

JULEX CAPITAL

Growth vs value - Is there a value premium?

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Results are sensitive to the definitions of “value” and “growth” used

Understand this before drawing any conclusions

- **Dec 1974 - present**

- S&P 500 value and growth indices
- So . . . large cap growth
- Essentially this places 50% of the market into value, and the other 50% into growth

- **Prior to Dec 1974**

- Kenneth R. French Dartmouth University Data Library
- Value = 30% of the entire market that has the lowest Price-to-Book ratio (most valuey)
- Growth = 30% of the entire market that has the highest Price-to-Book ratio (most growthy)
- These definitions are somewhat equivalent to
 - All-cap deep value
 - All-cap deep growth

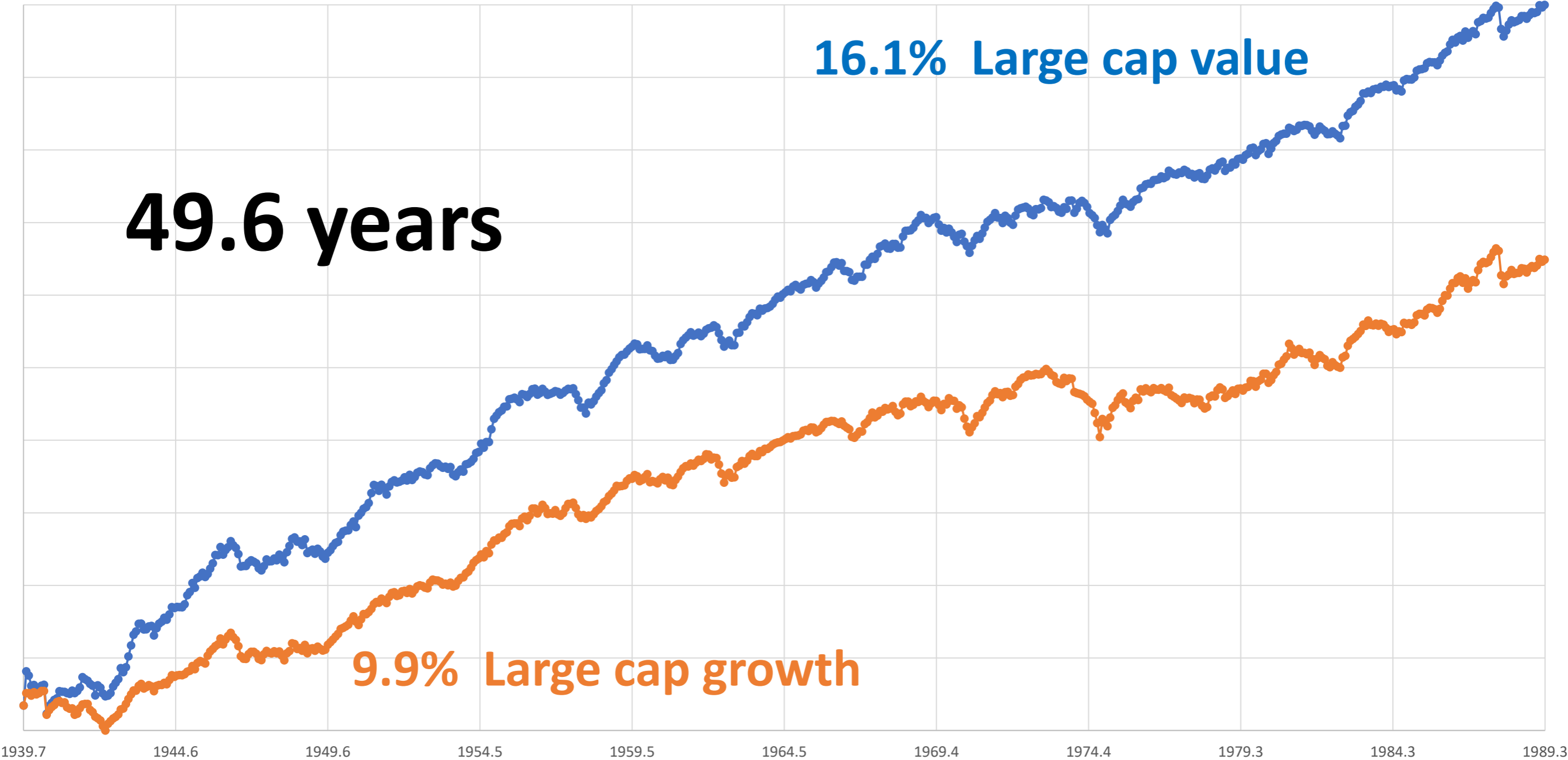
Why do we believe that a “value risk premium” exists?

