

## Flexibility in Practice: How We Handled GameStop

In case you missed this client approved piece from Dimensional, we wanted to share it with you all.

[Flexibility in Practice: How We Handled GameStop](#): GameStop's rise and fall in price was extreme, but our process is built to react systematically to the changes in stock prices that happen every day. This incident serves as an opportunity to highlight how Dimensional's investment process is built to handle developments within markets, given that many of our portfolios held GameStop in January.

- Size, relative price, and profitability contain information about expected returns. By late January, GameStop had increased in size and relative price rather dramatically. Our investment process is set up to respond to new information about securities and their expected returns on a daily basis.

EXHIBIT 1

### Market Prices Can Change Rapidly

*Closing price of GameStop (GME) from December 31, 2020 - February 10, 2021*

At its closing peak on January 27, 2021, GameStop had a market capitalization of \$24.2 billion, making it larger than over 200 of the constituents of the S&P 500 Index and as large as Whirlpool and American Airlines combined.<sup>1</sup>



Past performance is no guarantee of future results.

In USD. Stock price data from Bloomberg L.P.

- We evaluate stocks daily using many variables to assess long-term and shorter-term expected returns. As the price of GameStop climbed, it quickly moved out of the small cap and value space, becoming a large cap stock. For a dedicated small cap portfolio, we consider that exposure to a large cap stock no longer fits the intended asset class of the portfolio. Importantly, our daily process allows us to consider that in real time as prices change. After peaking, GameStop's subsequent fall in price put it in the low profitability growth space of the small cap market, which we exclude across our equity portfolios due to low expected returns. Our daily process allowed us to again respond quickly. By February 3, we had completely sold GameStop from all Dimensional portfolios.

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EXHIBIT 2

### Focus on Higher Expected Returns Requires Flexibility

*Daily implementation helps maintain a consistent focus on higher expected returns as security prices change*

	Weight in GameStop (basis points)	
	December 31, 2020	January 31, 2021
Dimensional US Small Cap Portfolio	5	0
Russell 2000 Index	4	72
Dimensional US Small Cap Value Portfolio	17	0
Russell 2000 Value Index	9	149

Holdings are subject to change. Indices are not available for direct investment. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes.

This example highlights how we implement our daily process each and every day. However, what we did with GameStop is not unique to this situation. We regularly use new information about expected returns in a flexible manner to maintain consistent exposure to higher expected returns. GameStop is a case in point of how quickly prices can change and the importance of a robust implementation process that can be nimble and respond systematically.

Feel free to contact us with any questions or comments. We're here to help.

*Thanks for Taking a Look!*

  
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