

The Disciplined Investor Podcast – Guest Interview Summary

Guest: Dr. Wesley Gray, AlphaArchitect

Podcast Episode : 913

Date Published: 3/23/2025

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Summary

Wesley's Transition From Academia to Entrepreneurship

Andrew and Wesley discussed Wesley's transition from academia to founding Alpha Architect. Wesley shared his passion for entrepreneurship and his desire to transition from academia to the real world. He mentioned his blog, which was read by a billionaire who offered him a chance to work with him after the 2008 financial crisis. This opportunity led to the founding of Alpha Architect.

Servant Leadership in Business and Investing

Wesley discusses how his experience in the Marines shaped his approach to investing and leadership. He emphasizes the concept of servant leadership, where being in charge means serving and supporting your team rather than acting as a dictator. Wesley applies this philosophy to his business, believing that leaders should work harder to help their teammates and clients. Andrew agrees, noting that this approach builds stronger relationships with followers based on mutual support rather than fear.

Investment Strategies and Intellectual Truth

Wesley and Andrew discussed the core principles of investment strategies at Alpha Architect. Wesley emphasized the importance of systematic, evidence-based, transparent, and win-win approaches. He clarified that "evidence-based" should be redefined as "intellectual truth" to avoid the term's misuse. They also touched on the importance of education in empowering investors.

Diversification and Factor Investing Strategies

Andrew and Wesley discussed the concept of diversification and its impact on portfolio returns. They referenced a paper that showed 90% of variability was due to diversification, but noted that this was often misinterpreted. Wesley shared a paper by Victor Dam Gill that compared various portfolio optimization methods, including equal weight, and found that equal weight was one of the best strategies. They also discussed the concept of factor investing, which involves using characteristics of stocks to form portfolios. Andrew noted that factor investing is essentially quant investing, and Wesley agreed, describing it as a way to use data to make investment decisions rather than relying on intuition or personal preferences.

ETFs: Tax Efficiency and Growth

Andrew and Wesley discussed the future of the investment world, focusing on the growth of ETFs and their tax efficiency. Wesley highlighted the increasing trend of moving assets into ETF structures, which he believes will continue due to their tax benefits. They also discussed the potential for more ETFs to be created, as they offer a more tax-efficient and transparent investment option. Andrew clarified that once an investment is moved into an ETF, it becomes a "lobster trap" as it's difficult to exit due to the tax implications. They concluded that the ETF structure is likely to remain a significant part of the investment world in the coming years.

ETFs for Tax Optimization Discussion

Wesley and Andrew discussed the benefits and challenges of using exchange-traded funds (ETFs) for tax optimization. Wesley explained that ETFs can rebalance without distributing capital gains, allowing for more efficient portfolio management. However, Andrew raised concerns about potential changes in tax laws, but Wesley argued that the current system encourages investment and is more efficient. They also discussed the limitations of

private ETFs and the need for exchange-traded vehicles to take advantage of tax benefits.

Investor Education and Consistent Process

Andrew and Wesley discussed the importance of investor education and the need for a consistent investment process. Wesley emphasized the need to stick to a process and not be swayed by short-term market fluctuations. Andrew introduced the concept of equanimity and right effort from Buddhist philosophy, suggesting that investors should maintain a balanced mindset and adapt to changing circumstances. They also discussed the challenges of maintaining a consistent investment strategy in the face of conflicting advice and the role of faith in investment decisions.

Empowering Investors Through Education

Wesley and Andrew discussed the importance of education and understanding in empowering investors. They emphasized the need for end clients to internalize and own the knowledge, rather than relying solely on the person who invented the idea. They also touched on the role of advisors in guiding clients to take risks and invest in equities, rather than just holding cash. The conversation highlighted the significance of behavioral finance in understanding how markets work.

Seeking Professional Advice for Personal Finances

Andrew and Wesley discussed the importance of seeking professional advice for managing personal finances, likening it to seeking a hairdresser's help for cutting one's own hair. They emphasized the potential pitfalls of self-management, such as making uninformed decisions based on personal biases. They also touched on the role of advisors as coaches and the potential for conflicts of interest.