What is the origin or basis for this belief?

49.6 years

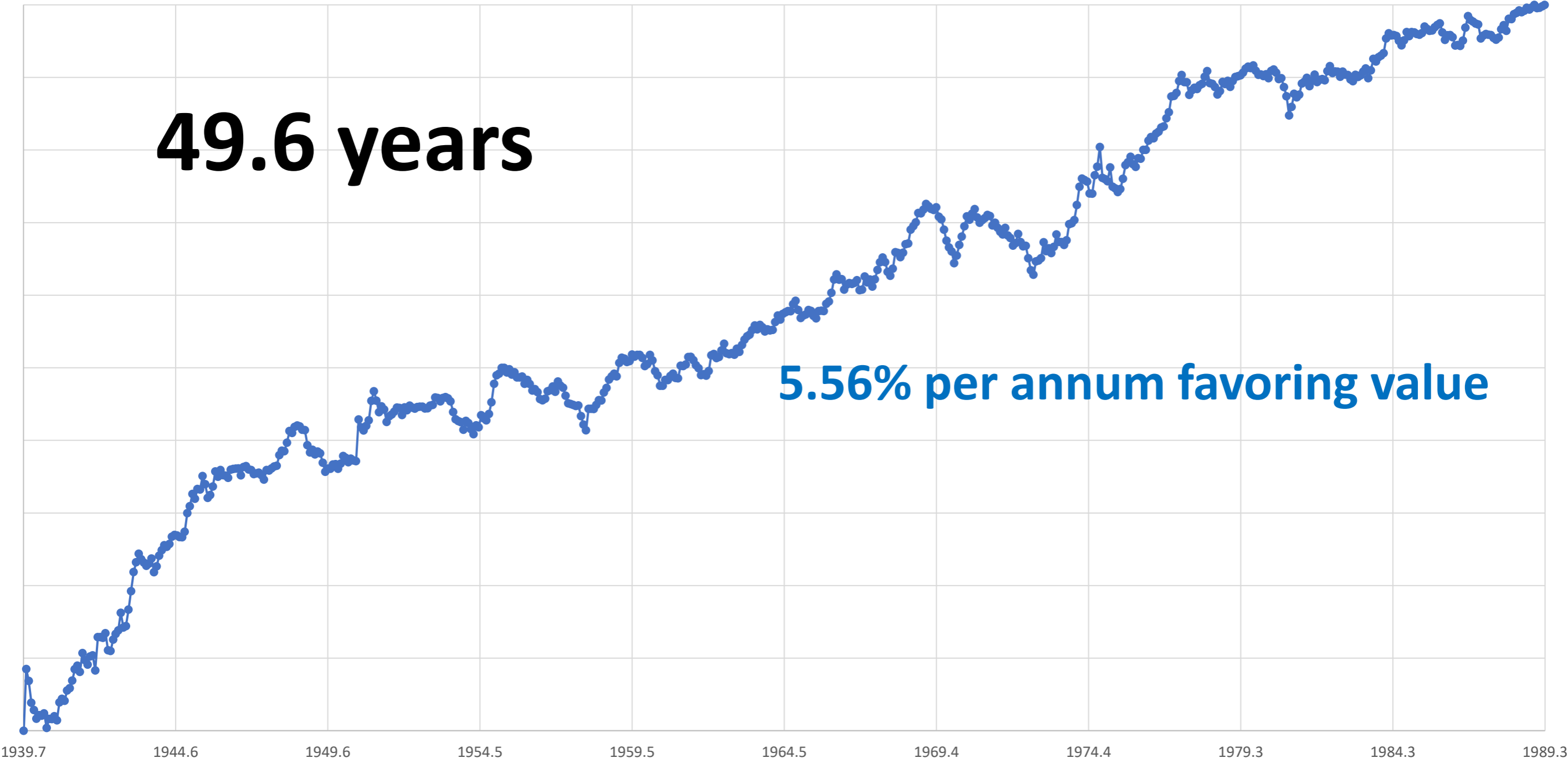
16.1% Large cap value

