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Align Wealth Management, LLC
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The Value of Advice

The Pragmatic Choice: Comparing Align Wealth Management and Vanguard Personal Advisor Services

Dimensional Fund Advisors and Vanguard share a common origin story. Mac McQuown hired David Booth (the founder of Dimensional Fund Advisors) out of graduate school to be a part of McQuown's team at Wells Fargo, the group that created the world's first indexed portfolio. Later, McQuown became a board member of Dimensional. Jack Bogle founded Vanguard in 1975, launching the first publicly available index fund, based on the ideas pioneered by McQuown at Wells Fargo.

While they share similar beginnings, today these two mutual fund giants differ greatly in how they approach the delivery of financial advice. Dimensional supports independent advisor firms that deliver a high level of personalized planning for and attention to their clients. Vanguard's Personal Advisor Service (PAS) is a highly scaled, lower-touch service offering portfolio management to and financial planning services for the masses.

Align Wealth Management is a boutique, independent, client-focused firm that uses both Dimensional and Vanguard funds. We think this distinction offers Align clients several important advantages:

1. Align delivers a far more personalized experience that drives better outcomes for clients.
2. Align advisors are unbiased, fiduciary advisors who have no incentive to sell or recommend proprietary products.
3. By using funds from both Dimensional and Vanguard, Align delivers a better investment experience that should result in higher returns for a similar amount of portfolio risk.

Align Wealth Management Delivers a More Personalized Relationship

Vanguard has 937 investment advisor representatives working with its 562,243 clients (as of March 2019).[1] This means that, on average, each advisor works with 600 clients. While touted as a "personal advisory experience", the Vanguard model is built to mass-produce investment advice and basic planning in an assembly-line fashion, rather than deliver a deeply personalized relationship-based experience to a select and discerning clientele.

In contrast, Align's deep understanding of each client's unique situation results in highly customized client-focused advice and planning. The ratio of clients per Align advisor is 60 to 1.[2] With 10x the focus, this allows Align advisors to spend more time with each client engaged in detailed conversations about their specific needs, goals, and objectives.

Based on anecdotal conversations, many Vanguard's advisors appear to have been working as financial advisors for less than a decade. This poses two different and important risks.

First, turnover is highest in the first decade of any advisor's career. And, clients depend on a long-term relationship with a dedicated advisor. Clients don't want to rehash all their financial affairs each time they need advice. While Vanguard has dedicated advisors above a certain asset level, even when a client is assigned to a great advisor on the first roll of the dice, it is possible to lose that advisor when the advisor leaves to join a better paying firm or when the advisor is promoted to serving higher net worth clients.

Second, direct experience (and access to partners with decades of experience) play a major role in an advisor's ability to deliver high quality advice. The fact that Align is an advisor-owned firm means that Align advisors do not just have a job — they are committed to Align's client focused mission for the long run.

Align Advisors Are Unbiased Fiduciaries

Being a fiduciary means putting the client's interest first no matter what. Being unbiased means avoiding conflicts that could cause advice to no longer be independent and unbiased. While Vanguard advisors are fiduciaries, they cannot claim to be unbiased. It almost goes without saying that Vanguard advisors are incentivized to sell/recommend Vanguard investments and products. Therefore, their advice is biased toward Vanguard proprietary products. As shown in the next section, while Vanguard products are suitable, they are not always the best in the market.

Align advisors have no proprietary products to sell. They are not paid by Vanguard or Dimensional. Accordingly, Align's Investment Committee can take an unbiased approach to the entire universe of investments to find the best solutions for Align clients. This is how the Align Investment Committee researched and eventually decided on a Dimensional funds-led approach.

For insurance, annuities, estate planning and tax planning, we depend on experts in the field together with advisor experience to determine the best solutions for each client's personal financial situation, rather than being restricted to advice and products the firm created. As always, we never accept commissions or compensation from any third party. For these reasons, Align advisors can be objective and unbiased when guiding clients through life decisions. As David Booth, the founder of Dimensional, once said, "Once you accept this view of markets, the benefits go way beyond just investing money."[3]

A Closer Examination of Dimensional and Vanguard Performance

By tilting to academic factors (like small, value and profitability), patiently trading to reduce transaction costs, avoiding index reconstitution, and returning securities lending revenue directly to shareholders, Dimensional funds have delivered consistently higher returns than their respective indexes.

Looking at this list of DFA equity funds that have been in existence for at least 20 years, on average, the funds beat 81% of their peers and the average annual outperformance has been about 1.13% above the indexes themselves (see Exhibit 1).[4]

Exhibit 1

DFA Fund Performance for Diversified Equity Funds in Existence for 20+ Years vs. Benchmark

	Inception Date	Outperformance (%)*
US Funds		
Enhanced US Large Company Portfolio	7/2/1996	-0.05%
US Micro Cap Portfolio	12/23/1981	1.51%
US Small Cap Portfolio	3/19/1992	1.12%
Tax-Managed US Small Cap Portfolio	12/15/1998	1.00%
Tax-Managed US Targeted Value Portfolio	12/11/1998	0.67%
US Small Cap Value Portfolio	3/2/1993	1.39%
US Large Cap Value Portfolio	2/19/1993	0.48%
Tax-Managed US Marketwide Value Portfolio	12/14/1998	0.56%
International Funds		
Large Cap International Portfolio	7/17/1991	-0.02%
International Small Company Portfolio	9/30/1996	0.72%
International Small Cap Value Portfolio	12/29/1994	1.32%
International Value Portfolio	2/15/1994	1.17%
Emerging Markets Funds		
Emerging Markets Small Cap Portfolio	3/5/1998	3.90%
Emerging Markets Value Portfolio	4/1/1998	3.36%
Emerging Markets Portfolio	4/25/1994	1.25%
Real Estate Funds		
Real Estate Securities Portfolio	1/5/1993	-0.29%
Average Outperformance		**1.13%**

*Inception through 12/31/18

It's important to recognize that index funds incur internal expenses (such as trading costs and management fees) that indexes themselves do not incur. Therefore, the benefits of DFA funds relative to Vanguard's index funds could be even greater, increasing client wealth over time.

