Dimensional

PERSPECTIVES

3 Lessons from Investing's "Moneyball" Moment

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This year marks 100 years of research-quality US stock market returns. How important is this centennial? The movie *Moneyball* provides a good example.

The protagonist of the film, Oakland A's General Manager Billy Beane, tries to field a championship contender with a tiny budget after many of his biggest stars sign with other teams. He finds his edge with data. It was an Oscar-nominated film starring Brad Pitt, but it also happened to be based on a true story, adapted from a book by Michael Lewis, who spent time with the real-life Beane and his baseball team.

Rather than adopting the conventional wisdom of his industry, Beane forges a new path based on cutting-edge statistical analysis. Real data, instead of gut instinct. The sport had been doing it all wrong.

This is what it was like at the University of Chicago in the 1960s when the Center for Research in Security Prices first assembled reliable stock market data dating back to 1926. (Except Brad Pitt wasn't involved.)

I was fortunate to experience the financial data revolution firsthand as a graduate student at the University of Chicago. My teachers were academic luminaries including future Nobel laureate Gene Fama, whose first lecture changed my life. The ideas I was exposed to—which inspired me to implement them in actual portfolios—have improved the lives of millions of people.

Before this data, nobody knew the stock market's total return. People had opinions, but without data almost everyone was just guessing.

It turned out the market did better than people imagined. In fact, marketwide performance beat many famous stock pickers. The investment world had been doing it all wrong.

Since that pivotal moment, we have learned valuable lessons that make me optimistic about the next 100 years.

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LESSON NO. 1: INSIDERS DON'T KNOW MORE THAN OUTSIDERS

University of Chicago professors Jim Lorie and Larry Fisher created CRSP to answer a simple question: What have stocks really returned? At the time, it wasn't clear whether the average investor had made or lost money on their investments.

Lorie and Fisher spent nearly four years collecting and standardizing the data, compiling between 2 million and 3 million separate entries on magnetitic tape that, if unreeled, would span 3.5 miles. Twenty minutes after the data was fed into a then-newfangled computer, the simple question about stock returns had an answer. It surprised everyone.

US stocks had compounded at about 9% annually between 1926 and 1960, much higher than was generally believed.

Michael Jensen, then an economist at the University of Rochester, used the data to analyze individual fund performance between 1945 and 1964. He found that individual mutual funds were unable, on average, to outperform a strategy that simply bought and held a marketwide portfolio. In fact, there was scant evidence that any individual fund delivered better returns than you'd expect by random chance.

After 100 years of data, the story has stayed the same. Only more so. Stock returns compounded at about 10% per year over the full century.

What does this mean for average investors?

You don't have to be an insider to have a good investment experience, and it turns out the experts don't know more than the collective wisdom of the crowd.

You can win without having to outsmart the market. There are many market-like portfolios available to anyone.

LESSON NO. 2: BET ON HUMAN INGENUITY

Whenever I talk about this data, someone invariably asks: How come the market offers such solid returns over time?

Part of it has to do with structure. The system fosters an order that makes fair pricing possible. It's built on enforceable agreements, investor protections, and transparency. Investors benefit from enormous trading volumes, sound accounting standards, and fierce competition on a level playing field.

Part of it is the companies themselves. Companies are willing to issue stock to get access to capital to grow their businesses—and it's that growth potential that investors are buying into.

Millions of people at thousands of companies work every day to improve their products, enhance their services, and lower their costs—constantly adapting to a changing world. The future is always uncertain, and not every company will succeed, but the incentive system rewards innovation and problem-solving.

Collectively, this drive to do better is the engine of market returns. Human ingenuity is what you're really investing in when you buy the market.

LESSON NO. 3: INVESTOR BEHAVIOR IS KEY

You need a long-term perspective to benefit from a 10% annualized compounded return.

For instance, $1,000 invested in a hypothetical total market index a century ago would be worth $17.1 million by the end of 2025. When you look at rolling 10-year periods over the last century, patient investors who stayed in the market for a decade came out ahead in real terms roughly nine times out of 10. Steadfastness works.

That's easy to say, but hard to stick to. Think about all that's happened (world wars, economic collapses) over the past century. It's hard to stay in your seat when year-to-year market movements feel chaotic: up 25% one year, down 30% the next.

Looking at 100 years of data helps you appreciate the underlying signal when the noise gets too loud. History has shown that you can't reliably outguess the market, short-term volatility is inevitable, and long-term discipline is rewarded.

Spoiler alert: Beane didn't win the World Series, but he changed how teams evaluate talent. That's what Lorie and Fisher did, too. Investing is no longer about picking the hot stock or even enjoying a great year. It's about the reliability of returns over a lifetime.

Anyone can invest in the market and pursue their financial dreams by betting on human ingenuity to harness creativity and resilience. Just as long as they stay disciplined.

That's what 100 years of data tell me. I expect the next 100 years to say the same thing.

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