9.9% Large cap growth



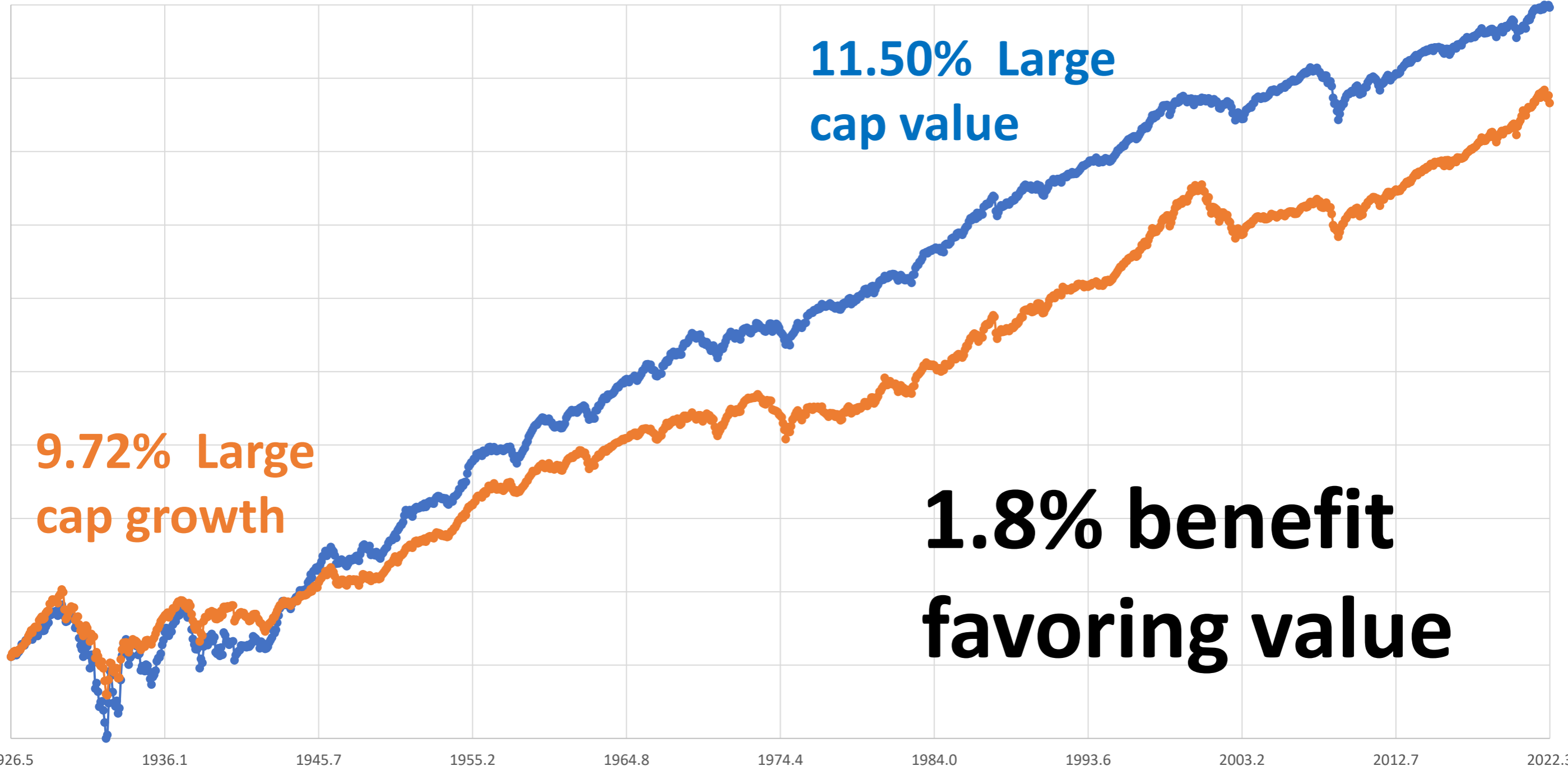
49.6 years

5.56% per annum favoring value



But longer term, how