Tilt towards value - Is now the time?

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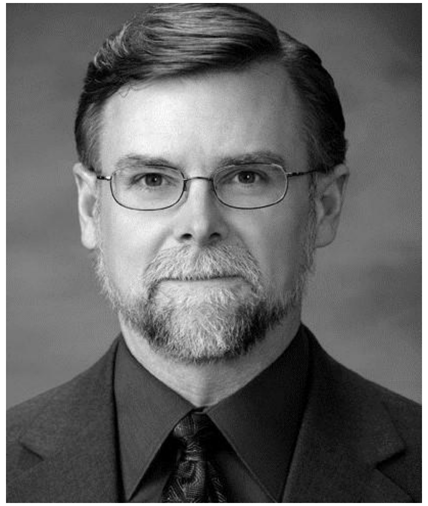

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Conventional wisdom

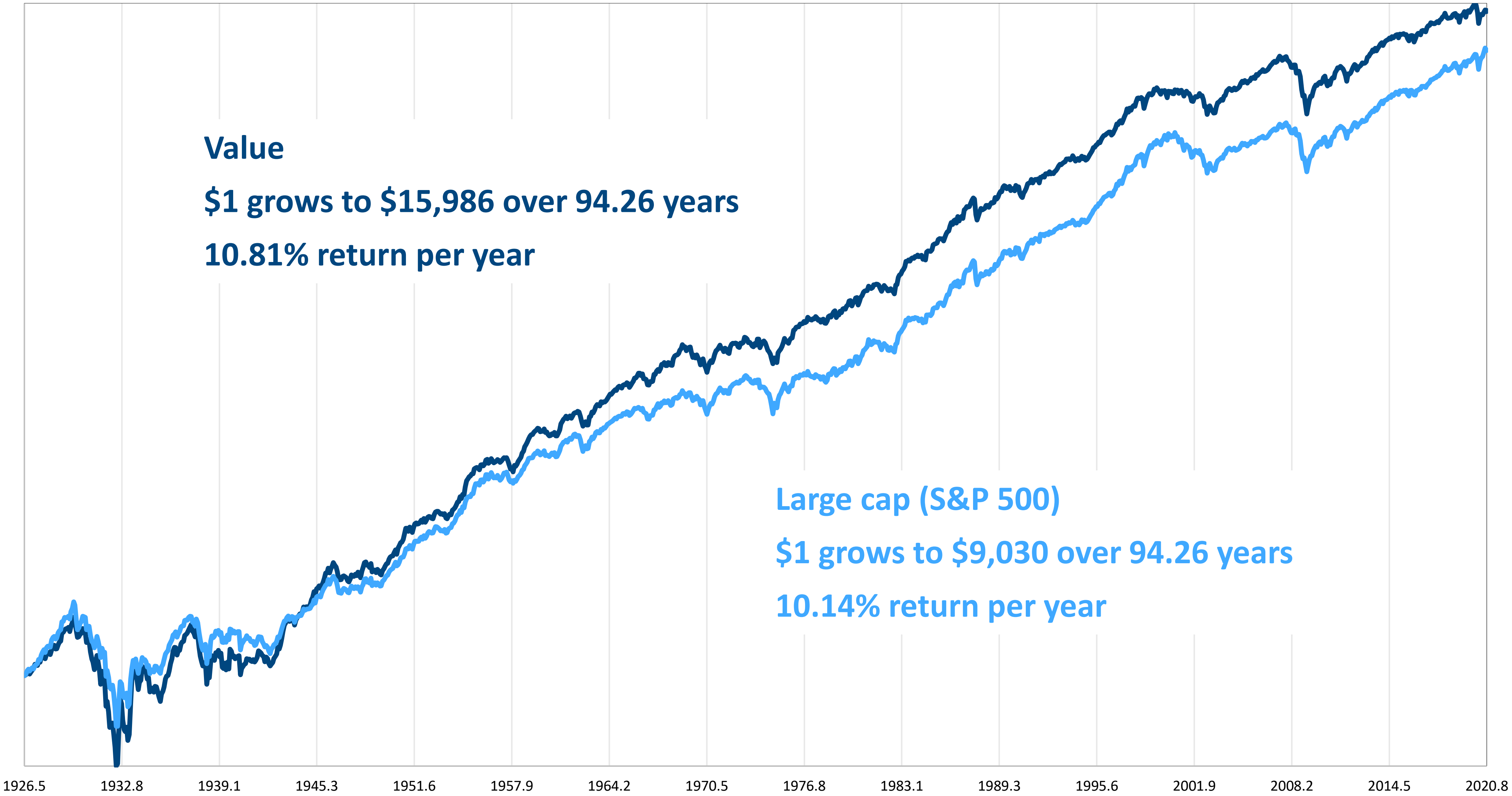
- Conventional wisdom prescribes a permanent fixed tilt towards value
- This conclusion is based on the following assumptions about the value risk premium
  - Sufficient size
  - Sufficient consistency
  - Some diversification benefit
- Convention wisdom is wrong
- It lacks even the slightest degree of consistency, and instead is painfully episodic

Sufficient size

YES

The origins of conventional wisdom's mistaken beliefs

Value premium of 0.67% per year over the last 94.26 years



The origins of conventional wisdom's mistaken beliefs, continued

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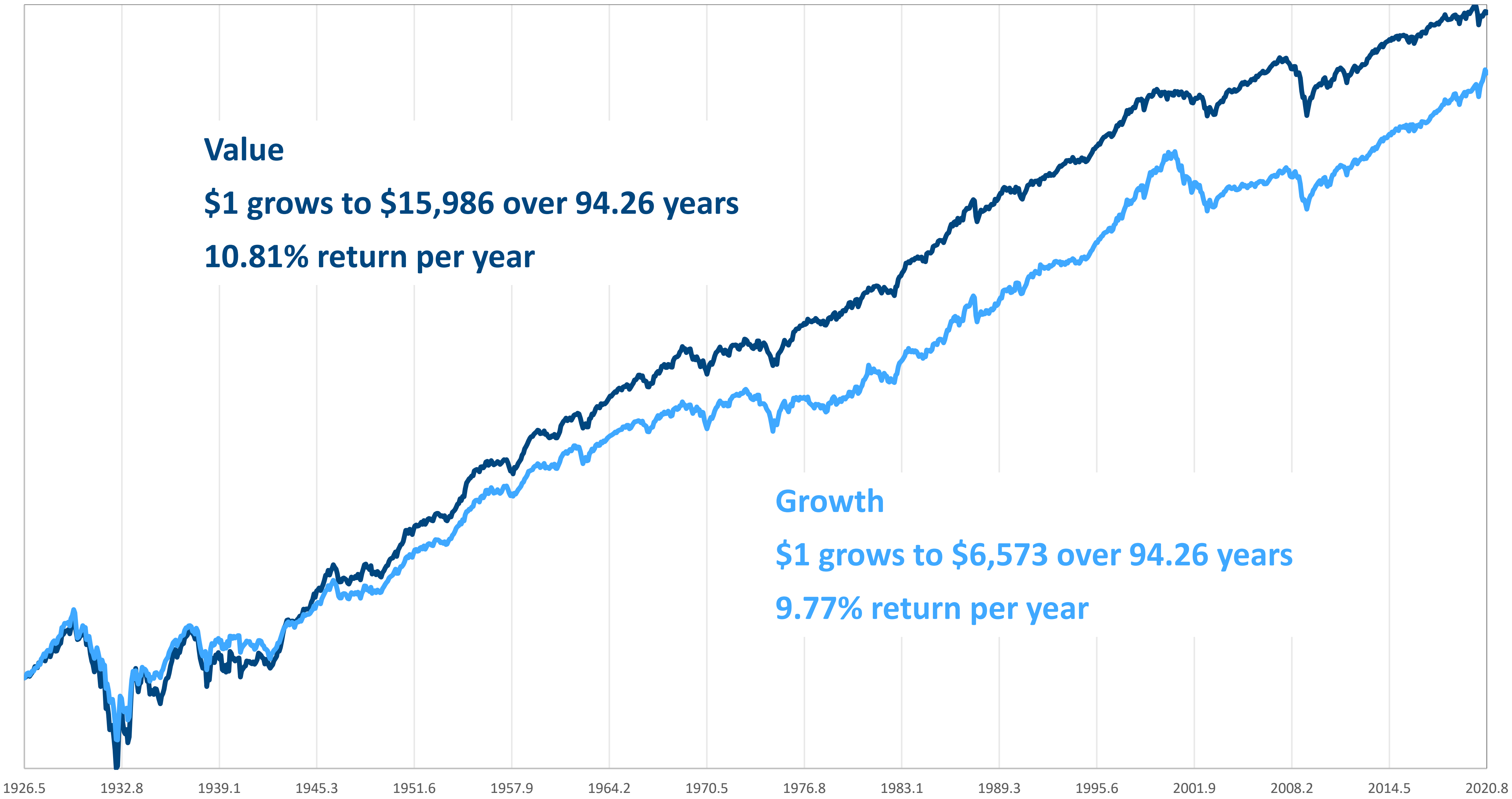
Value premium of 1.04% per year over the last 94.26 years

