**Finding Success, Passionate Followers in Tow**

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Dimensional Fund Advisors is probably the quirkiest company in all of financial services, drawing such passionate fans that people frequently refer to it as a religion (or, more dismissively, a cult).

The money manager and mutual fund company is obscure enough that you may never have heard of it. D.F.A. is privately held, mostly by its founders and employees, though Arnold Schwarzenegger has a small stake, too.

It is humble enough to have started in 1981 without any misconceptions about its ability to pick small stocks, its original specialty, that would outperform the average of all such stocks. “We are not trying to outguess the market,” says its co-founder David G. Booth.

But it is smug enough to scatter stockbroker jokes throughout its presentations to advisers, disparaging Merrill Lynch in one casual aside and mildly mocking mere index funds. “I want to talk about why we think we are different and why we think we are better,” the head of research, Gerard O’Reilly, declared to one recent gathering.

Bob Deere of Dimensional Funds Advisors speaking to potential investors.

D.F.A. is also picky enough not to sell its funds directly to any individual investors outside of some 401(k) and 529 college savings plans. Instead, you must buy them through financial advisers, and even those people must apply for the privilege. Part of the process involves coming, at their own expense, to the company's two-day introductory session in Santa Monica.

Despite these barriers to entry, D.F.A. is threatening enough, with about $208 billion in assets under management, that when you search for the company using Google, you will sometimes find that Vanguard and T. Rowe Price have placed ads on some pages in an attempt to steer you away.

Why do they feel threatened? Despite Mr. Booth's modesty, many of D.F.A.'s mutual funds have actually outperformed their closest equivalent market indexes over time. When that pattern emerged, the company struggled with defining why and how it was happening without explicitly promising that it would continue.

So will it? In an attempt to find out, I tagged along this week with pilgrim advisers who had traveled from Kitchener, Ontario; Wooster, Ohio; and Waxahachie, Tex., as they sat in a room with shades blocking the view of the Pacific and received the D.F.A. wafer.

If you are not inclined to believe in the first principle of D.F.A., there is no real point in reading any further: the company insists that few fund managers can pick stocks or other securities that outperform the market over long periods of time.

Mr. Booth and the company's other founder, Rex Sinquefield, figured this out long before most people and helped build some of the first index mutual funds. Then, they set out to build a different kind of passive investment vehicle when the company was born in Mr. Booth's Brooklyn brownstone.

While their success, particularly in small and value stocks, gives the lie to the perception that only artisanal food products and fuzzy-faced rock bands emerge from the borough, the phone company thought they were running a bookmaking operation. "Anybody in Brooklyn who wanted 10 phone lines was presumably up to no good," Mr. Booth recalled.

In fact, the pair was making a couple of big bets. First, they were wagering that the lessons they had learned about the benefits of diversification at the University of Chicago were true (they eventually incorporated research about how small and value stocks outperformed the rest of the market over the long haul). Later, they tested the idea that you didn't need to follow a stock index exactly to gain exposure to the risks represented in the index's market segment.

Their ideas took hold among pension fund managers and other institutions. The pair never intended to let individuals invest in the funds, worried about frightened investors' tendency to buy and sell frequently, which would drive up costs for fund investors. But eventually, the pair compromised — select financial advisers could put clients in D.F.A. funds as long as they pledged not to flip the funds like hotcakes.

Today, the company works with about 1,500 advisers. (A disclosure: My wife and I recently signed up with a financial planning firm that turns out to work with D.F.A., though that was not why we signed up with them in the first place and we are not yet invested in any D.F.A. funds. I expect to be treated the same as any other client, so I will not benefit in any way financially from the fact that I have written about them.)

By working through advisers, D.F.A. doesn't need to advertise to consumers. As a result, its fund fees average about 35 basis points, or hundreds of a percentage point. That's higher than most of the biggest index funds and exchange-traded funds but far lower than most actively managed mutual funds.

The disadvantage is that the advisers become D.F.A.'s sales and marketing operation. This can lead to bursts of overexuberance. One D.F.A.-approved firm had a statement on its Web site earlier this week saying that D.F.A.'s strategies were likely to add 1.5 percentage points or more per year to investors' returns in a well-diversified portfolio over what they would get in equivalent index mutual and exchange-traded funds.