have value and growth compared

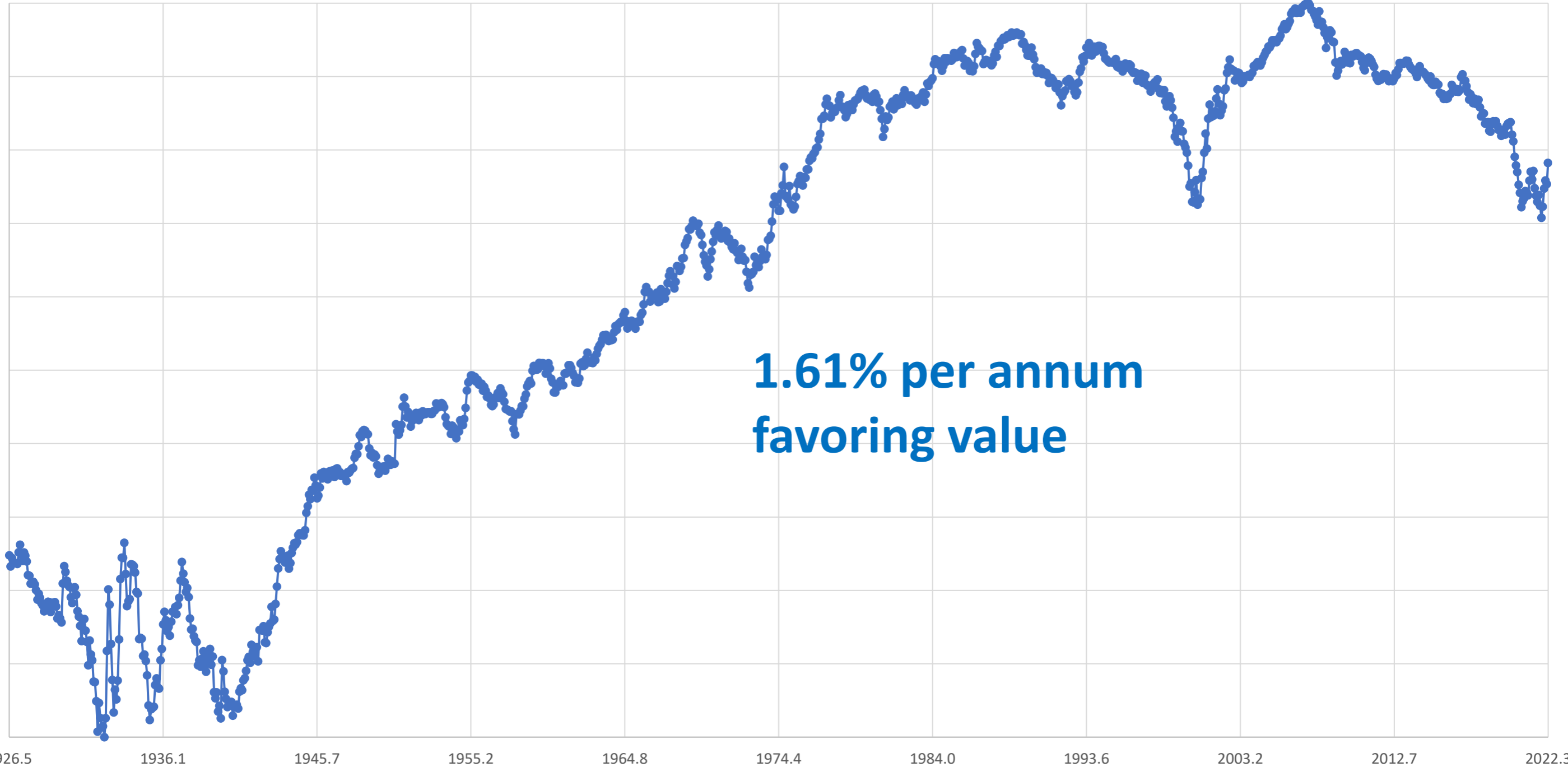
A smaller benefit to value . . . but still pretty good