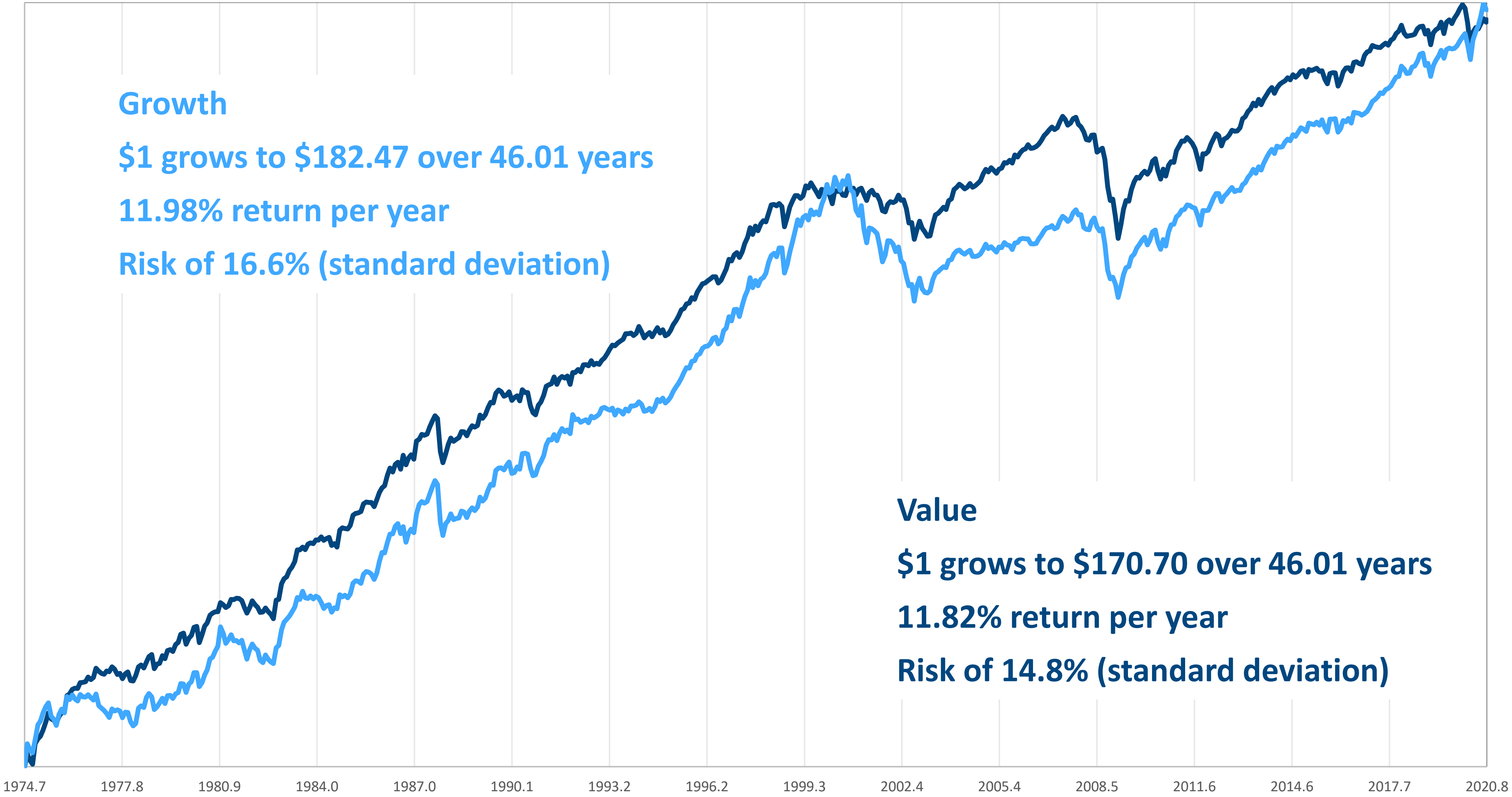


Sufficient consistency

NO

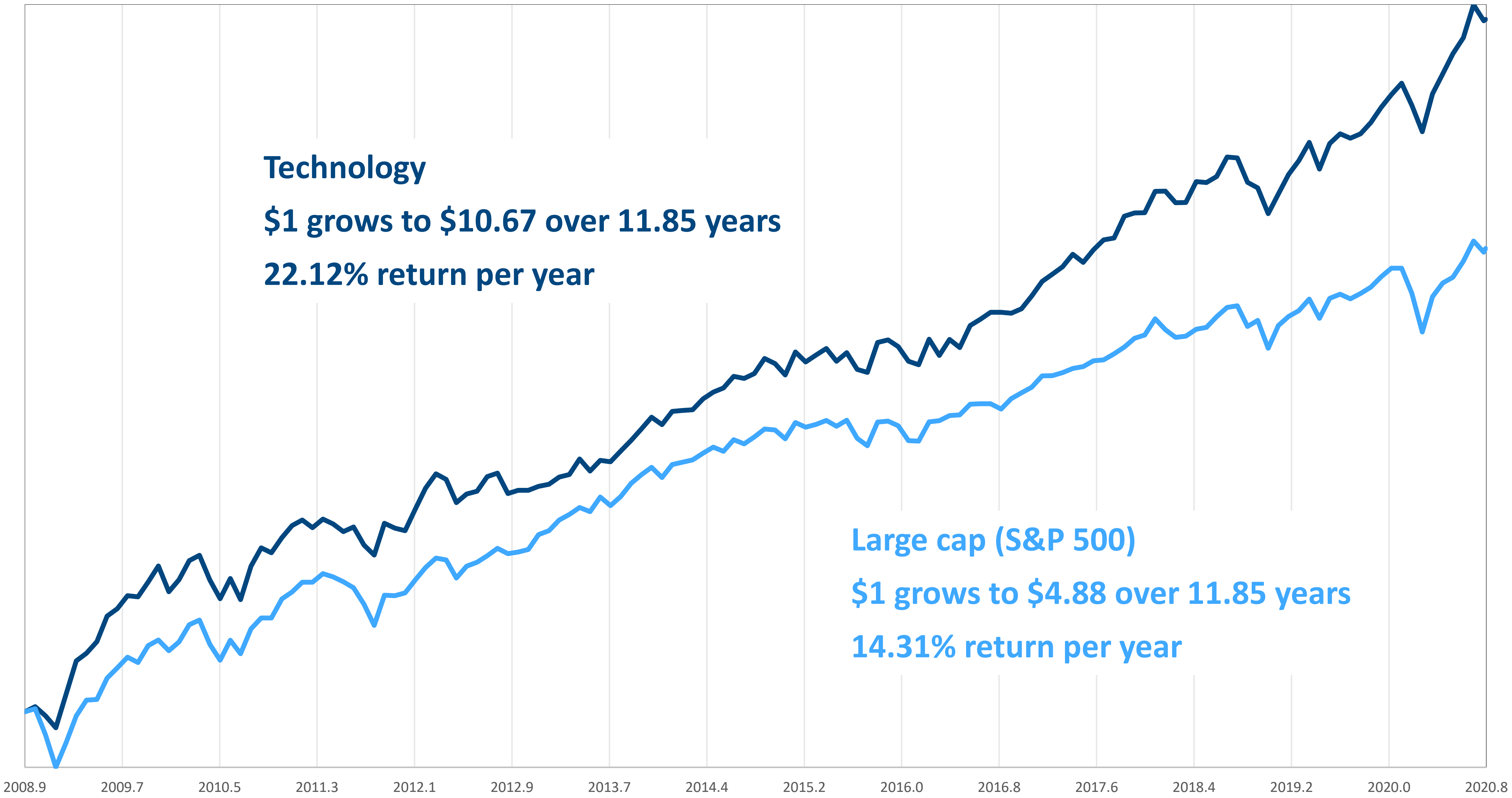
Conventional wisdom closed its eyes to the last 46+ years

Value premium of -0.16% per year over the last 46.01 years



Is recent value disappoint just due to the recent 12-year tech rally

History making technology rally began Nov 30, 2008



MAYBE - but to assume so, probably misleads

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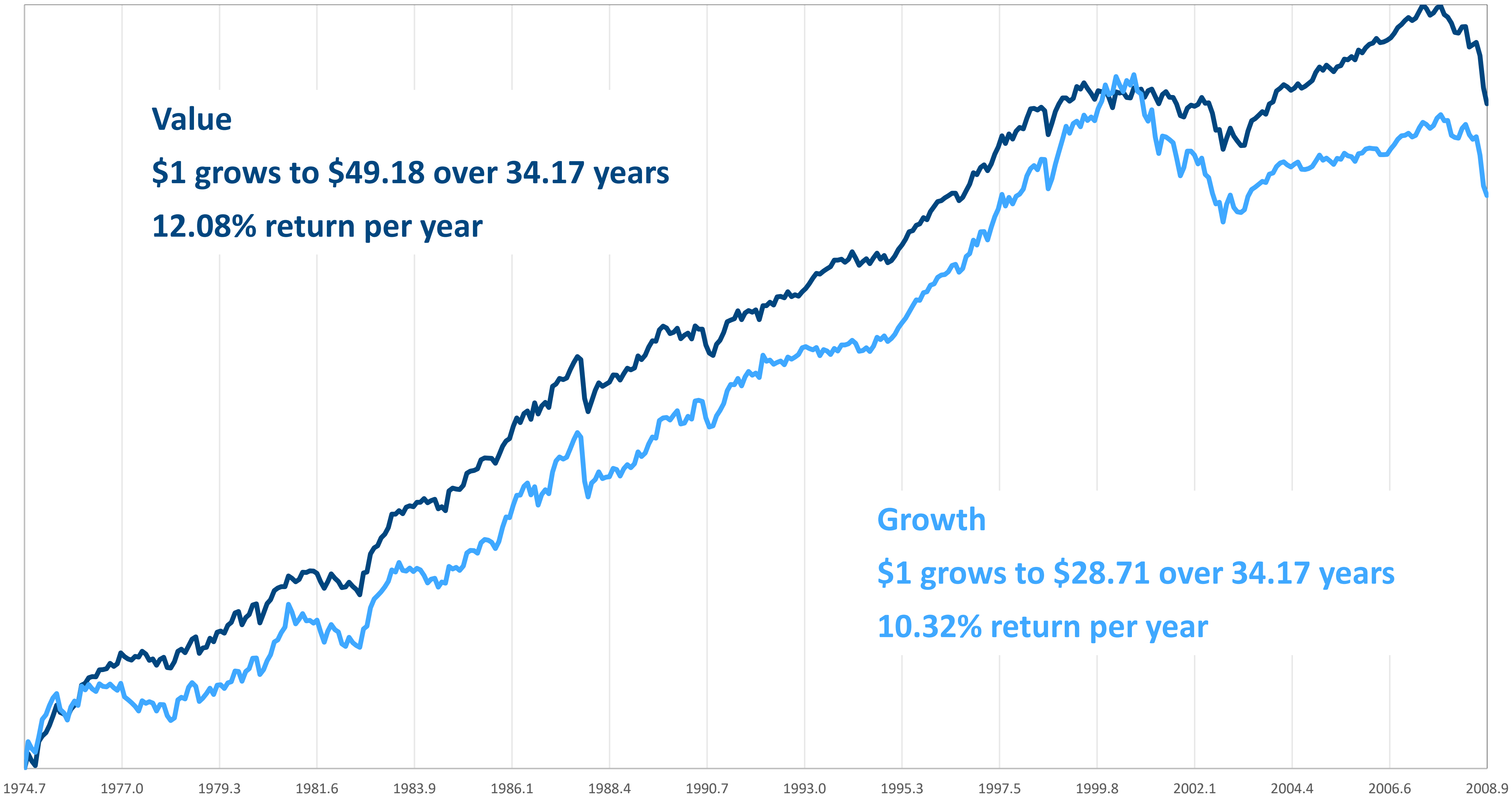
After removing the 11.85-year tech rally, value's premium returned to 1.75%

