PLAN. INVEST. THRIVE.

INVESTING

The *science* behind your portfolio.

There are three ways to invest in stocks. **Trying to pick winners.** Buying a basket that tracks the market. Or following the evidence. We chose the third — and this is the plain-language explanation of why.

> Stock prices already reflect what millions of buyers and sellers know. Our job isn't to outsmart that pricing — it's to ***use it***.
>
> — MPM WEALTH ADVISORS · INVESTMENT COMMITTEE

Three approaches. *One* choice.

Every dollar invested in stocks is being managed one of three ways. Each one rests on a different belief about whether markets can be outsmarted — and each has a track record. **This page is the executive summary of the rest of the document.**

APPROACH A

Stock pickers

Believe they can find prices that are wrong, and profit from it.

- Buy what they think is underpriced
- Sell what they think is overpriced
- Charge for the research and the guess
- Track record: most fail to beat their benchmark over long periods

20-year benchmark-beat rate

~12%

APPROACH B

Indexers

Give up on picking winners and just buy a basket that tracks an index.

- Buy every stock in the index, weighted by size
- Trade only when the index changes
- Lower cost than stock-pickers
- By design, never beats the index — just matches it (minus fees)

Goal

Match the market

APPROACH C · WHAT WE USE

Dimensional

Trust market prices, then tilt toward what the evidence says works.

- Owns thousands of stocks broadly
- Tilts toward small, value, and profitable companies
- Trades flexibly, every day, for better prices
- Track record: outperformed benchmarks at much higher rates

20-year benchmark-beat rate

~75%

Stock picking sounds appealing — find the next great company before everyone else does. The problem is the evidence: across thousands of professional stock-pickers over 20 years, only about one in eight beats a plain market index. The cost of trying — research staff, frequent trading, manager fees — usually outweighs the benefit.

Indexing solves that problem by buying everything cheaply. But it introduces a different problem: an index is just a list someone wrote down, and it has to be followed mechanically. As you'll see in Section 03, that mechanical rule-following leaves real money on the table.

The third approach — what we use — keeps what works about indexing (low cost, broad diversification, no stock-picking guesses) and fixes what doesn't (the rigid rules and arbitrary index construction). It is the approach pioneered by Dimensional Fund Advisors over 44 years, built on Nobel Prize–winning research, and the reason your portfolio looks the way it does.

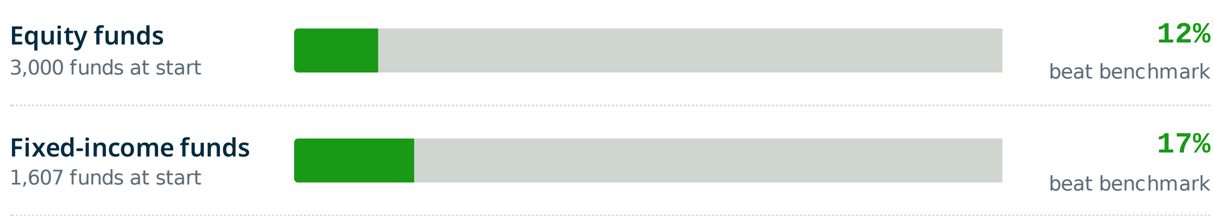
02 WHAT THE EVIDENCE SAYS

After 20 years, only *12%* of stock funds beat their benchmark.

Every year, Dimensional studies the entire universe of US mutual funds and ETFs. The 2026 study covers **4,665 funds managing $12.5 trillion**. The results are not subtle.

12%	17%	23%
Of 3,000 equity funds survived AND beat their benchmark over the 20 years ending 2025	**Of 1,607 fixed-income funds** did the same	**Of top performers** still ranked top-quartile in the next five years — barely better than chance