9.72% Large cap growth

11.50% Large cap value

1.8% benefit favoring value



When your client asks *“How long do I have to wait to confidently earn the value premium?”*

What do you tell them?

Is your answer truthful?

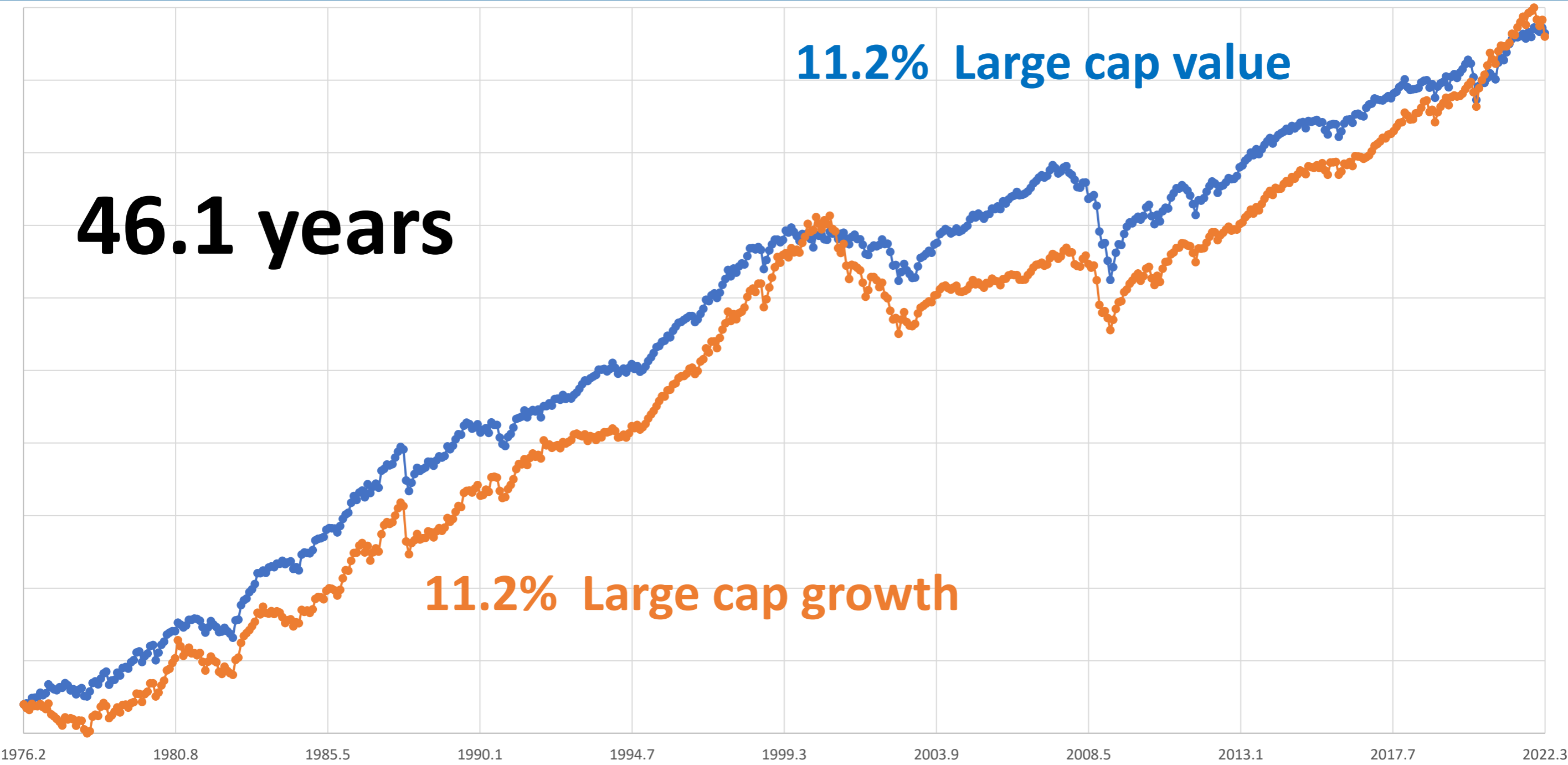
Is your answer factual?

