



Value vs growth, is now the time?

Rob Brown, PhD, CFA

Julex Capital Advisory Board Member, Website www.robbrownonline.com



40 Grove Street, Suite 140, Wellesley, MA 02482

Phone 781-489-5398

Email info@julexcapital.com

Web www.julexcapital.com

"In the end, all business operations can be reduced to three words: people, product, and profits. Unless you've got a good team, you can't do much with the other two"

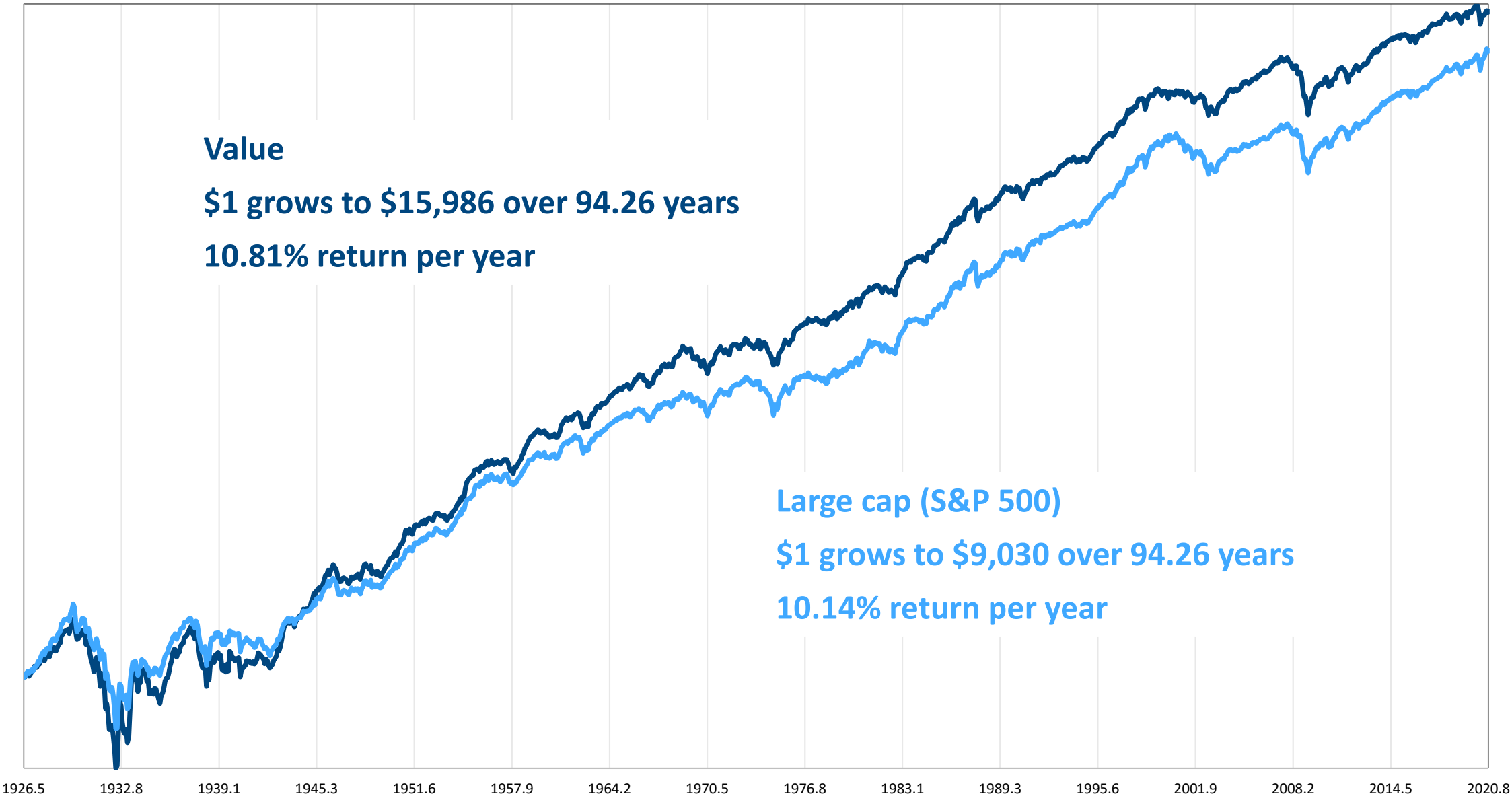
Lee Iacocca

- 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

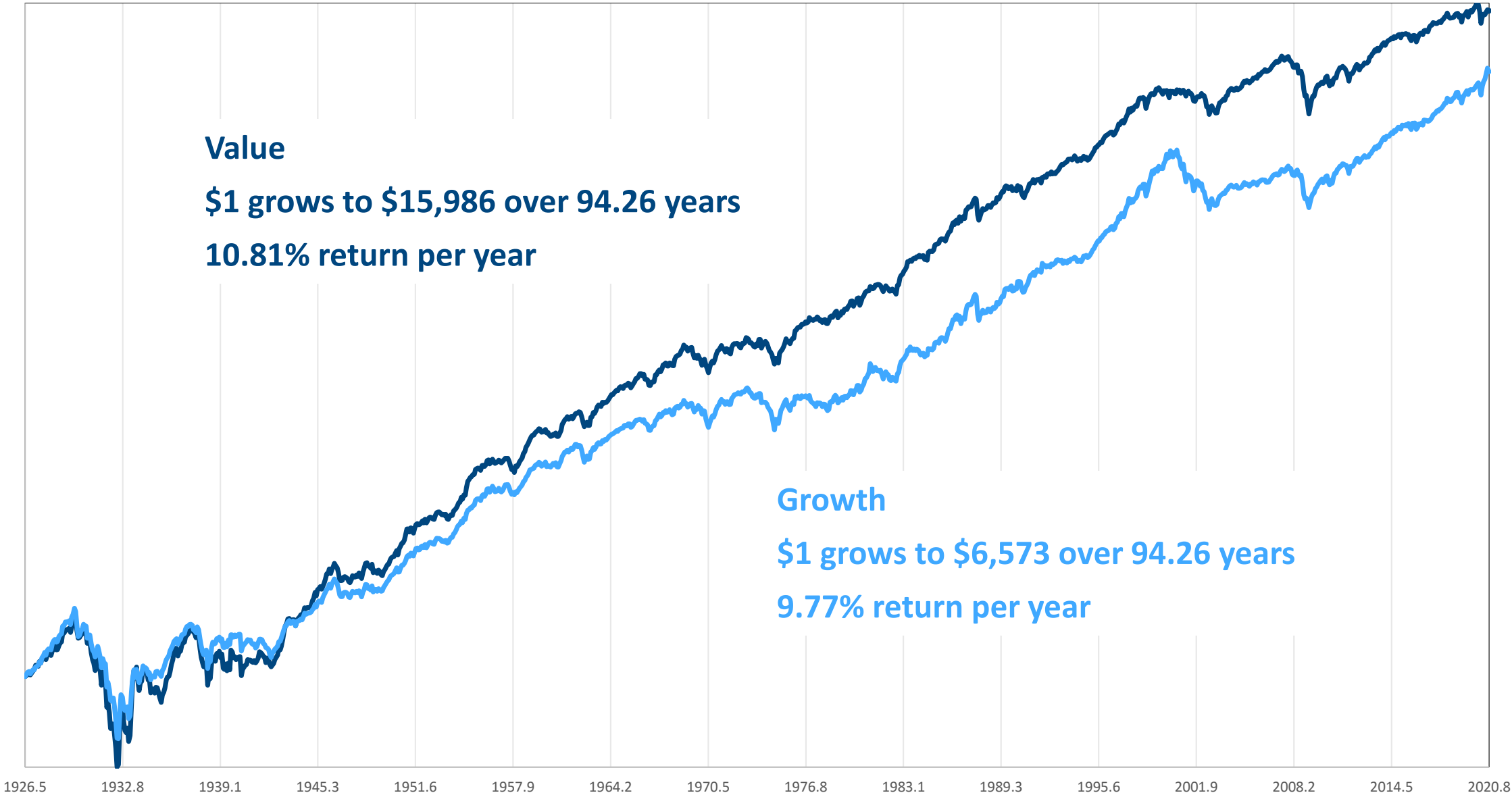
Sufficient size

YES

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