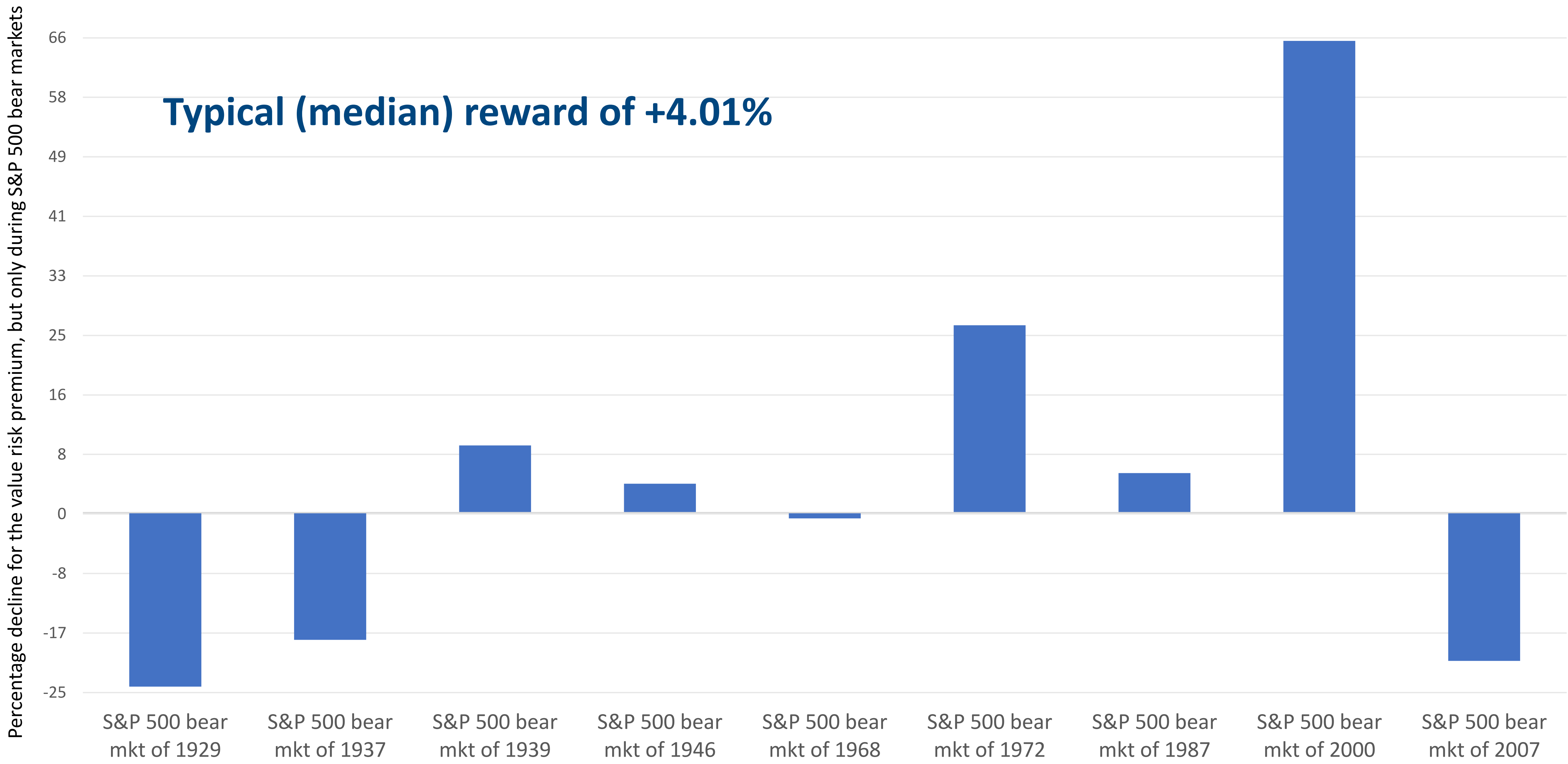


Some diversification benefit

NO, remarkably inconsistent

Diversification benefits are remarkably inconsistent

Value risk premium is random (noisy) during S&P 500 bear markets

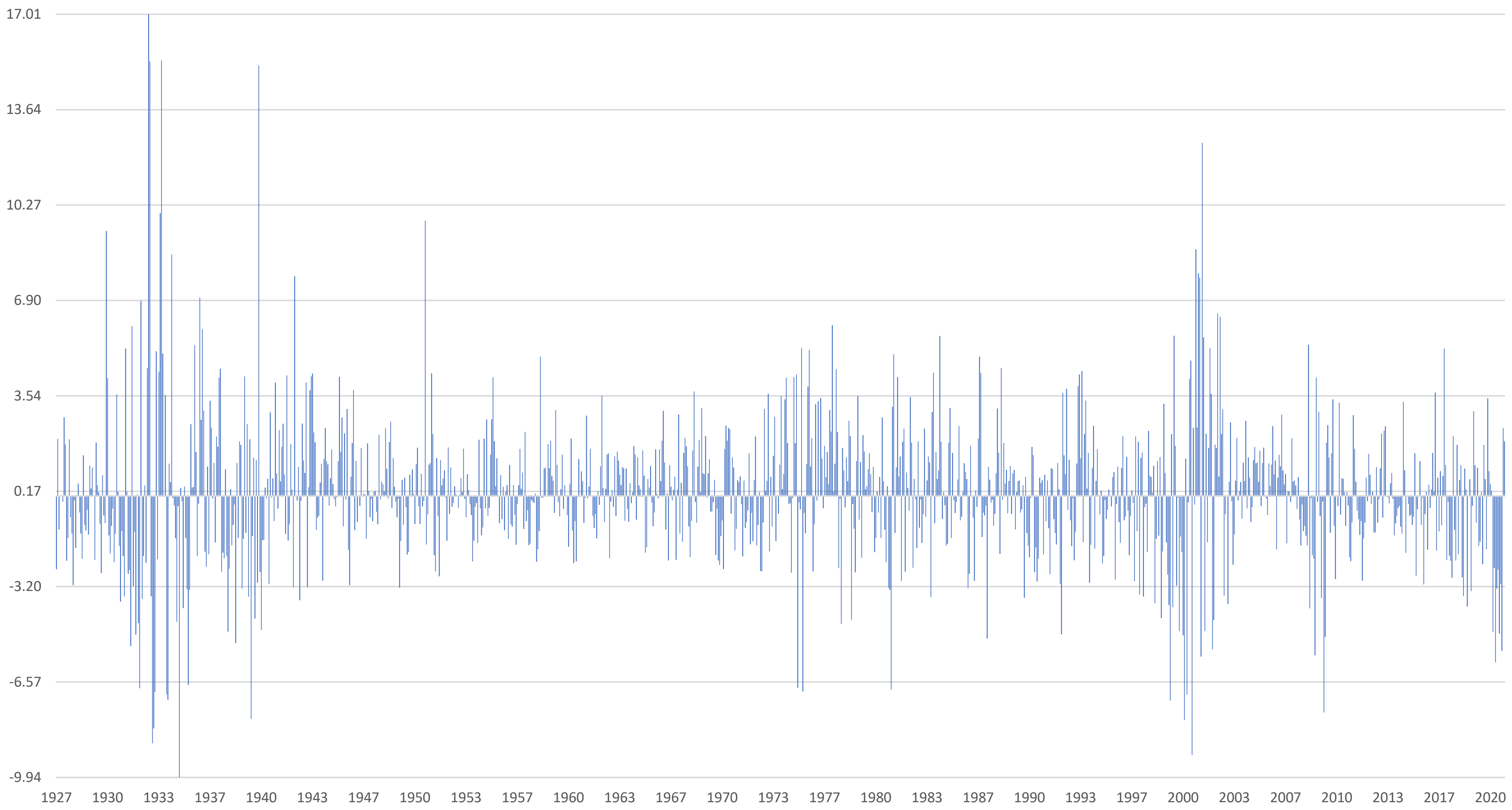


How consistent is the value risk premium?

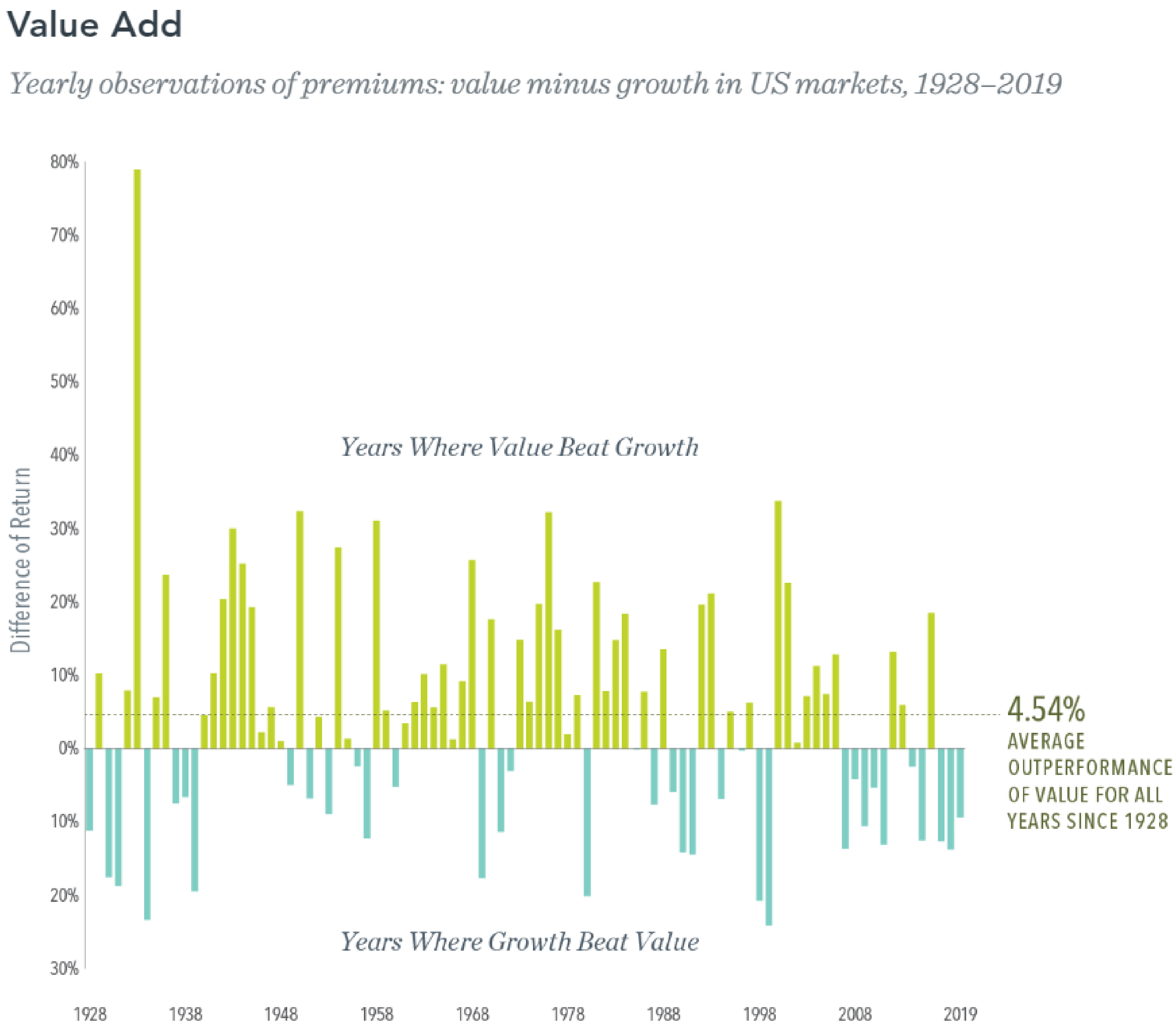
Is it episodic?

Month-by-month value risk premium

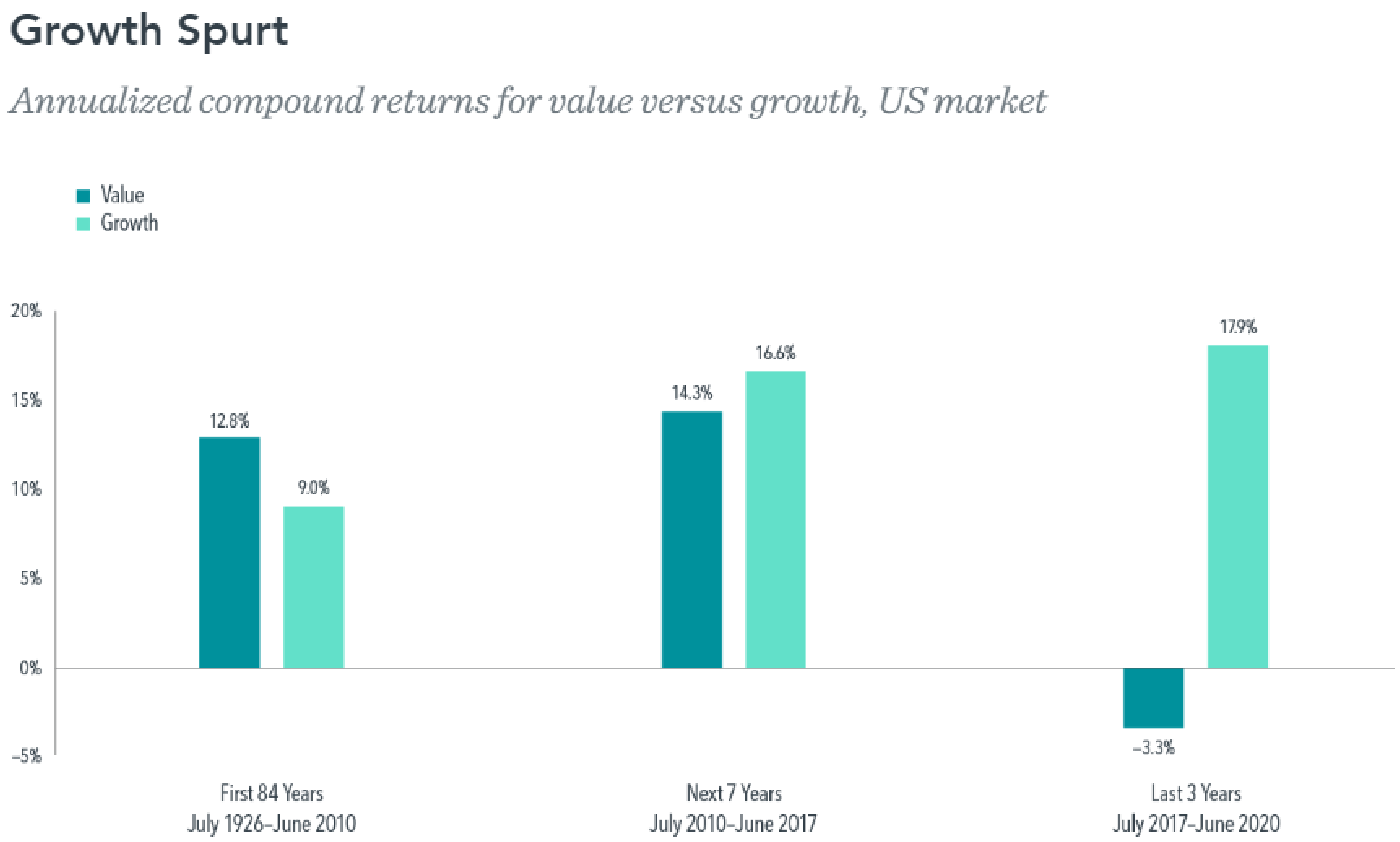
Monthly value risk premium has varied significantly over time



