differences of opinion about the answer. One thing we've been able to document clearly is you don't have to believe that you can outguess the market in order to have a good investment experience. And our message to clients is that there's a fair return that everybody is entitled to over the long haul.

Snyder: **In marketing the firm, you operate in a very competitive space. Obviously, Dimensional has done amazing things for people who've invested over the long term. Your track record of outperforming the relevant indices is phenomenal, but in terms of the marketing message it seems like you're trying to get people to understand the approach. Is the marketing of Dimensional about wanting your clients to understand performance?**

Booth: Yes. I've told Fama that the difference between teaching at the business school and selling this set of ideas is that, in essence, all of our "students" have to get As. If they don't understand well enough to get an A, we don't get the business.

One of the things that's shocked us is how important these ideas are, how valuable they are in the marketplace. When I was in business school there was a term, the "ivory tower." I don't hear that much anymore, but everything you teach is theory and analysis. Some people think they want to study something more practical, but what we've been able to demonstrate is that you can take a set of ideas and make it relevant for people and devise something that provides a very good investment experience.

Chicago is a bit like our firm in that you also have competitors who imitate parts of what you do. Our first investment strategy was a small cap fund. I won't go into detail, but research started to become available beginning with Michael Jensen's PhD dissertation. He examined a mutual fund's performance on data from 1946 through 1965. He set in motion an industry of analyzing professional money management returns in public markets. They'd been doing these studies with increasing sophistication over the years, but they always show the same thing—trying to outguess the market is not a cost-benefit effective thing to do. When people started reading that research, the conclusion was: if we can't outguess the market, then you can buy the market through an index fund. Sure enough, the three decades in existence—the '70s, the '80s, and the '90s—have the simple S&P 500 Index Fund as ranked in the top quartile when compared to professional money managers in each of those decades.

I counter that here's where behavioral finance might be of some use. When you talk to MBA students at the GSB, you know they see that data, but they interpret it slightly differently. But it's true that when you compare professional money managers to a similar number of hypothetical orangutans throwing hypothetical darts at the stock listings in the *Wall Street Journal*, the distribution outcomes look pretty much the same. And you know that one orangutan in a thousand will outperform the market every year ten years in a row. It's actually not quite that much for the professional money managers.

Snyder: They start to think that they're smart, whereas the orangutans just keep throwing.

Booth: Right. So in top business schools, bright students see the data and they conclude that they're in the tail of a distribution. In reality the people in the right tail of distribution are the same numbers you would expect from a distribution of orangutans.

So Chicago training led us down a different path than other people looking at the research. Most people looking at the research said well, if we can't beat the market, then we can create an index fund. We can buy the market and that strategy has worked very well.

"I'd like to emphasize one point: the gift doesn't solve the problems. It helps create a lot of momentum, hopefully, but what happens depends on follow-up with other alumni." —David Booth

Dimensional Leadership

Booth: One of the good things about the business school is the people. One fellow student, **Rex Sinquefield, '72,** and I became friends and eventually partners—he retired a couple years ago. We worked together for 24 years with a shared view of markets and how to create a business. By 1981, when we started the firm, all the index funds that were available were index funds invested in stocks of larger companies. So we decided to create a fund that would invest in stocks of smaller companies. The first problem that arises when you start to think about smaller companies, rather than larger companies, is the cost of execution, the friction cost. Maybe if you put the institutional quantities of money into working small companies, it's easy to move prices around. So we decided not to try to slavishly track the performance of an index. We decided to do the best job of execution that we knew how to do, which involved reducing trading costs and protecting ourselves against adverse selection.

If you're an efficient markets person you realize that you can't outguess the market, but there is undiscounted information out there and you just have to protect yourself against the adverse selection. So we went down a different path.

Snyder: That immediately gets you away from the pure model.

Booth: Right. We said there's a cost to tracking. It isn't free. For example, in the small cap area, the way small cap index funds came to be traded was by trading baskets of stock at the closing price. You call up a broker and say I want the closing price on

this basket of stocks. And it occurred to us that maybe if you want that guarantee of a closing price, that might be fairly expensive. So we uniquely went to a different path. Even after 27 years, there's still some degree of difficulty in labeling because people say, if you don't think you can outguess the market, then you won't. But, nevertheless, approaching markets in a sensible sort of way and having a healthy regard for markets, we were able to add significant value, which is why we have a business and why we we're able to give gifts to the business school.