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

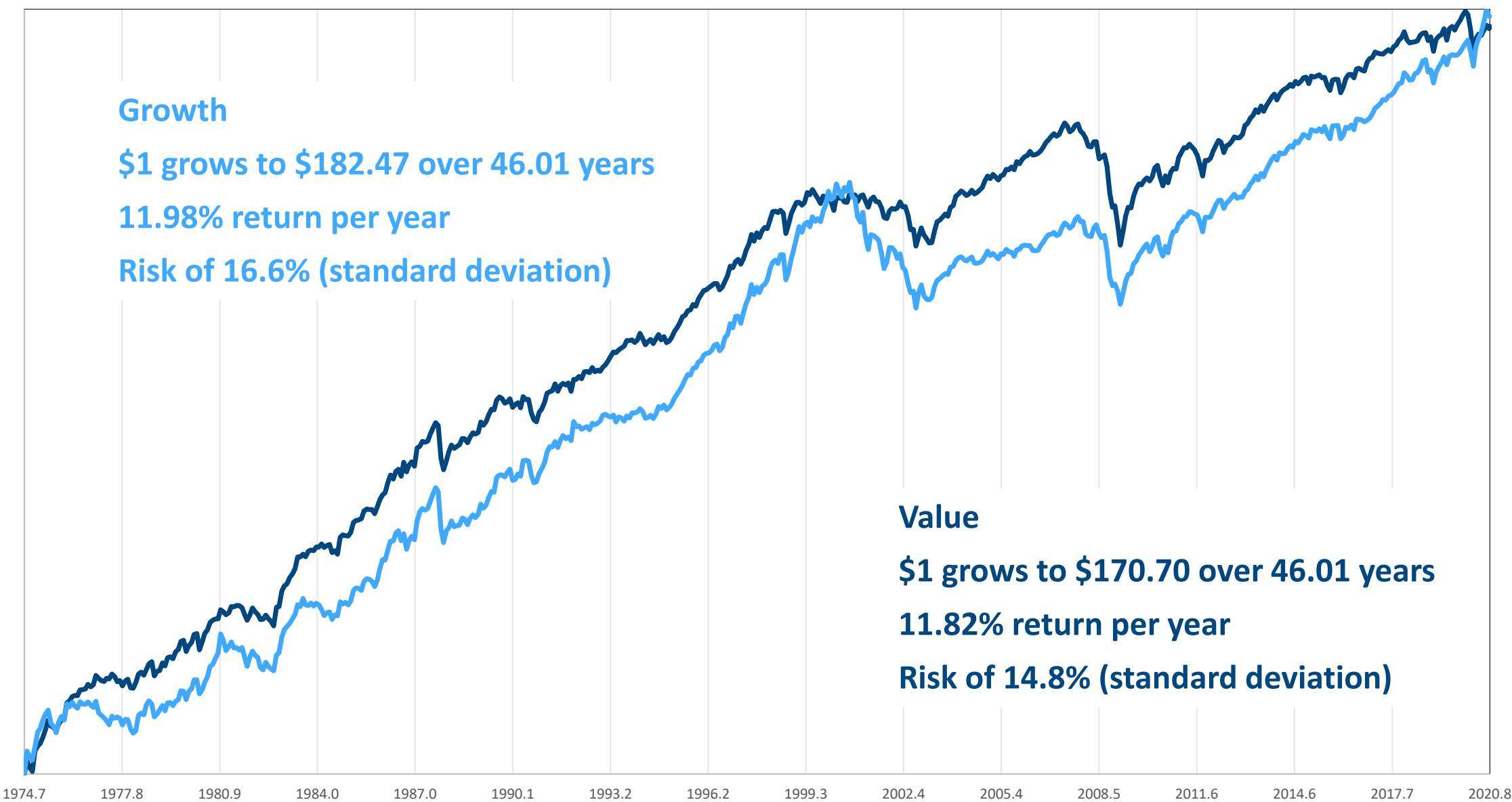


Sufficient consistency

NO

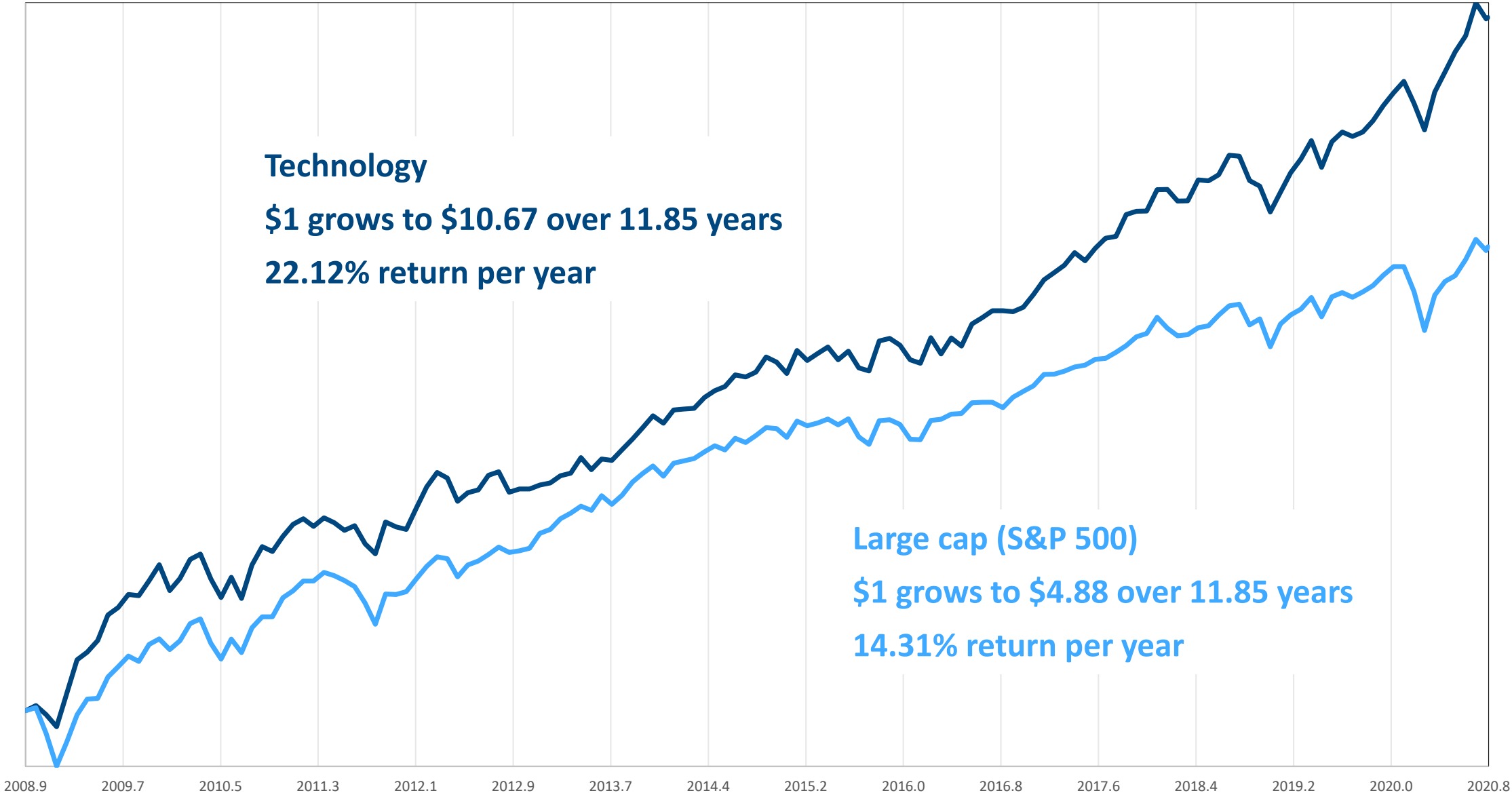
Conventional wisdom closed its eyes to the last 46+ years