Games played with the data, be careful what you believe



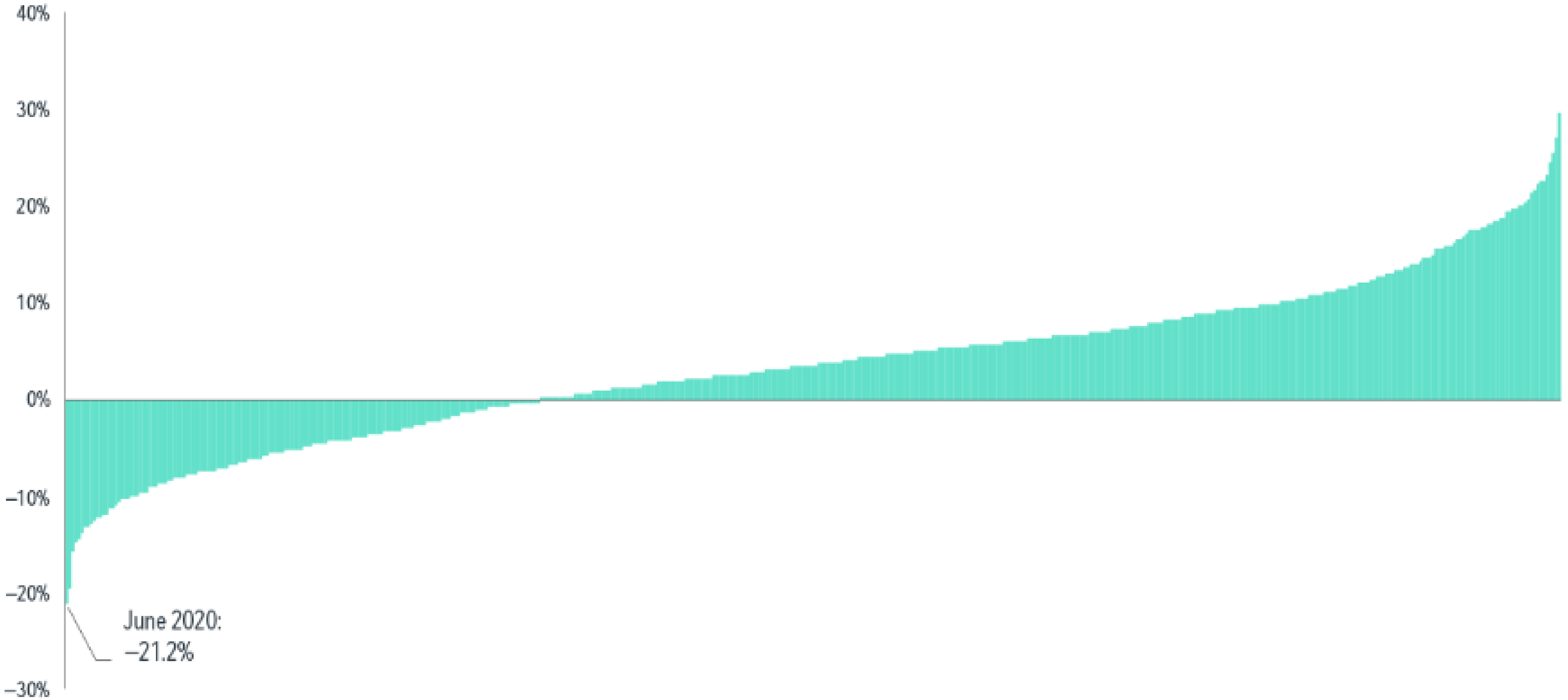
Games played with the data, continued



Games played with the data, more games

Back of the Pack

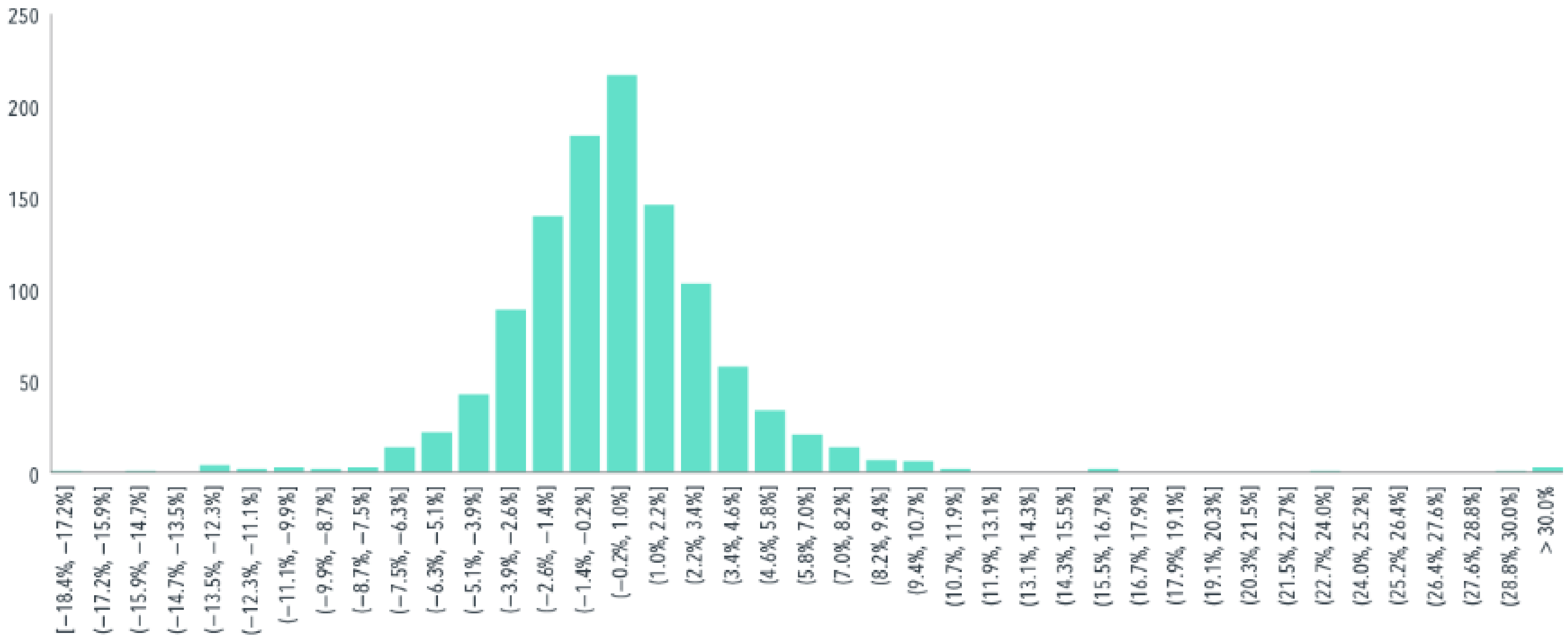
Rolling 3-year annualized return differences for value versus growth, US market, June 1929–June 2020



Games played with the data, a last game

Monthly Statement

Distribution of monthly return differences for value versus growth, US market, July 31, 1926–June 30, 2020