Snyder: **It's such a great story.**

Booth: Yeah. It just turned out to be very useful, very valuable, and it ties to the idea of research and why you want a research university, where you explore things, you know, but if it hadn't been working we would have had to go in a different direction. We're empiricists. We look at the data. It took 10 years to persuade ourselves that we were actually adding value—at first we thought it was random good luck. Then we realized it was too much value added. And it took us about 20 years to develop a story around it.

Snyder: **I'd like to mention one other thing: I can't think of a better person to name the school. It's the perfect gift in terms of endowment and flexibility. It's affirmation. It gives us an opportunity to work on the brand name gap we have versus our toughest competitors.**

Chicago has a great brand, and we've had a lot of improvements in our brand name capital and a lot of momentum. I believe that if you perform well, recognition and support follow—and I think the performance of the school is really strong. But the fact is that our brand is uneven in terms of sector and geography, and this is a great opportunity for us to make a major push forward on that dimension.

I appreciate how you frame this gift. Some people would want to make this sound like the biggest deal of all time, but you join me in saying it's a step, and inviting others to join in. So, together we devise a matching process where other people say, I'll be able to get a named endowment at the University of Chicago Booth School of Business and take advantage of your gift to do that, that will help us further leverage your gift toward the overall objective of the school and get more people on this winning team.

Booth: I don't want to step on your line there, but I'm chuckling because it gives me a chance to use the following phrase: I think a gift is necessary, but not sufficient, as they used to say in the business school.

Snyder: **I agree.** ■

NIKE™ HAS JORDAN. CHICAGO HAS BOOTH.

Many prolific GSB graduates have achieved greatness. Among them, David Booth stands out for making an historic impact on the business world. As a global business leader, an advocate of our philosophy, and as a generous financial contributor. David Booth has changed how the game is played by showing unprecedented devotion to his alma mater, both in financial contributions and spirited support. David's gifts will forever ensure that we remain not just a business school, but a business *force*.

CHICAGO BOOTH

The University of Chicago Booth School of Business

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110 Years on the Le

ading Edge

By Patricia Houlihan

For more than a century, Chicago GSB has been more than a school, it's been a business force.

As we celebrate the largest gift—and most successful fundraising campaign—in the life of the school, we look back on a rich history of innovation, and ahead to a future of producing even more leaders who redefine business practice.

Ursula Batchelder Stone

1930s and before

1898
The College of Commerce and Politics is founded at the University of Chicago to offer practical business instruction.

1916
Materials for the Studies of Business Series—the first comprehensive business curriculum—is developed at Chicago.

1922
Chicago GSB offers first doctoral program in business.

1928
First academic business journal is founded at Chicago.

1929
First university to grant a PhD in business to a woman, **Ursula Batchelder Stone.**

1940s

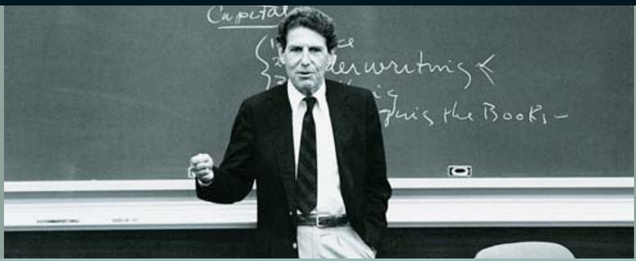
1942
GSB awards its first MBA to an African American, **Lionel Wallace.**

1943
First Executive MBA program offered in business.

George Stigler

Merton Miller

W. Allen Wallis



James Lorie

1950s

1956

Dean **W. Allen Wallis** and associate dean **James Lorie** develop a 10-year plan called "the Chicago Approach to Business Education," the first alternative to Harvard's case study model.