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



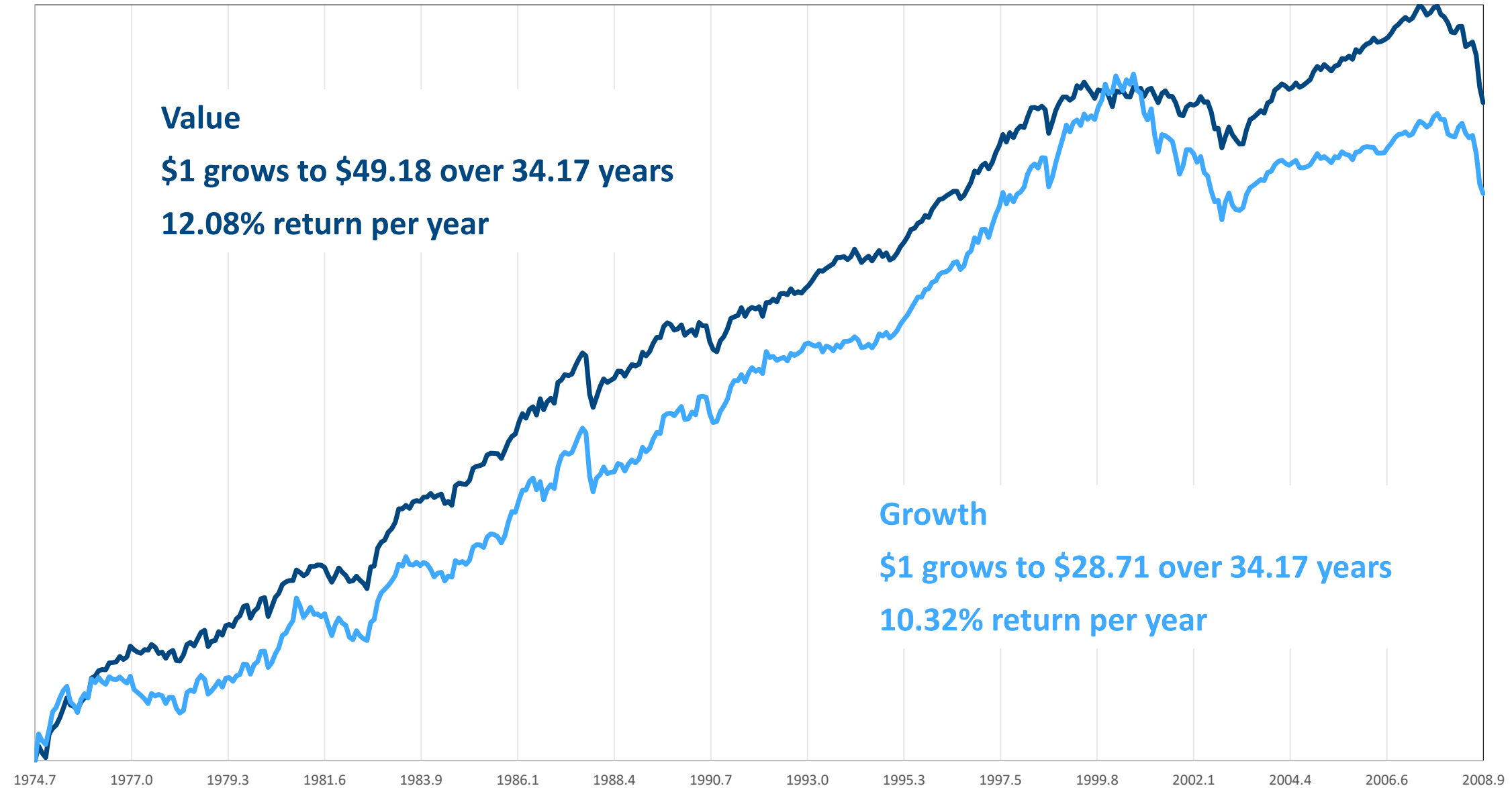
Is recent value disappoint just due to the recent 12-year tech rally