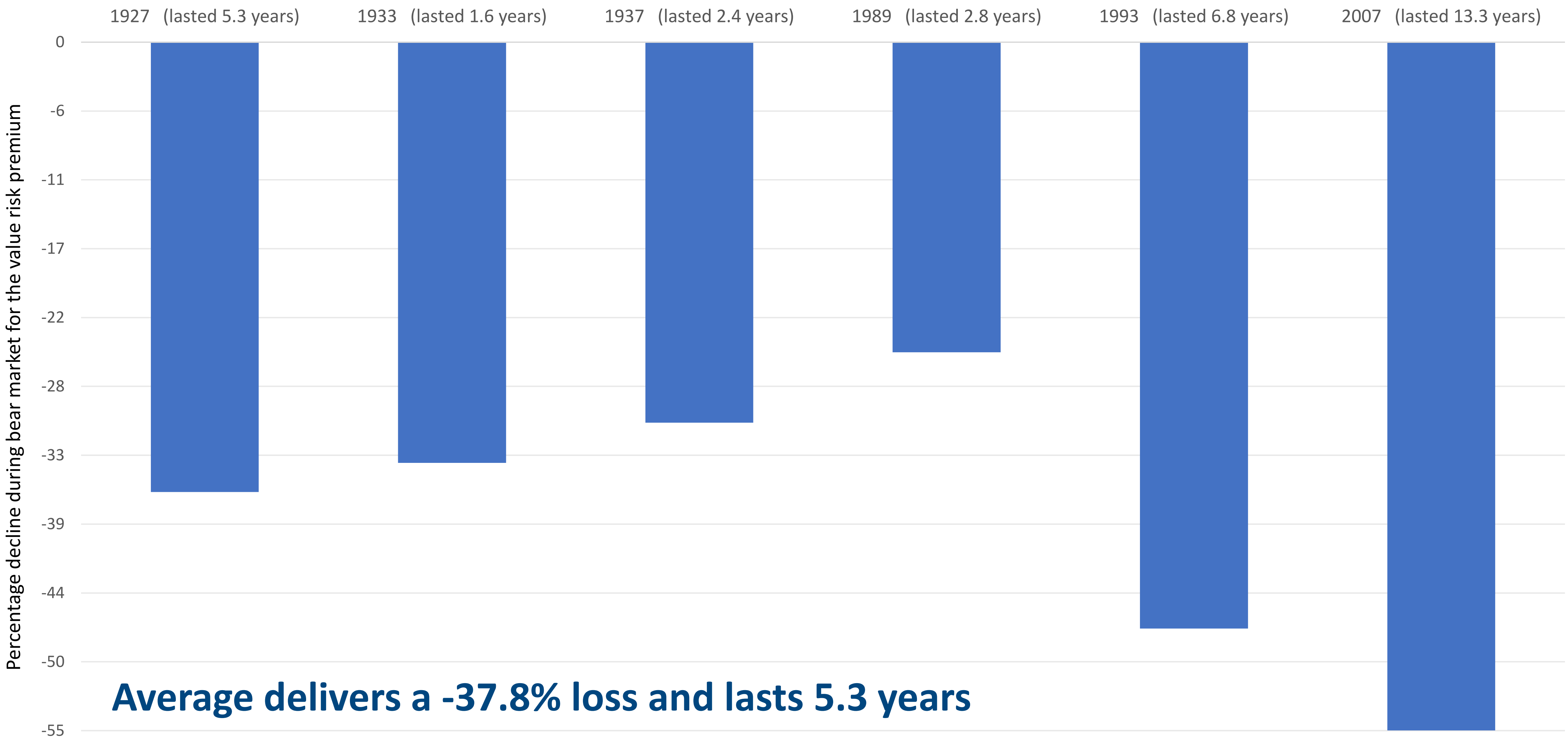


The real story

The value risk premium is remarkably episodic

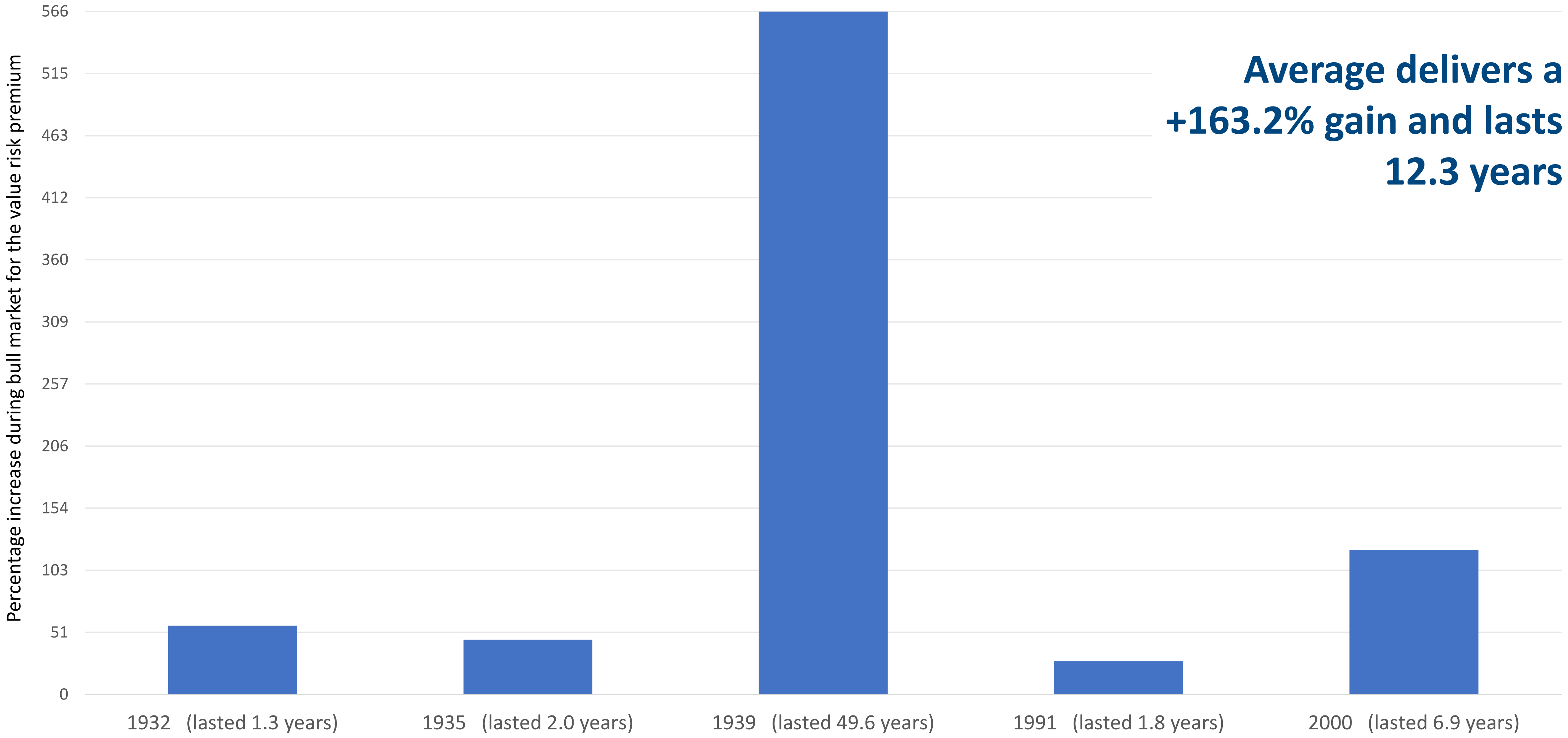
Value risk premium bear markets

Bear markets for the value risk premium have been both severe and long-lasting



Value risk premium bull markets

Bull markets for the value risk premium have been both bountiful and long-lasting



Episodic nature of the value risk premium

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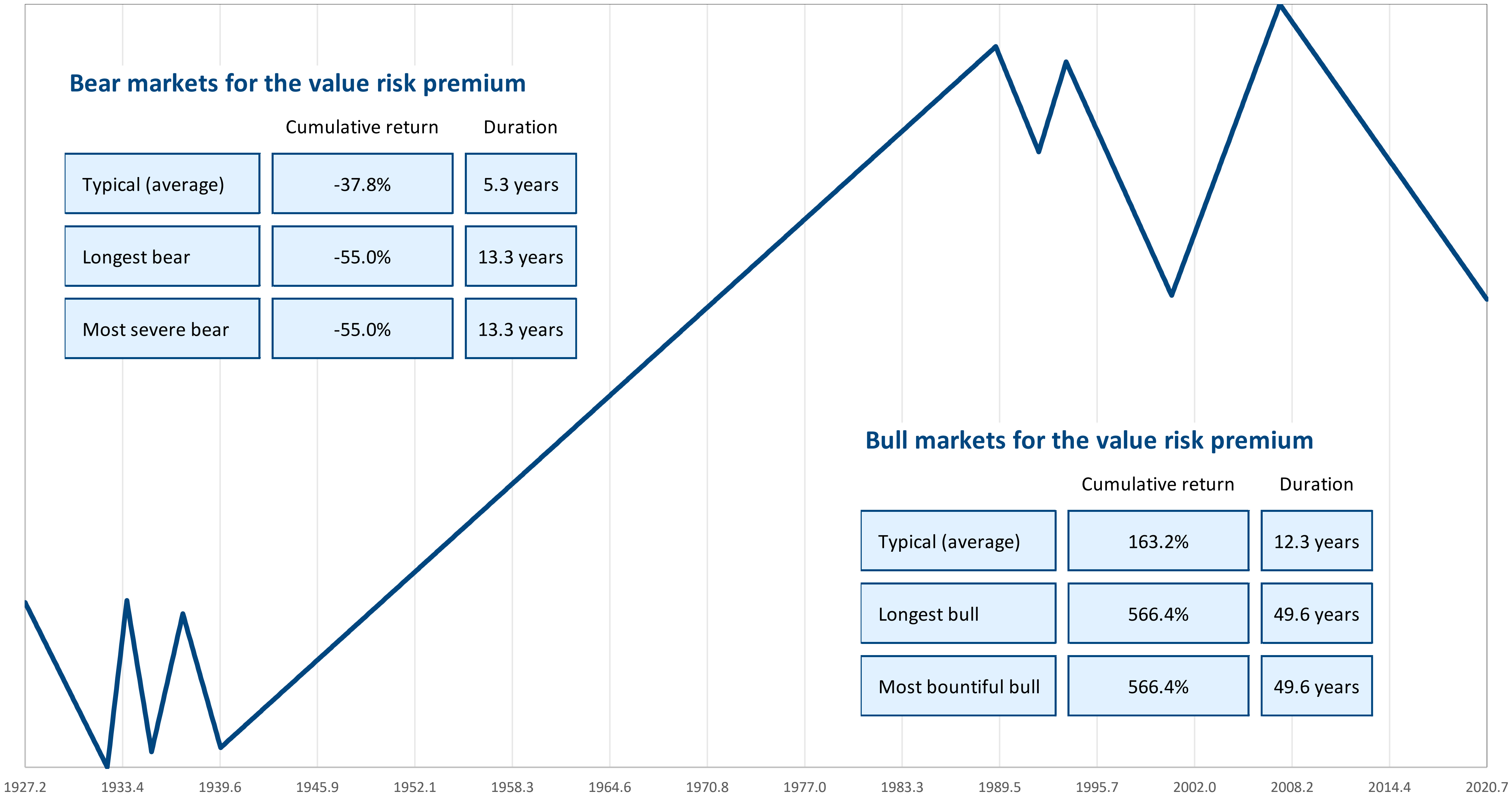
History of bear & bull markets for the value risk premium since 1926



Bear markets for the value risk premium

	Cumulative return	Duration
Typical (average)	-37.8%	5.3 years
Longest bear	-55.0%	13.3 years
Most severe bear	-55.0%	13.3 years

Bull markets for the value risk premium

	Cumulative return	Duration
Typical (average)	163.2%	12.3 years
Longest bull	566.4%	49.6 years
Most bountiful bull	566.4%	49.6 years

Episodic nature of the value risk premium, continued

Bear markets for the value risk premium

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But, why now

Reason 1 - Ten largest companies

81% of the ten largest S&P 500 names are technology (by weight)

Apple	**Tesla**
Microsoft	**Berkshire Hathaway**
Amazon	**JP Morgan**
Alphabet	**Johnson & Johnson**
Facebook	**Visa**

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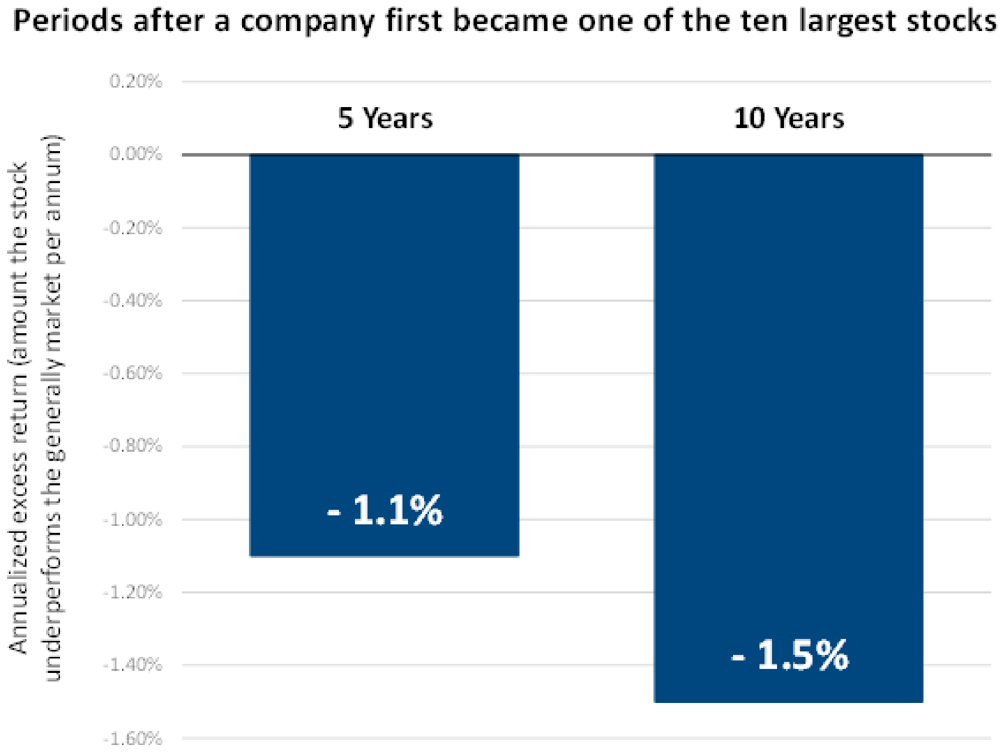
Excluding the largest companies on a global basis

Just leaving out the single largest company has historically added **+0.22%** per year[7] over and above the relevant index fund. If instead, one excluded the ten largest companies, the resulting portfolio outperformed by **+0.46%** per year[7]. In contrast, if one excluded the single largest company in each country, the resulting portfolio outperformed the comparable index fund by **+0.35%** per year[7].

Just here in the U.S.

In the U.S., once a company becomes one of the ten largest, its future performance underperforms by a wide margin[8].



But, why now

Reason 2 - Tech is in a bubble

Munger - It's just like the Great Tech Wreck of 2000

"It Must End Badly" - Munger Says Market Resembles Dot Com Bubble, Calls SPACs "Shit"

BY TYLER DURDEN

WEDNESDAY, FEB 24, 2021 - 03:29 PM

Warren Buffett's "No. 2" spoke during the annual meeting of the Daily Journal Corporation, the Los Angeles newspaper-publishing company chaired by Munger. The 97-year-old Charlie Munger is best known for his work as Vice Chairman of Berkshire Hathaway, where he has served as Buffett's right hand man for decades. And like Buffett, Munger has a soft spot for newspapers and legacy media companies, and thus took time out of his (busy?) week to answer questions from Daily Journal shareholders in a meeting broadcast live online (watch recording below).