1957

Wallis and Lorie's approach wins a grant of $1.375 million from the Ford Foundation, allowing the GSB to soon recruit such faculty as **George Shultz, George Stigler,** and **Merton Miller.**

1960s

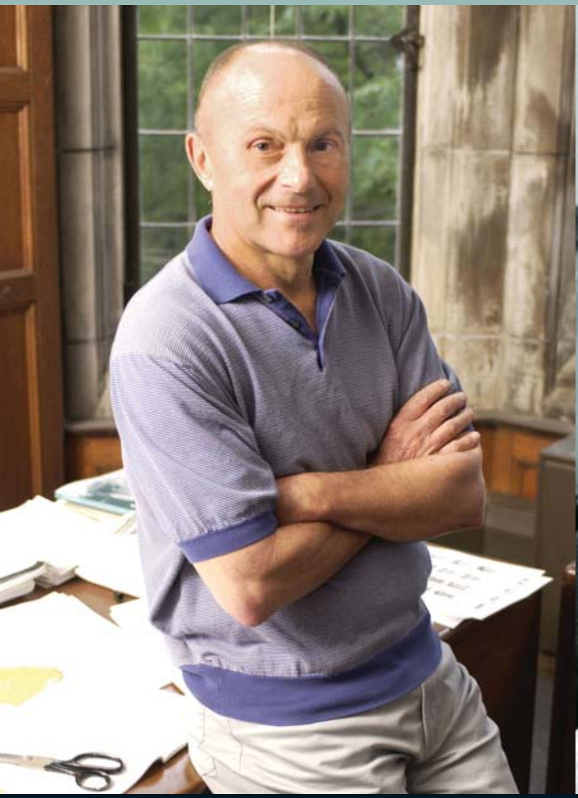
1964

First minority scholarship offered by a business school, developed by dean **George Shultz.**

1965

Birth of efficient markets theory originally published by **Eugene Fama, MBA '63, PhD '64,** "The Behavior of Stock-Market Prices," in the *Journal of Business.*

Eugene Fama



George Stigler

Robert Fogel

1970s

1972

The Theory of Finance is published by **Eugene Fama** and **Merton Miller.**

GSB students found the National Black MBA Association.

1973

Finance professor Fischer Black and **Myron Scholes** publish the Black-Scholes model for valuing options.

1980s

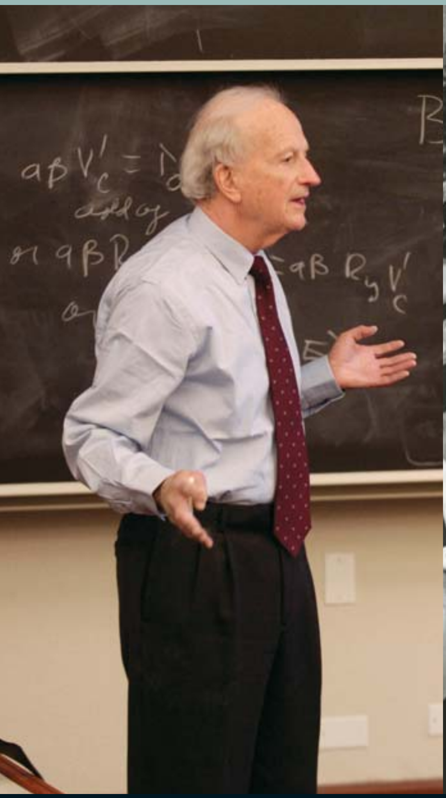
1982

George Stigler is the first business school faculty member to receive a Nobel Prize in economic sciences for his seminal studies of industrial structures, functioning of markets, and causes and effects of public regulation.

