

## Do indexes tracking the same asset class have the same returns?

An index fund is a type of mutual fund or ETF designed to track an index or list of stocks. They are passive investments, meaning portfolio managers are not actively buying and selling securities in the funds except for on a handful of predetermined dates, and generally give you a return very close to its benchmark.

Because of the above, people may assume that indexes in the same asset class would have similar returns. In reality, however, different index providers (even within the same asset class) can have very different methodologies which can lead to significant differences in performance. Three of the most common small cap value indexes, for example, are the Russell 2000 Value, the S&P SmallCap 600 Value and the CRSP US Small Cap Value. Each one of these indexes has a different set of criteria for index construction, including different eligible securities, different portfolio rebalance dates, and different ways they handle corporate actions.

*What was the effect of these index differences?*

Over the last year ending on May 31<sup>st</sup>, 2021, the S&P SmallCap 600 Value index returned 85.02%, the Russell 2000 Value index returned 79.38%, and the CRSP US Small Cap Value fund returned 70.65%. Hence, although we saw small cap value funds have positive returns across these indices, there was as high as a 14% difference in annual return amongst the different index options<sup>1</sup>!

*What have we seen over the long term?*

From July 1<sup>st</sup>, 2001 – May 31<sup>st</sup>, 2021, we see the CRSP US Small Cap Value index had an annualized “tracking error” (difference in annualized return) to the Russell 2000 Value index of 3.65% (see below). When the CRSP index is compared to the S&P Small Cap 600 index the tracking error was over 4.3% (see below)! These are sizable differences in returns that should not be ignored.

### Tracking Error Matrix

Monthly: 7/1/2001 - 5/31/2021 (Annualized)

	Russell 2000 Value Index	S&P SmallCap 600 Value Index	CRSP US Small Cap Value Index
Russell 2000 Value Index	0.000		
S&P SmallCap 600 Value Index	2.853	0.000	
CRSP US Small Cap Value Index	3.652	4.305	0.000

Source: Morningstar via Returns Web as of 5/31/2021.

Performance data shown represents past performance. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Indices are not available for direct investment and performance does not reflect expenses of an actual portfolio.

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The point is, not all indexes are created equally. Even within the same asset class, different indexes have different methodologies, which can lead to a wide range of risk/return experiences. Additionally, indexes rebalance only periodically and don't have the flexibility to respond to daily price changes. This underscores the importance of using a manager that offers broadly diversified and low-cost solutions, but also has a robust implementation approach that can keep portfolios focused on their asset classes. For more information on how Dimensional can add value through a flexible implementation approach, please refer to the following articles: "[Out of Bounds: A Small Cap Index Story](#)", "[David Booth on the Value of Flexibility](#)", and "[Tesla's Charge Reveals Weak Points of Indexing](#)."

<sup>1</sup>Source: Morningstar via Returns Web as of 5/31/2021.

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