Munger, Vice Chairman of Berkshire

SPACS started out red hot

SPACS have only gotten worse

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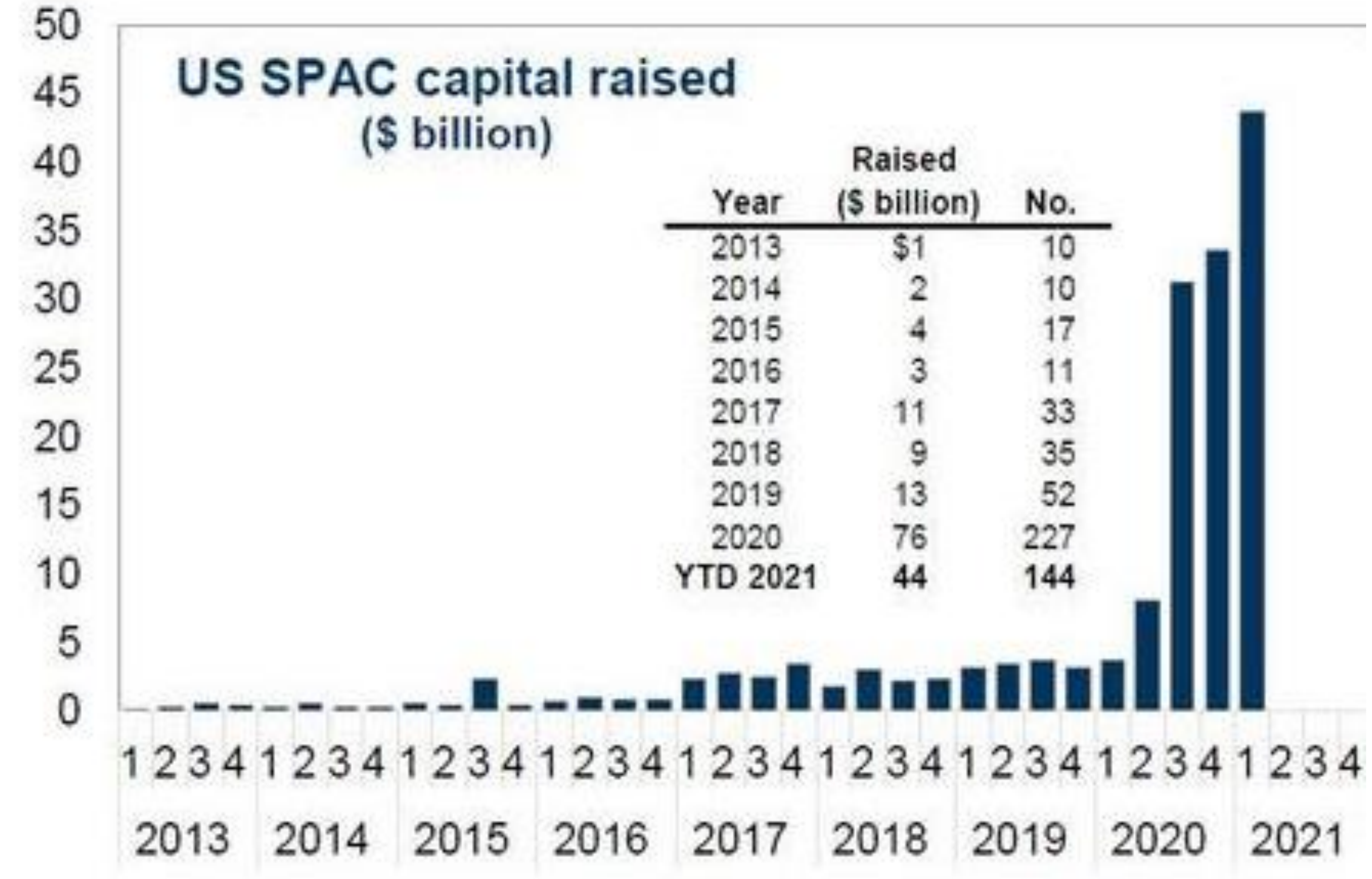
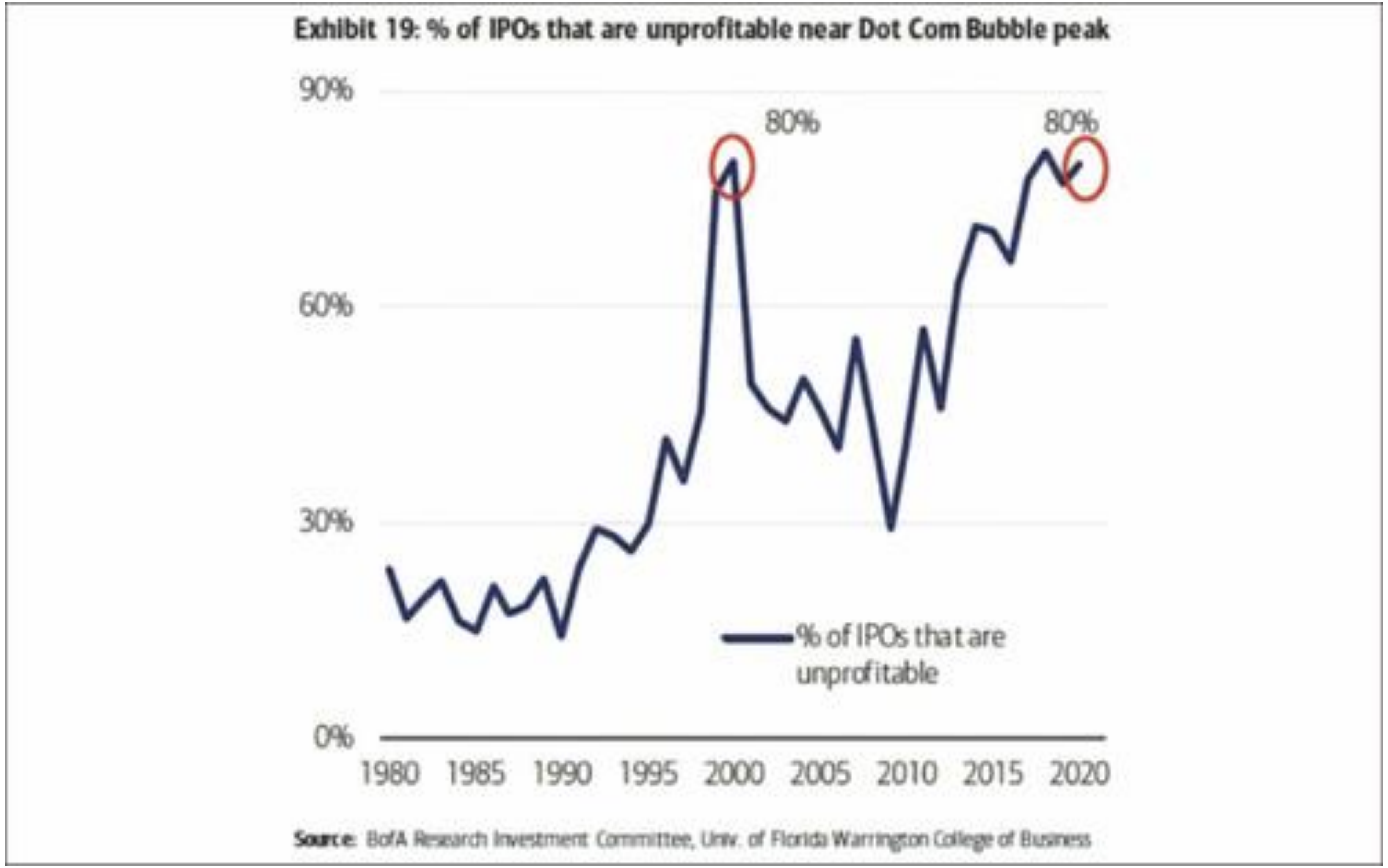
Exhibit 5: The SPAC boom has continued in early 2021
as of February 18, 2021