When I pointed this out to D.F.A. executives, there were many raised eyebrows and alarmed looks. Within 24 hours, the claim had vanished.

David G. Booth made two big bets when he co-founded Dimensional Funds Advisors in Brooklyn in the early 1980s.

Still, this gets to the primary question that is probably on your mind at this point: how much more, if anything, can you expect to earn with a basket of D.F.A. funds than you would with the closest equivalent index or exchange-traded funds?

D.F.A. produced a three-page list of comparisons for me, which showed its funds outperforming the most similar Vanguard index fund by anywhere from a few hundredths of a percentage point to nearly 1 percent (and occasionally getting bested by Vanguard funds as well). That advantage may disappear altogether when you account for an adviser's fees, but more on that below.

As both D.F.A. and Vanguard are quick to note, however, theirs is not an apples to apples comparison. Vanguard index funds carefully track commercial indexes like the S.& P. 500. D.F.A. tries to capture the returns of the same asset classes. But because it doesn't promise to slavishly follow a particular index, it doesn't have to own precisely the same securities (or the same number of securities) in those indexes at the same times.

This comes in handy when new companies come into the indexes and Vanguard and other index funds must buy them, no matter their (inflated) prices. D.F.A. will try to wait to buy these securities when they are cheaper. The forthcoming LinkedIn initial public offering won't turn up in D.F.A. funds for a while either, since D.F.A. believes that new issues generally underperform early on.

D.F.A. uses other techniques to enhance performance as well. Since it never has to buy anything to stick to an index, its traders have often been able to drive harder bargains on securities pricing. It also makes money by lending shares to people who use them to make their own bets, say to short the stock.

If all of these advantages exist, can they persist, particularly if the company continues to grow as quickly as it has in recent years? "The best we can say is that everything we are doing puts the odds in your favor," said a vice president, Weston J. Wellington, who noted that the company thrived on intellectual combat and encouraged probing questions. He even performs a D.F.A. fight song at company events.

The company will need to be combat-ready in the future, for someone will eventually offer similar funds to people who do not want to use financial advisers. This will be good news to people who have tried to use D.F.A. over the years but could not find an adviser who would work with them. Many advisers offering D.F.A. funds won't take on clients with less than, say, $250,000 or $500,000 to invest.

Mr. Booth is contrite about this problem. "I wish I had a better solution for that," he said.

If you don't have a big pile of money, take a look at a company called AssetBuilder, which has relatively low fees and a minimum of just $5,000. Meanwhile, an advisory firm called Portfolio Solutions offers very low fees on bigger accounts.

D.F.A. does not waver from the conviction that investing your own money is a bad idea, akin to defending yourself in court. And many of its advisers would be upset if the company ever sold its funds directly to consumers, since they like the air of exclusivity.

Many people recoil at the idea of turning over 1 percent or so of their assets to a financial planner each year, which is the typical charge. And paying that much simply to get access to D.F.A. funds (and not getting any other financial advice for that fee) is probably a bad idea, given that it could eat up all, if any, of D.F.A.'s outperformance and then some.

In a recent post on the Bogleheads Web forum, where fans of index funds hang out, an adviser summed up the case for his work this way: D.F.A.'s advantage, if any, is likely to show up to the right of the decimal point on your total return.

But good financial planners, he continued, do more than pick the right passive investments for the money that they charge. They help set realistic goals that dictate your mix of investments. They shield you from tax mistakes. The very best keep you from letting behavior and feelings get in the way of intelligent decisions. All of this, in aggregate, shows up to the left of the decimal point, and it can be worth well over 1 percent.

As for the church of D.F.A., it grows so quickly that its dark-suited employee acolytes must now stand at the back of its overstuffed conference center in Santa Monica. And Mr. Sinquefield, the co-founder who spent three years preparing for the priesthood before turning to finance, says he doesn't mind the religious analogies.

"If they want to call me the high priest of efficient markets, I plead guilty," he said. "You can even say I'm aspiring to bishop. Or since I'm in St. Louis, I'd like to be a cardinal."