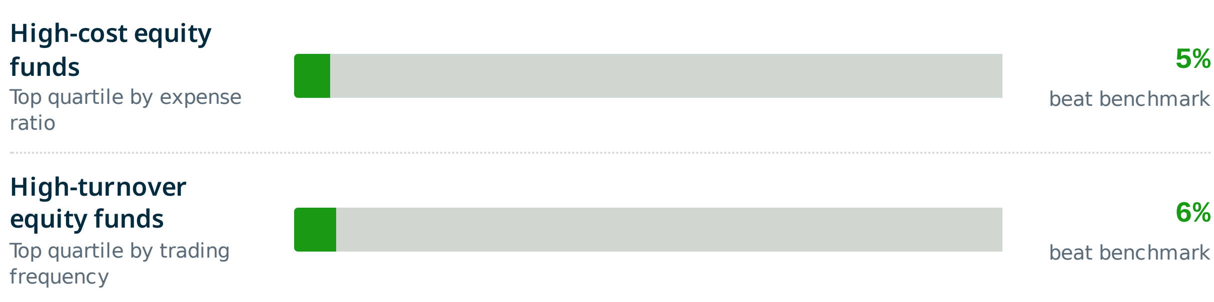
20-YEAR BENCHMARK-BEAT RATE · US-DOMICILED MUTUAL FUNDS & ETFS · 2006–2025



Green = funds that both survived the 20 years and beat their benchmark. Gray = funds that disappeared or underperformed. **Roughly half the funds in the original sample no longer existed at the end of the 20 years** *— usually because of poor performance. Source: Dimensional, The Fund Landscape 2026.*

Two patterns explain most of the gap.

WHAT PREDICTS A FUND'S FAILURE TO BEAT THE MARKET



The two biggest predictors of underperformance are high fees and frequent trading. *Both are mostly within your advisor's control. Low fees and patience aren't sexy — but they are, statistically, what works. Source: Dimensional, The Fund Landscape 2026, 20 years ending December 2025.*

The takeaway isn't that markets are perfect or that mutual fund managers are bad at their jobs. **The takeaway is that beating a market made up of millions of well-informed buyers and sellers**

— after fees, after taxes, after the cost of trying — is extraordinarily hard. Once you accept that, the question becomes: *what's the best thing to do instead?*

Index funds *aren't* as passive as they look.

If active management has a clear failure rate, the temptation is to just say *“fine, buy the index.”* That's a defensible move — far better than chasing hot funds. But index funds carry their own set of quieter problems that compound over decades.

PROBLEM 1

An “index” is somebody's opinion.

The S&P 500, Russell 1000, and CRSP US Large Cap Index all sound like neutral measures of US large stocks. They're not. **Each one is a committee's set of rules** — when to add a stock, when to remove it, how to weight it. Three respected small-cap indexes have historically differed by an average of **4.9% per year**. The choice of index isn't a passive decision; it's a giant active one made by somebody you've never met.

PROBLEM 2

The label doesn't always match the holdings.

The Russell 2000 is the most popular small-cap index in the United States. Look inside it and you'll find that **more than 20% of its weight, in recent years, has been in stocks that are technically large-cap** — companies already in the Russell 1000. Index providers do this deliberately, to keep trading costs down for their tracking funds. But it means a “small-cap index fund” can hold a lot of large companies, which dilutes the very thing the investor wanted exposure to.

PROBLEM 3

Index funds trade on a calendar, not on opportunity.

When an index adds or drops a stock, every tracking fund must trade that stock at roughly the same time — often paying a premium because everyone else is buying or selling the same name on the same day. **Most index funds rebalance once or twice a year, on a published schedule.** That predictability is a tax on your returns. Approaches with the flexibility to trade *when prices are favorable*, instead of *when the calendar says to*, capture small but compounding advantages.

PROBLEM 4

Index funds hold the duds too.

An index fund is required to hold every stock in the index, including those decades of research show **tend to drag returns down** — small companies with weak profits, or companies aggressively issuing new shares. An index fund has no choice but to include them. A more thoughtful approach can simply leave them out.

None of this means indexing is bad. *Compared to most actively managed stock-picking funds, plain index funds are excellent.* They have low costs, broad diversification, and no manager guessing what comes next. But the gap between “match the index” and “deliberately tilt the portfolio toward what the evidence says works” is real — and over 20 or 30 years, it adds up.

Three patterns. *A century* of data.

Beginning in the 1960s, financial researchers — including several Nobel laureates — began studying which kinds of stocks tend to earn higher returns over time. **Three patterns keep showing up.** They aren't get-rich-quick formulas; they don't work every year; sometimes they go against you for stretches. But across long horizons, they have been remarkably durable.

PATTERN 01

Size: *smaller* companies

Smaller companies have, on average, outperformed larger ones over long periods.

The intuition: smaller companies are riskier and less stable than household names. Investors demand higher returns in exchange for that risk — and historically, they've gotten them. We don't bet exclusively on small companies, but we hold **more of them than a plain market index would**.

PATTERN 02

Value: *cheaper* companies

Companies trading at a low price relative to what they own and earn have outperformed expensive ones.

The intuition: buying a dollar of company profits for 80 cents tends to do better than buying it for $1.50. Glamour stocks command premium prices; unglamorous ones get discounts. **The discount tends to be more than the underlying risk justifies.** We tilt toward those discounts.

PATTERN 03

Profitability: *better* businesses

More profitable companies have outperformed less profitable ones, controlling for size and value.