Source: Dealogic, Goldman Sachs Global Investment Research

IPOs of unprofitable innovation and technology companies

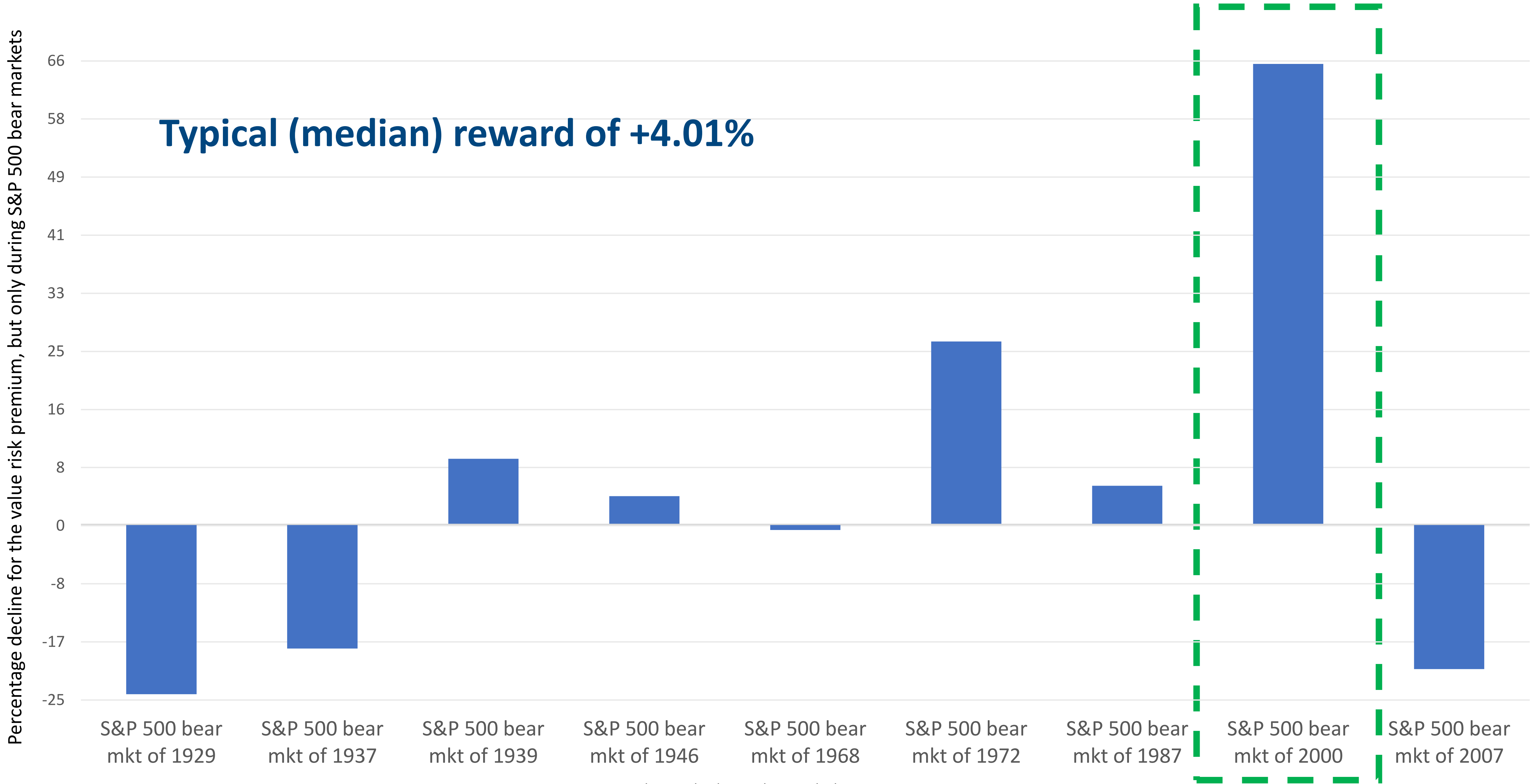


But, why now

Reason 3 - Value did fantastic during the Great Tech Wreck of 2000

Tech wreck of 2000 and the value risk premium

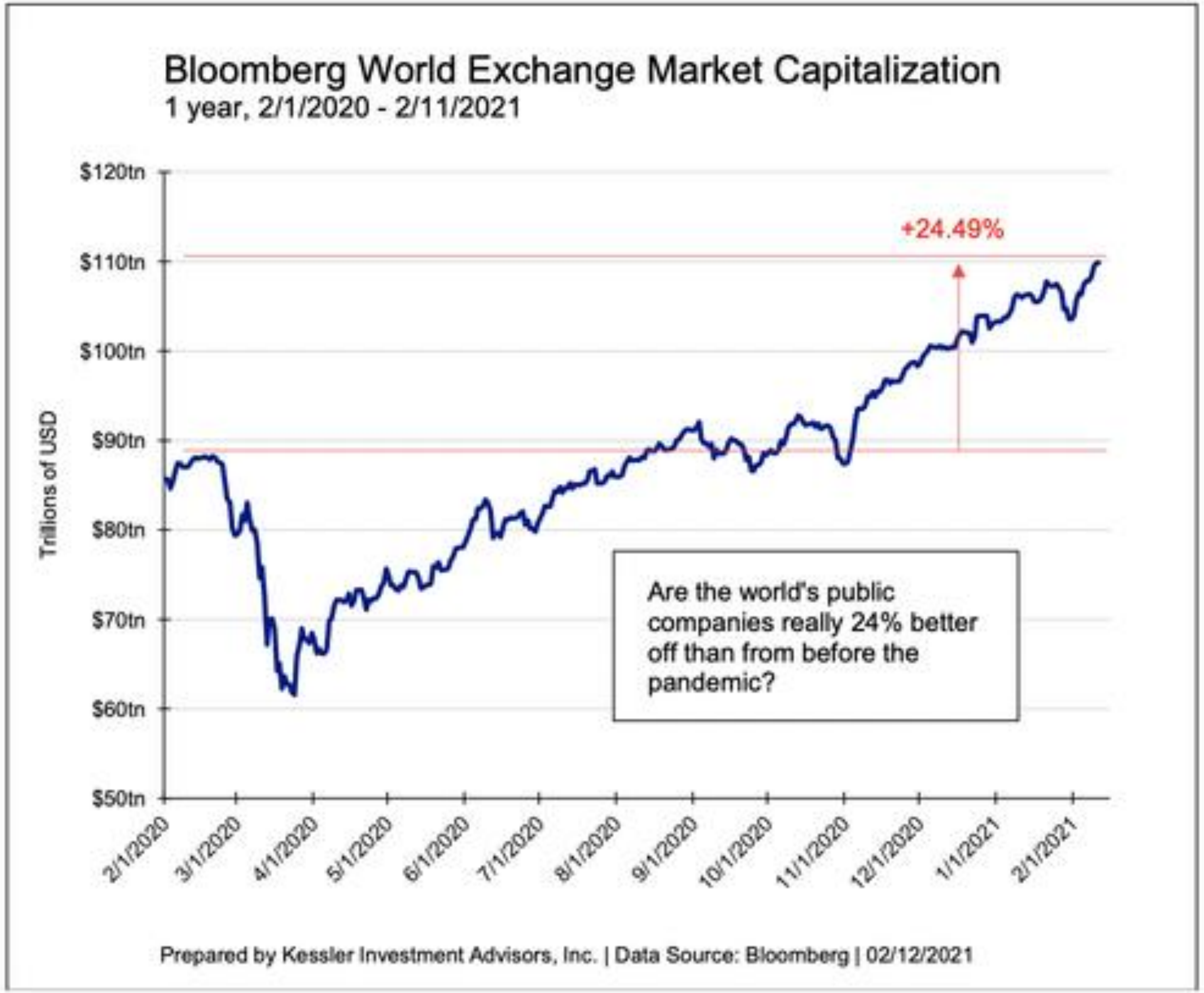
Value risk premium is random (noisy) during S&P 500 bear markets



But, why now

Reason 4 - Perhaps we have a bear market for all stocks coming

Are companies really worth 25% more today, than a year ago?



But, why now

Reason 5 - Tech is about to get hit by domestic and global anti-trust action

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MacroStrategy Partnership

Big Tech's 'crossfire hurricane'

Julien Garran

21 January 2021

Introduction

This report argues that Big Tech is now caught in the crossfire between five politically driven threats;

Julien Garran
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Anti-trust action is coming . . . Big and bold

Big Tech Anti-trust

This report maintains that the mainstream media, the sell-side, and investors in general have underestimated the dedication and effectiveness of the 'New Brandeis School' of Anti-Trust, led by Lina Kahn, and the degree to which it has taken over the Democratic agenda on Anti-Trust in Washington. This report argues that the New Brandeis School's agenda is powerful, radical, and likely to make significant progress during Biden's first term. This has the potential to create a major shock to Big Tech investors.

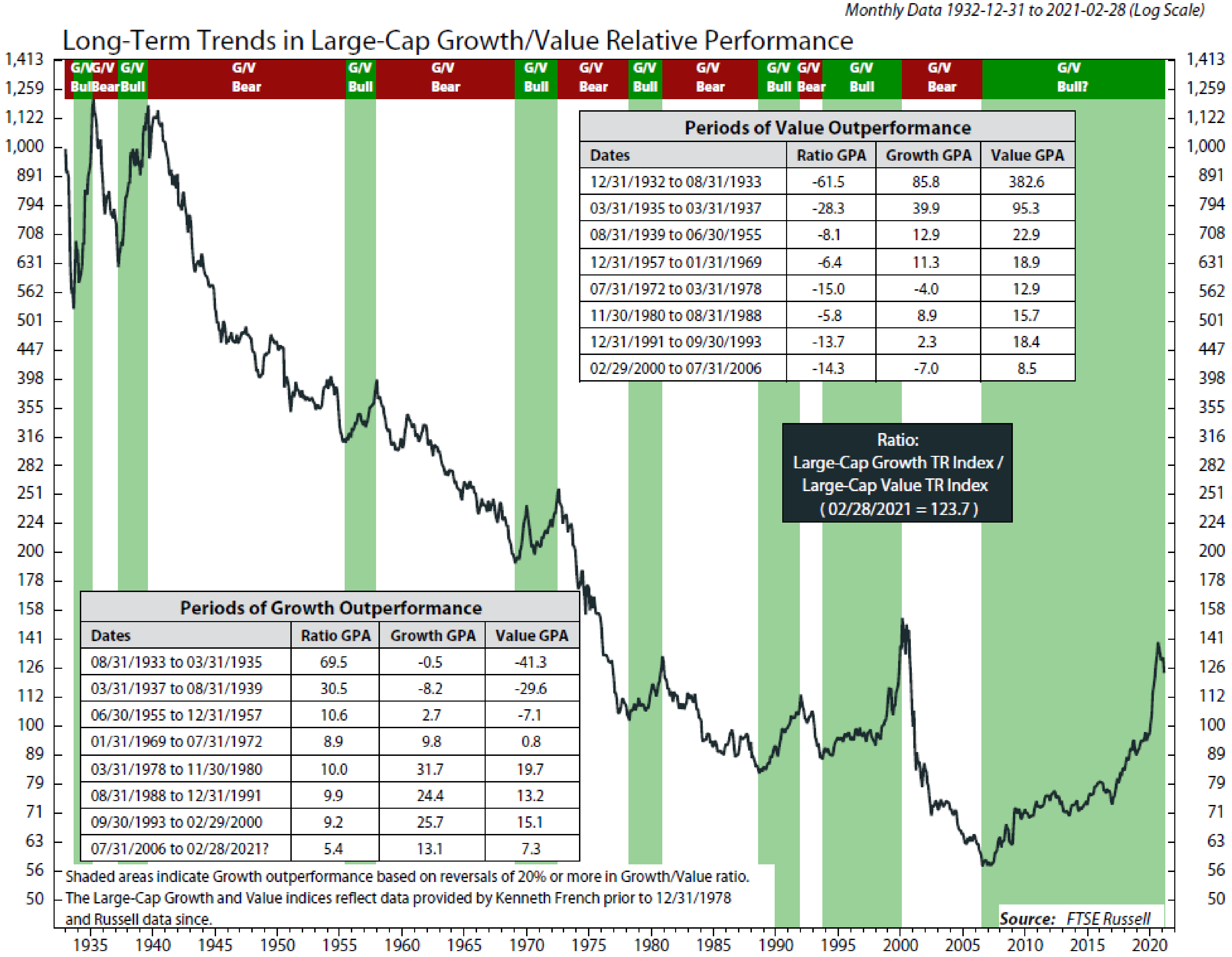
Justice Louis Brandeis & Lina Khan

Source; Google Opensource

But, why now

Reason 6 - The growth cycle is long in the tooth

Trees don't grow to the sky



Periods of Value Outperformance

Dates	Ratio GPA	Growth GPA	Value GPA
12/31/1932 to 08/31/1933	-61.5	85.8	382.6
03/31/1935 to 03/31/1937	-28.3	39.9	95.3
08/31/1939 to 06/30/1955	-8.1	12.9	22.9
12/31/1957 to 01/31/1969	-6.4	11.3	18.9
07/31/1972 to 03/31/1978	-15.0	-4.0	12.9
11/30/1980 to 08/31/1988	-5.8	8.9	15.7
12/31/1991 to 09/30/1993	-13.7	2.3	18.4
02/29/2000 to 07/31/2006	-14.3	-7.0	8.5

Periods of Growth Outperformance

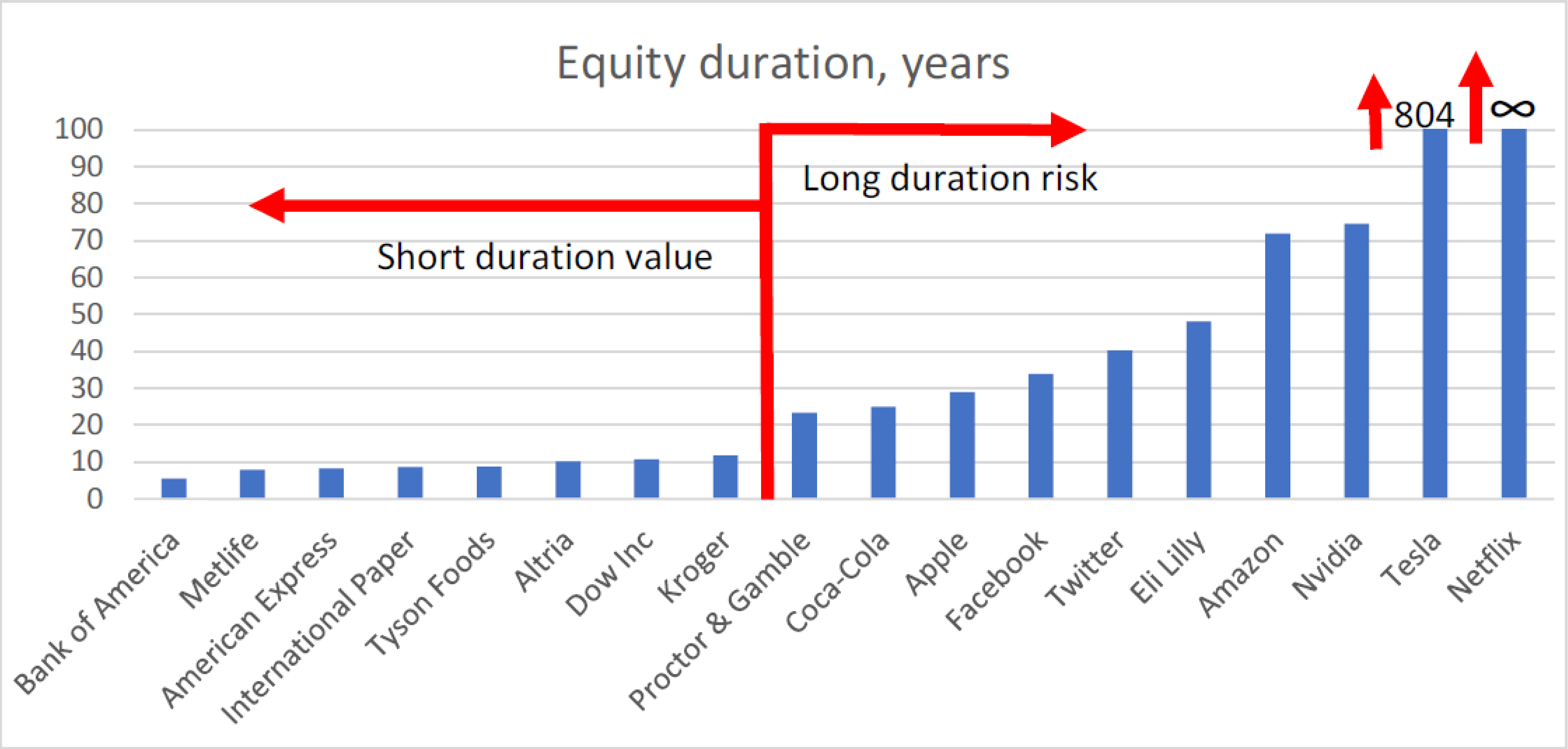
Dates	Ratio GPA	Growth GPA	Value GPA
08/31/1933 to 03/31/1935	69.5	-0.5	-41.3
03/31/1937 to 08/31/1939	30.5	-8.2	-29.6
06/30/1955 to 12/31/1957	10.6	2.7	-7.1
01/31/1969 to 07/31/1972	8.9	9.8	0.8
03/31/1978 to 11/30/1980	10.0	31.7	19.7
08/31/1988 to 12/31/1991	9.9	24.4	13.2
09/30/1993 to 02/29/2000	9.2	25.7	15.1
07/31/2006 to 02/28/2021?	5.4	13.1	7.3

Shaded areas indicate Growth outperformance based on reversals of 20% or more in Growth/Value ratio.
The Large-Cap Growth and Value indices reflect data provided by Kenneth French prior to 12/31/1978 and Russell data since.