The fact that Dimensional funds have delivered such high long-term net returns, despite higher expense ratios, shows that the value delivered by the Dimensional approach has been worth more (perhaps much more) than the slightly higher cost of DFA's evidenced-based investment process.

Compare the Core Equity model portfolio to a Global Vanguard Equity portfolio made up of identical proportions of U.S. and international exposure (consisting of the lowest expense share class for Vanguard Total Stock Market Index and Vanguard Total International Stock Market Index). From 2009–2017, the data confirms what we saw in Exhibit 1 – a 1.14% annualized advantage to DFA (see Exhibit 2).[5]

Exhibit 2

Global Equity Returns 2009-2017	Vanguard	Align's Core Equity Model
Annual Returns	12.47%	13.61%
Cumulative Returns	187.86%	215.22%

Conclusion

Performance is important. Very important. That said, Align looks for more than performance. Align's ability to provide unbiased support and advice to each client is a step above standard Vanguard PAS relationships. Along with the use of both Dimensional and Vanguard funds to construct more efficient portfolios, Align can offer a better, more personalized investment experience for each of its unique clients.

Align is and remains Client Focused. Period. ™

Sources and Disclosures

[1] "Form ADV Part 2A Brochure," Vanguard Advisors, Inc. Updated on March 29, 2019.
[2] "Form ADV Part 2A Brochure," Align Wealth Management, LLC. Updated on March 26, 2019.
[3] *Thirty-Five Years of Dimensional,* Dimensional Fund Advisors, 2017.
[4]-Dimensional Fund Advisors for Dimensional funds. Mutual fund universe statistical data provided by Morningstar, Inc.
[5]-Dimensional Fund Advisors for Dimensional funds.

Exhibit 1 Sources: Dimensional Fund Advisors for Dimensional funds; Mutual fund universe statistical data provided by Morningstar, Inc.
*MSCI World ex USA Small Cap Index (net div.) data available from 01/1999 - 12/2018. MSCI All Country World ex USA Small Cap Index (net div.) used as a proxy where data is not enough.
*MSCI Emerging Markets Index (net div.) data available from 01/1999 - 12/2018. MSCI Emerging Markets Index (gross div.) used as a proxy where data is not enough.

All performance data is provided by Dimensional Fund Advisors through the Returns 2.0 program. All performance data was obtained by Align Wealth Management, LLC from outside sources and is believed to be reliable, but there can be no guarantees as to its accuracy or reliability. Estimates presented herein are based upon historical performance data of indices and adjusted for both the Management Fee to be charged by Align Wealth Management and the expenses of mutual funds currently used by Align Wealth Management for each asset class in its investment models. However, Portfolio returns do not consider any fees charged to the account by the Custodian.

The Align GNP CORE Equity portfolio is allocated into the following asset classes US Core, International Core, Emerging Market Core and Global Real Estate. Each asset class is represented by different mutual funds. The US Core Equity asset class is represented for performance purposes by: January 1970-Present: Dimensional US Adjusted Market 2 Index. The International Core asset class is represented for performance purposes by: January 1994-Present: Dimensional International Adjusted Market Index; January 1970-December 1993: MSCI EAFE Index. The Emerging Markets Core asset class is represented for performance purposes by: January 1994-Present: Dimensional Emerging Markets Adjusted Market Index; January 1988-December 1993 MSCI Emerging Markets Index (gross div); January 1970- December 1987: Dimensional International Small Index. The International Real Estate asset class is represented for performance purposes by: July 1989-Present: S&P Global ex US REIT Index (gross div.); January 1970-June 1989: US REIT. The LT Government Bonds asset class is represented for performance purposes by: January 1970-Present

Asset allocation and diversification do not assure or guarantee better performance and cannot eliminate the risk of investment losses. All investment strategies have the potential for profit or loss. Historical performance results for investment indexes and/or categories, generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results.

Align Wealth Management, LLC is a Registered Investment Advisor. There are two offices: Oklahoma City & Tampa Bay. The Home Office is located at 13921 Quail Pointe Drive, Oklahoma City, OK 73134, ph: (405) 607-4820. The Tampa Bay Office is located at 125 5th Street South, Suite 201, St. Petersburg, FL 33701, ph: (727) 455-0033 | fax: (405) 294-3340 | toll free: (800) 401-6477 | web: www.alignmywealth.com. Before making an investment decision, please contact our office at 405.607.4820 to receive a copy of Align's Form ADV Part 2A and the Investment Advisory Agreement, both of which include Align's fee schedule. This information is intended to serve as a basis for further discussion with your professional advisers.