The intuition: a company that consistently turns revenue into profit is a better business than one that burns cash. Earlier value-investing research treated every “cheap” stock the same; this newer research adds the obvious filter — **among cheap stocks, prefer the profitable ones**.

PLAIN-LANGUAGE FOOTNOTE

You may hear these called “the size factor,” “the value factor,” and “the profitability factor” — or, collectively, *premiums*. **They mean the same thing as what's above.** The academic vocabulary makes them sound more mysterious than they are: three persistent tendencies in which kinds of stocks earn higher returns. The work earning the Nobel Prize in 2013 (Eugene Fama) is essentially the formal version of these patterns.

How much does it matter? Dimensional's retirement research models two investors who contribute identically from age 25 to 65, following a standard glide path. The one whose stock allocation tilts moderately toward size, value, and profitability arrives at retirement with **about 15–20% more in the portfolio** than the one in a plain market index — achieved at little additional risk. That gap, compounded over 40 years, is meaningful: it's the difference between “comfortable” and “the next generation has options.”

*Important honest caveat: these patterns are **tendencies**, not guarantees. There are 5- and even 10-year stretches in which value, small, or profitable stocks underperform. The discipline matters: clients who abandon the approach during a bad stretch usually lock in the underperformance and miss the recovery.*

05 HOW WE ACTUALLY DO IT

Daily decisions, not *once-a-year* ones.

The difference between an index fund and a Dimensional fund is not the holdings on the day they're bought. **It's the thousand small decisions made every day after.** Each one adds a small advantage; compounded over decades, they add up.

A TYPICAL INDEX FUND

Trades on the index's schedule.

- Rebalances once or twice a year
- Must buy and sell on the announced day
- Pays the price the market gives that day
- Cannot avoid known weak segments of the index
- Optimized to *track* the index, not to outperform it

DIMENSIONAL

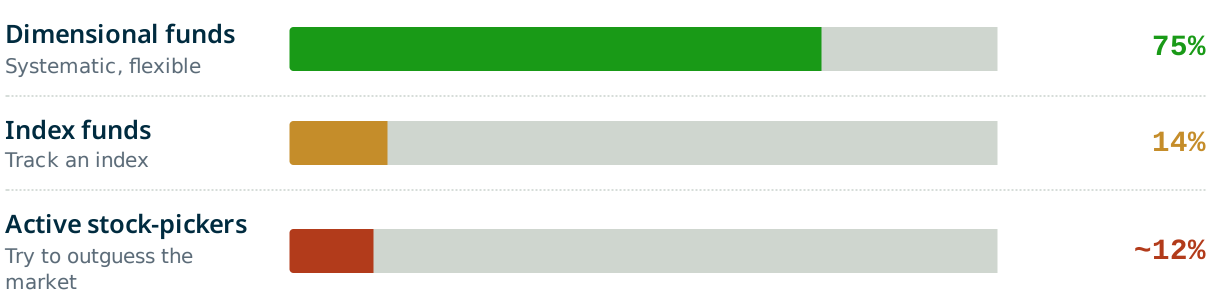
Trades when it pays to trade.

- Considers trades every day, continuously
- Can wait for a better price or skip a trade
- Sells what's leaving the target, buys what's joining
- Excludes companies the research shows drag returns
- Optimized to *capture the patterns* efficiently

The phrase the Dimensional trading team uses is that their most powerful tool is “the flexibility to walk away from a trade.” An index fund doesn't have that flexibility — it has to buy and sell whatever the index publisher tells it to, on the day published. Dimensional, because it isn't tied to any single index, can be patient.

That patience has measurable consequences. **Across Dimensional's US-domiciled equity and fixed-income funds, 75% beat their benchmark over the 20 years ending 2025.** The same study looked at index funds in the same period: only 14% beat their benchmarks (after fees). Across all active stock-picking funds: similarly low. None of these results are guaranteed to repeat. But *the pattern is consistent enough, over a long enough period, to take seriously.*

20-YEAR BENCHMARK-BEAT RATE · ALL US EQUITY & FIXED-INCOME FUNDS IN STUDY



Source: Dimensional, The Scientific Pursuit of a Better Way to Invest, December 2025. Past performance does not guarantee future results.