Is your answer based on the data?

46.1 years

11.2% Large cap value

11.2% Large cap growth

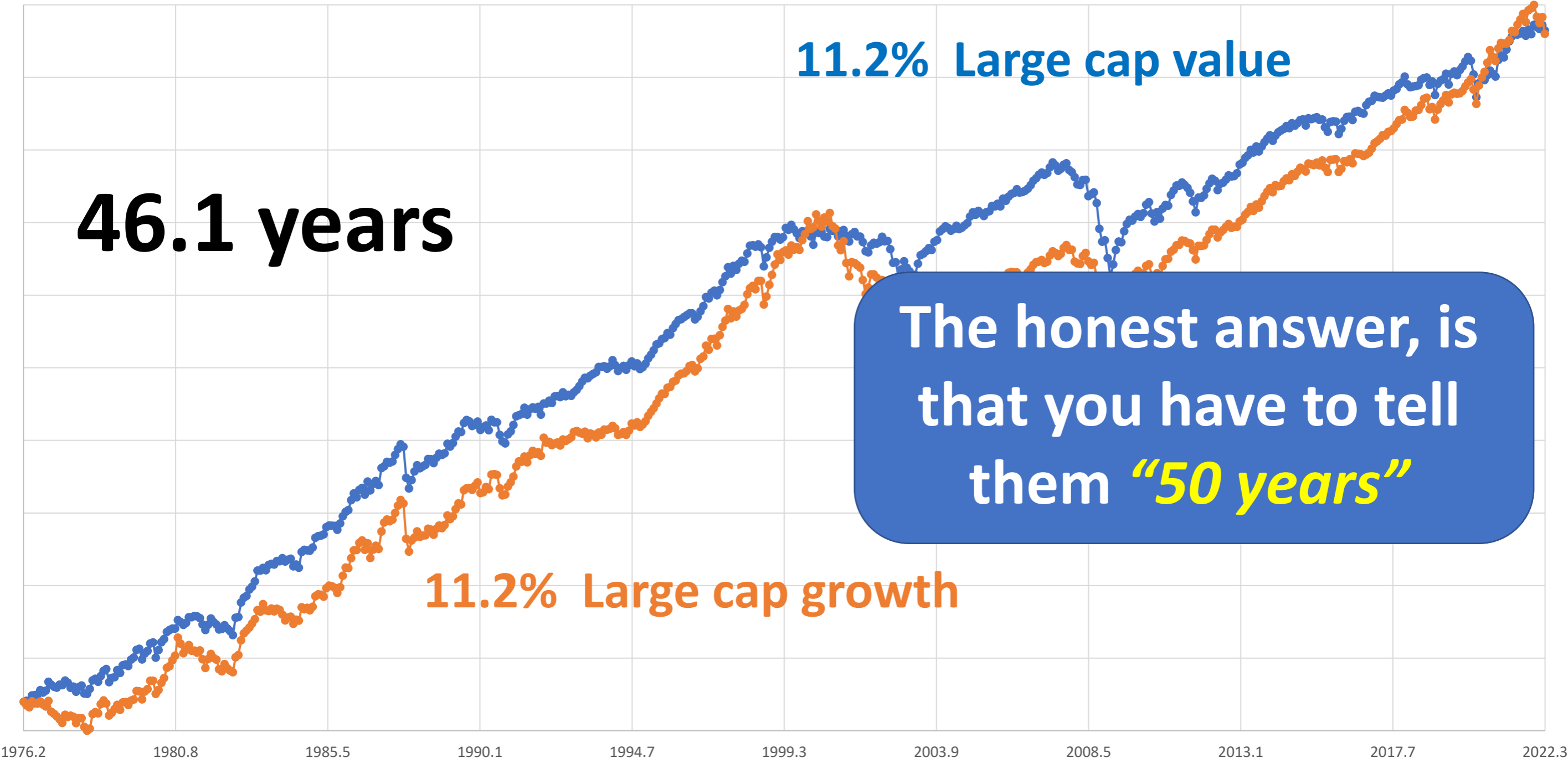


46.1 years

11.2% Large cap value

11.2% Large cap growth

The honest answer, is that you have to tell them ***“50 years”***



**Problem - The value premium is
not constant, nor is it dependable**

Instead . . . it is powerfully episodic

Bears

There have always been POWERFUL bear markets for the value premium

BEAR markets for the value risk premium (the return to value less growth)

Start of bear	End of bear	Length of bear in years	Cumulative return in %	Annualized return in %
2/28/1927	5/31/1932	5.2	-52.9	-13.4
8/31/1932	12/31/1932	0.3	-38.2	-76.4
8/31/1933	3/31/1935	1.6	-50.0	-35.4
3/31/1937	8/31/1939	2.4	-45.8	-22.4
3/31/1989	6/30/2000	11.2	-49.0	-5.8
5/31/2007	11/30/2021	14.5	-56.8	-5.6

Median bear

3.8

-49.5

-17.9

Bulls

There have also been POWERFUL bull markets for the value premium

BULL markets for the value risk premium (the return to value less growth)

Start of bull	End of bull	Length of bull in years	Cumulative return in %	Annualized return in %
5/31/1932	8/31/1932	0.2	78.2	909.3
12/31/1932	8/31/1933	0.7	94.2	170.7
3/31/1935	3/31/1937	2.0	85.5	36.2
8/31/1939	3/31/1989	49.6	1363.0	5.6
6/30/2000	5/31/2007	6.9	119.8	12.1
11/30/2021	?			

Median bull

2.0

94.2

36.2

Why have we now entered a value bull market?

Return to the value premium bear market data

BEAR markets for the value risk premium (the return to value less growth)

Start of bear	End of bear	Length of bear in years	Cumulative return in %	Annualized return in %
2/28/1927	5/31/1932	5.2	-52.9	-13.4
8/31/1932	12/31/1932	0.3	-38.2	-76.4
8/31/1933	3/31/1935	1.6	-50.0	-35.4
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Median bear

3.8

-49.5

-17.9

BEAR markets for the value risk premium (the return to value less growth)

Resulted from the first technology wave and the collapse of interest rates and inflation

Start of bear	End of bear	Length of bear in years	Cumulative return in %	Annualized return in %
2/28/1927	5/31/1932	5.2	-52.9	-13.4
8/31/1932	12/31/1932	0.3	-38.2	-76.4
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Median bear		3.8	-49.5	-17.9
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BEAR markets for the value risk premium (the return to value less growth)

