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ETFS

Cutting through the ETF noise is a key 2026 challenge for advisors

Dimensional Fund Advisors' Marlena Lee says a clear framework is required to separate good signals from the fad-driven clutter.

BY STEVE RANDALL

The ETF market has never been more crowded with a continued high number of new fund launches adding to an ever-expanding menu of options.

Speaking with InvestmentNews, Marlena Lee, global head of investment solutions at Dimensional Fund Advisors in Austin, Texas, says the answer to that abundance is discipline in a market that shows no sign of slowing down.



Marlena Lee, global head of investment solutions at Dimensional Fund Advisors.

The paradox of choice is getting worse

Lee noted that the sheer volume of products on the market has created what she calls a "paradox of choice" for advisors and their clients.

"I do think it's really important that advisors and investors have a framework for how they're picking amongst this huge pool of ETFs," she said. "Start with what's your goal. Then look for things that are well diversified and have low costs. And when I say low costs, I mean a much broader view than what a lot of people focus on."

That broader view extends well beyond the headline expense ratio. Tax costs and trading costs, she says, are just as important in painting an accurate picture of what an investor is actually paying. And she warns against performance chasing.

"We do absolutely see inflows where people chase performance," she said. "Unfortunately, that doesn't really work. We know that past performance doesn't continue, so there is more work that people need to do."

Her advice for advisors managing clients drawn to the shiny, trend-driven product of the moment is to scratch the itch but protect the core.

"When I talk to a lot of advisors, sometimes they'll say they let their clients do that, but they want to make sure their clients are keeping it to a very small portion of their overall portfolio," she said. "The bulk of the portfolio shouldn't be chasing after the latest fad."

Rethinking what 'active' really means

As shown in recent ETFGI data, Dimensional is the largest active ETF provider in the United States[1], a title that raises eyebrows among advisors who associate active management with concentrated bets, high turnover, and outsized fees. Lee is quick to draw the distinction.

"What active means when it comes to Dimensional is just we're not tracking an index," she said. "We do have a lot of similarities to index funds that people like (tend to be very cost effective, very well diversified, very low turnover) but

we still think that if you have a rigid index approach, you're leaving money on the table."

The difference lies in how the firm manages its portfolios day to day. Rather than following a fixed index that dictates the timing of every buy and sell decision, Dimensional uses its own systems to rebalance holdings every single day. It's the kind of flexibility that rigid index rules leave on the table, Lee says.

For explaining the case for higher expected returns to clients, she offers a frame built on fixed income logic. In the bond market, a higher yield signals a higher expected return because yield reflects a low price relative to cash flows. The same reasoning, applied to equities, supports the case for value stocks and high-profitability stocks as drivers of higher long-term expected returns.

"We see this in markets all around the world: lower-priced stocks, or value stocks, and higher-profitability stocks do provide higher expected returns for a long-term investor," she said. Once an advisor has settled on that investment philosophy, the key client questions come down to volatility tolerance and tracking error. "If you're going to try and outperform the market, you have to look different from the market and that means sometimes underperforming the market," she added.

The longevity risk advisors rarely flag

Lee also spoke about fund longevity. Of all mutual funds and ETFs that existed 20 years ago, fewer than half are still open for investment today.[2] The rest were closed or merged out of existence and in both cases, investors were left holding a tax bill.

"If you invest in a closed fund, that becomes a taxable event to the investor," she said. "Or if you were in a fund that got merged into a strategy that you didn't select and maybe don't want, then you have to sell — and that's another taxable event."

On the ETF versus mutual fund question, Lee's position is pragmatic. In US retirement accounts, mutual funds remain the vehicle of choice. At Dimensional, the firm has worked to align strategy, fees, and tax efficiency across both wrappers so the decision is purely about trading preference.

"With share classes, it'll be exactly the same," she said. "So then the real question is, do you want to trade at end-of-day NAV? Or do you want the intraday liquidity?"

For advisors building client portfolios in an era of seemingly endless launches, Lee's message is ultimately to ignore the noise, understand what you're actually paying, stay diversified, and think carefully about whether the strategy (and the firm behind it) will still be standing when it matters most.

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1. Dimensional is the largest active ETF provider in the US based on Morningstar data listing ETF issuers by active aggregate ETF assets under management as of September 30, 2026.

2. As of December 31, 2025, 45% of equity funds and 46% of fixed income funds that existed 20 years ago are still open for investment, based on Morningstar data on US-domiciled, USD-denominated open-end funds and ETFs.

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