06 WHAT THIS MEANS FOR RETIREMENT

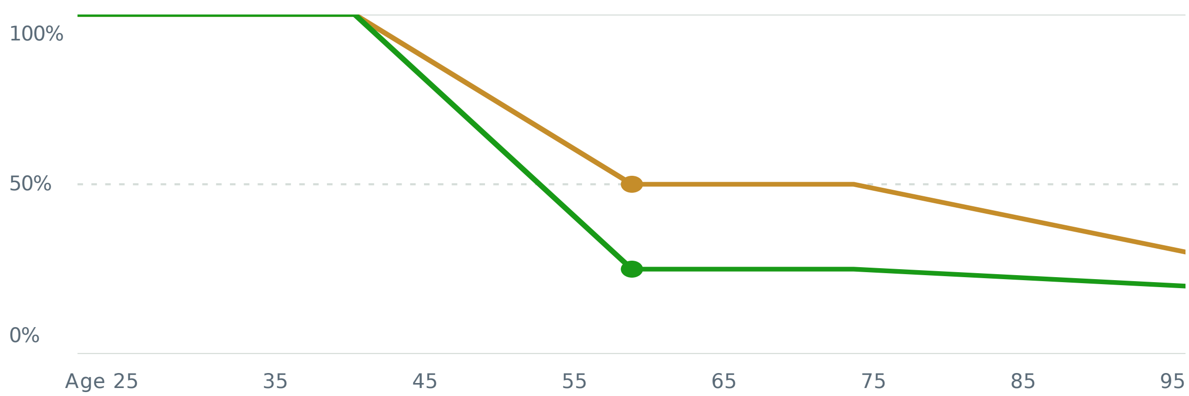
Where the philosophy *matters most*.

The whole point of an investment philosophy isn't to be clever — it's to deliver a better retirement. There are two phases where this approach changes the answer in a way you can actually feel.

Phase 1 · Building it. Across a 40-year career of saving, a moderate tilt toward smaller, cheaper, more-profitable companies has historically produced about **15–20% more in the portfolio at retirement** than a plain market index, at very similar risk. That's not a small gap. On a $1 million target, it's the difference between $1.0M and roughly $1.18M — an extra two to four years of comfortable retirement spending.

Phase 2 · Spending it. A common retirement allocation — the kind built into most target-date funds — keeps you about half in stocks at age 65, then very slowly reduces it. Dimensional's retirement research suggests that's more risk than most retirees need: **a lower equity landing point (around 25%), paired with inflation-protected bonds**, has delivered similar income with materially less risk of bad outcomes. The key risk in retirement isn't average returns — it's *bad returns in the first five years*. The way you're positioned at age 65 determines how exposed you are to that.

TWO RETIREMENT GLIDE PATHS · STOCK ALLOCATION BY AGE



Conventional target-date fund
~50% in stocks at 65 — more risk than most retirees need, more sensitivity to a bad first five years.

Income-focused (what we use)
~25% in stocks at 65, paired with inflation-protected bonds. Similar income, lower risk of running out.

A **We build with science, not stories.**

Every position in your portfolio is there because the research supports it — not because someone had a hunch about the next great stock.

B **We tilt deliberately, not aggressively.**

The tilts toward small, value, and profitable companies are moderate. Your portfolio stays broadly diversified across thousands of stocks — even when we lean toward certain kinds.

C **We keep costs low.**

The single most reliable predictor of fund underperformance is high fees. We choose funds in the lowest-cost tier of every category we use.

D **We measure decades, not quarters.**

Patterns like value and small-cap can underperform for years before re-asserting. *The clients who get the long-term outperformance are the ones who stay in their seat during the short-term underperformance.*

E **We earn our fee through advice, not predictions.**

We don't promise to outguess the market. We promise to build a portfolio backed by evidence, keep it cheap, keep it diversified, and help you stay invested through the moments it's hardest to.

PLAN. INVEST. THRIVE.

The right question isn't *"will it beat the market this year?"*

It's *"will the way we're investing today still make sense in twenty years?"* — because that's how long we're really planning for. Everything in this document is an answer to that question, in the calmest, most evidence-backed way we know how to answer it.

Sources: Dimensional Fund Advisors — The Fund Landscape 2026 (data through December 31, 2025; sample of 4,665 US-domiciled mutual funds and ETFs); The Scientific Pursuit of a Better Way to Invest; "There's Stock Picking. There's Indexing. Then There's Dimensional Investing."; Wei Dai & Robert C. Merton, "Three Sources of Alpha"; Mathieu Pellerin, "How Targeting Size, Value, and Profitability Can Improve Retirement Outcomes" and the "Researching Retirement" series; Wes Crill, Above the Fray series on indexing methodology. Underlying academic research: Fama & French (size, value, profitability factors, 1992–2015); Eugene Fama (Nobel Prize in Economic Sciences, 2013). Past performance is no guarantee of future results. This material is for client education only and is not a recommendation to buy or sell any security.