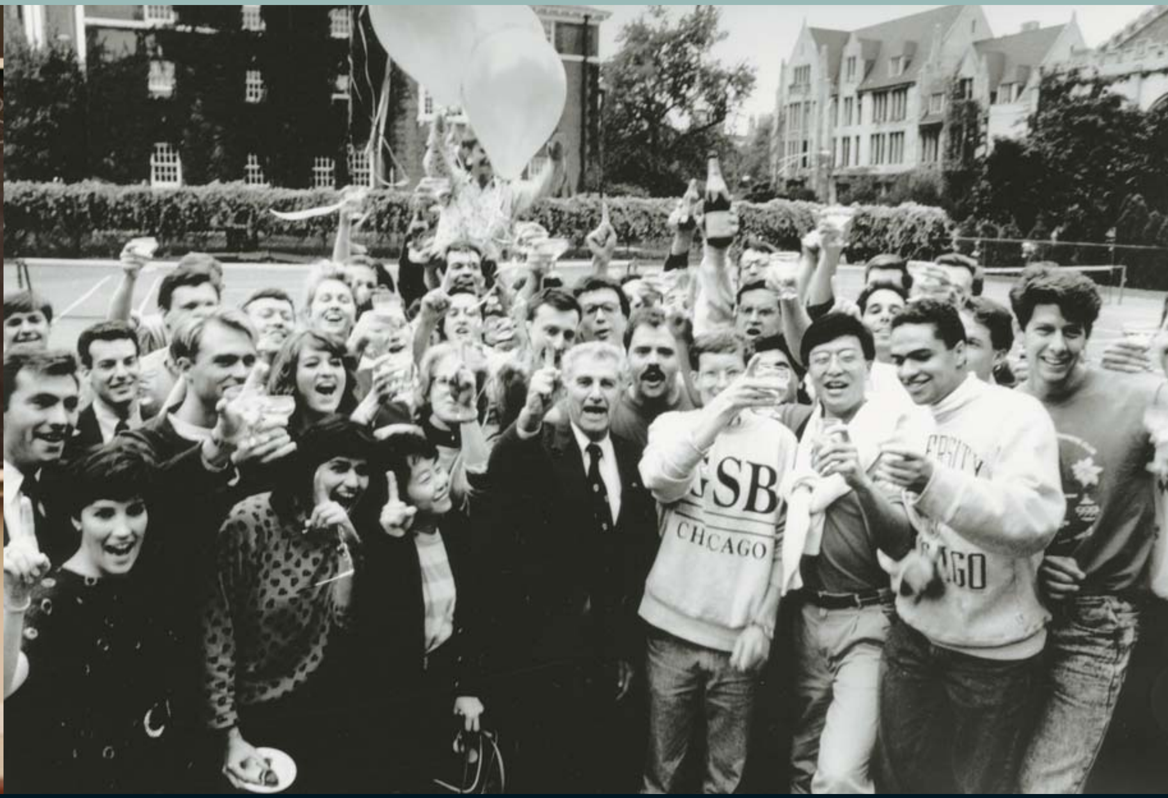
1986

GSB offers first weekend MBA program.

Gary Becker



Merton Miller and students celebrate



Robert Fogel, Gary Becker, Ronald Coase, Merton Miller

1990s

1990

Merton Miller wins a Nobel Prize for demonstrating that the laws of microeconomics apply to corporate finance.

1991

Ronald Coase wins a Nobel Prize for his work showing that property rights and transaction costs shape the organization of economic activity.

1992

Gary Becker wins a Nobel Prize for extending microeconomic analysis to a wide range of human behavior.

1993

Robert Fogel wins a Nobel Prize for using economic tools to understand historical institutions and trends.

Gleacher Center

Harper Center

Eric Gleacher and Charles “Mike” Harper

Barcelona Campus

1994
New downtown campus opens in Chicago.

Opening of Europe campus in Barcelona.

1996
Eric Gleacher, ’67, makes a $15 million challenge grant to the GSB, naming the new downtown facility Gleacher Center.

1997
Myron Scholes, MBA ’64, PhD ’70, a former faculty member, wins a Nobel Prize for his role in developing the formula used to value stock options.

Myron Scholes

David Booth

Singapore Campus

London Campus

2000s

2000

Opening of Asia campus in Singapore makes the GSB the first-ever business school with permanent campuses on three continents.

GSB launches its largest-ever capital campaign.

2004

Opening of Hyde Park Center.

2005

Relocation of Europe campus to London and celebration of the 10-year anniversary of the Executive MBA Program in Europe.

2007

Harper Center in Hyde Park is named for **Charles "Mike" Harper, '50,** who supported the school with a major gift.

2008

The GSB campaign reaches $355 million, exceeding the goal by almost 20 percent.

2008

David Booth, '71, makes an unprecedented gift to Chicago GSB.

Back Story Sign of the Times

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