Resulted from the first technology wave and the collapse of interest rates and inflation

Resulted from the second technology wave, continued collapse of interest rates and inflation, and response to COVID

Start of bear	End of bear	Length of bear in years	Cumulative return in %	Annualized return in %
2/28/1927	5/31/1932	5.2	-52.9	-13.4
8/31/1932	12/31/1932	0.3	-38.2	-76.4
8/31/1933	3/31/1935	1.6	-50.0	-35.4
3/31/1937	8/31/1939	2.4	-45.8	-22.4
3/31/1989	6/30/2000	11.2	-49.0	-5.8
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Median bear		3.8	-49.5	-17.9
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BEAR markets for the value risk premium (the return to value less growth)

The most recent bear, was the longest on record, by a wide margin
Valuations are seriously stretched

Start of bear	End of bear	Length of bear in years	Cumulative return in %	Annualized return in %
2/28/1927	5/31/1932	5.2	-52.9	-13.4
8/31/1932	12/31/1932	0.3	-38.2	-76.4
8/31/1933	3/31/1935	1.6	-50.0	-35.4
3/31/1939	8/31/1939	2.4	-45.8	-22.4
3/31/1989	6/30/2000	11.2	-49.0	-5.8
5/31/2007	11/30/2021	14.5	-56.8	-5.6
		RECORD	RECORD	

Median bear	3.8	-49.5	-17.9
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What about during a rising interest rate or inflation environment

How does the value premium perform then?

During a rising interest rate environment

Based on data 1926-2022

Value risk premium (annualized return) during

All months spanning 1926-2022	10% of the months when interest rates were rising the fastest	20% of the months when interest rates were rising the fastest	30% of the months when interest rates were rising the fastest	30% of the months when interest rates were falling the fastest	20% of the months when interest rates were falling the fastest	10% of the months when interest rates were falling the fastest
1.61%	1.82%	2.34%	3.35%	-0.39%	-3.12%	-2.24%

During a rising inflation environment

Based on data 1926-2022

Value risk premium (annualized return) during

All months spanning 1926-2022	10% of the months when inflation was rising the fastest	20% of the months when inflation was rising the fastest	30% of the months when inflation was rising the fastest	30% of the months when inflation was falling the fastest	20% of the months when inflation was falling the fastest	10% of the months when inflation was falling the fastest
1.61%	6.88%	3.33%	3.12%	-0.50%	-1.89%	-5.00%

Environments when both interest rates and inflation are rising

Based on data 1926-2022

Value risk premium (annualized return) during

All months spanning 1926-2022	10% of the months when both interest rates and inflation were rising the fastest	20% of the months when both interest rates and inflation were rising the fastest	30% of the months when both interest rates and inflation were rising the fastest	30% of the months when both interest rates and inflation were falling the fastest	20% of the months when both interest rates and inflation were falling the fastest	10% of the months when both interest rates and inflation were falling the fastest
1.61%	1.26%	5.71%	3.53%	-1.72%	-2.99%	-4.37%

A strawman for your consideration

Sell 100% of your growth stocks . . . absolutely all of them

- There has never been a better time
- You have on your side
 - The end of the most extreme bull market for growth that ever existed
 - Seriously stretched valuations (growth vs value)
 - Rising interest rates
 - Rising inflation
 - Interest rates that are likely to rise for multiple decades
- **And what should you expect to earn for this move . . . ?**

Last consideration . . . Zombies

- Thirteen years of extreme interest rate suppression has bred a hoard of zombies . . . the likes of which have not been seen before
- Zombie mitigation is required
- Easy to do . . . just don't use an index fund . . . or some other form of passive exposure

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History of bull and bear markets

Friday

May 13th

11:00 a.m. EASTERN

All data and statistics were provided by Global Financial Data, Inc. and the Kenneth R. French Data Library from Dartmouth University (unless otherwise indicated in the exhibit)

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