But, why now

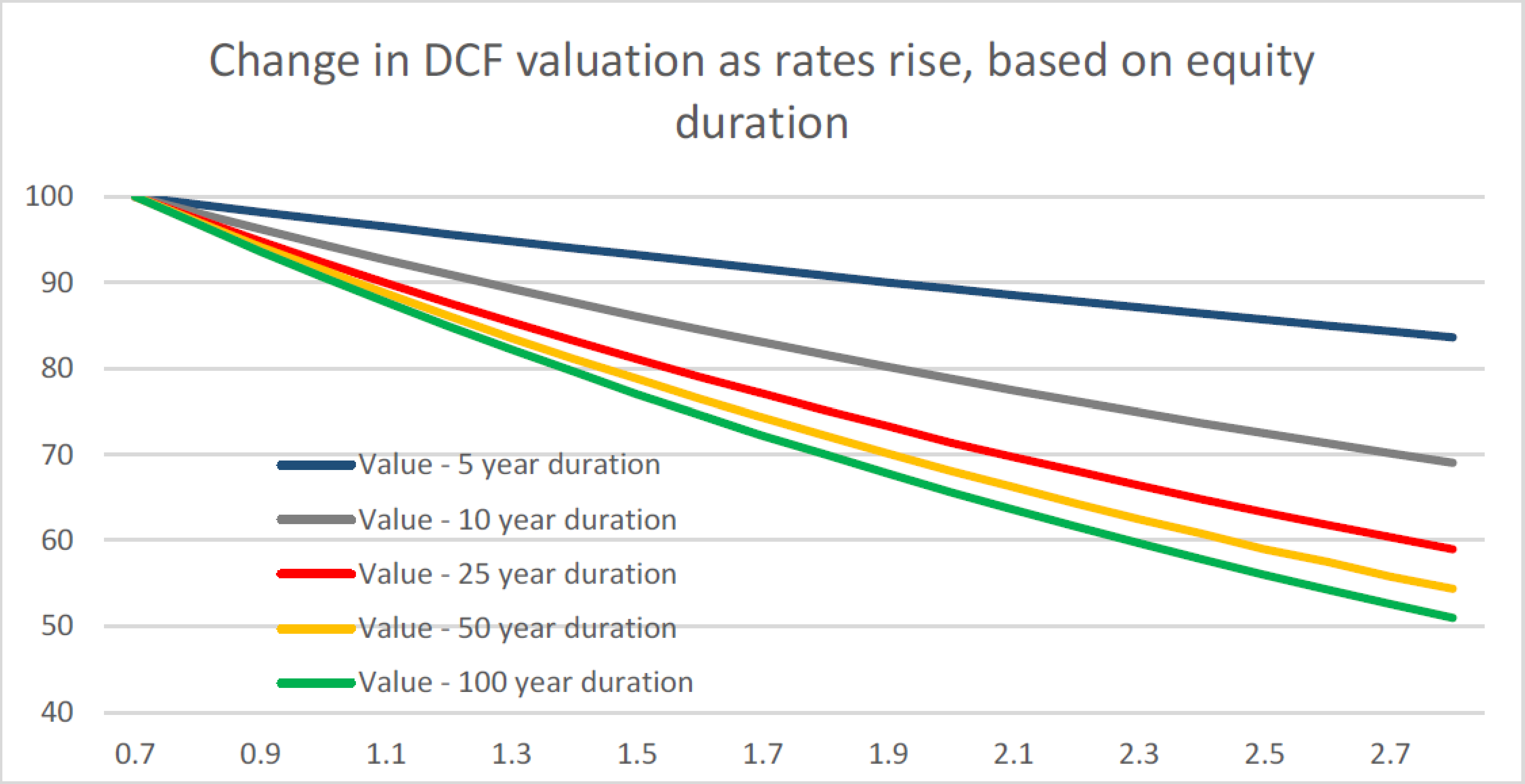
Reason 7 - The problem of rising interest rates

Interest rate duration for stocks



Source; The MacroStrategy Partnership, Factset. Note; these examples do not constitute recommendations.

Impact of stocks prices for different interest rate increases



Source; The MacroStrategy Partnership

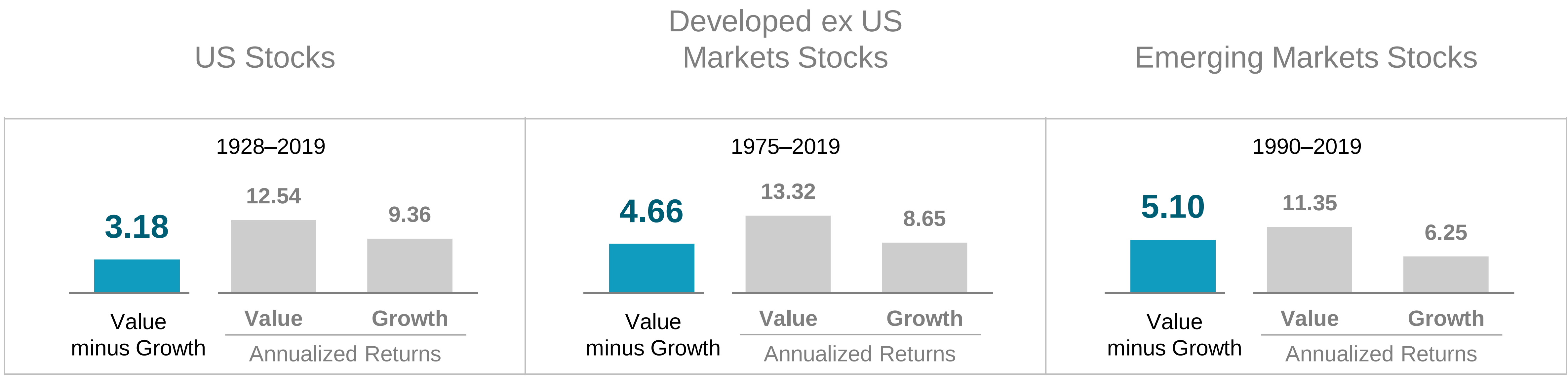
Additional considerations

Observation 1 - Value works across all geographies

Value risk premium across different geographies

Relative Price

Relative performance of value stocks vs. growth stocks (%)



Additional considerations

Observation 2 - The juice is worth the squeeze

The reward is large during value risk premium bull markets

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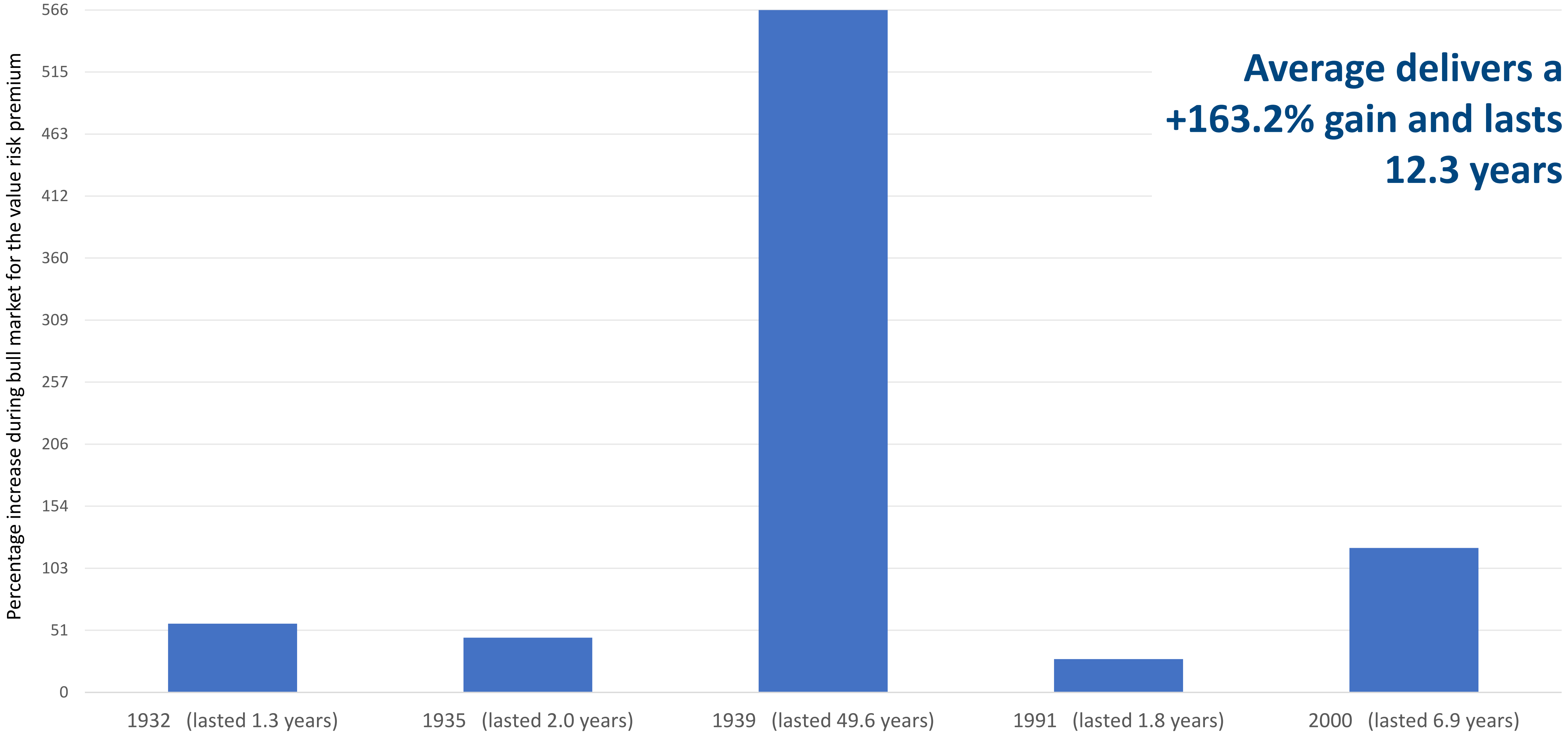
Average bull market delivers an extra +163% return over and above the return on growth



Additional considerations

Observation 3 - The right way and the wrong way to do value

The case for high dividend stocks

The case for value, in general and right now

High dividend stocks as a best possible expression of value

- Current income
- Zombie filter
- Sustainability
- Profitability
- Growing income
- Tangibles vs intangibles

A better expression of value

- Current income
- Zombie filter
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A better expression of value

- Current income
- Zombie filter
- Sustainability
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The worst way to do value

- Ticker IWN
- Russell 2000 Value ETF

- It possibly maximizes your exposure to zombies
- And depends too heavily on P/B to identify value

Alternative Ways to Achieve Yield

Friday, April 9th at 11:00 a.m. EASTERN time

I'll be stepping aside and some thoughtful experts in the area of options overlay will be stepping in

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Important Disclosures

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One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the presentation of hypothetical performance results and all of which can adversely affect actual trading results.

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