History making technology rally began Nov 30, 2008



MAYBE - but to assume so, probably misleads

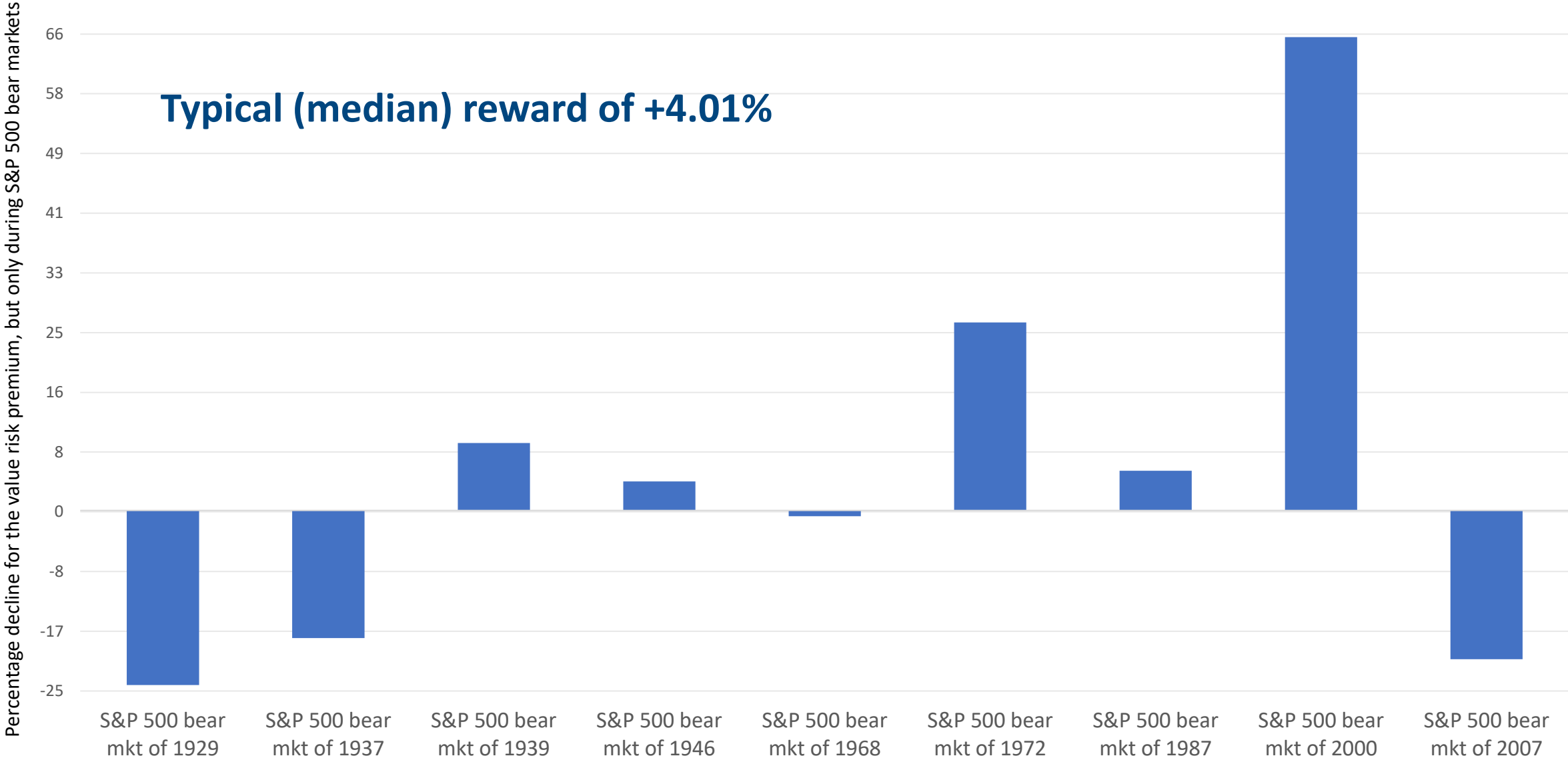
After removing the 11.85-year tech rally, value's premium returned to 1.75%



Some diversification benefit

NO, remarkably inconsistent

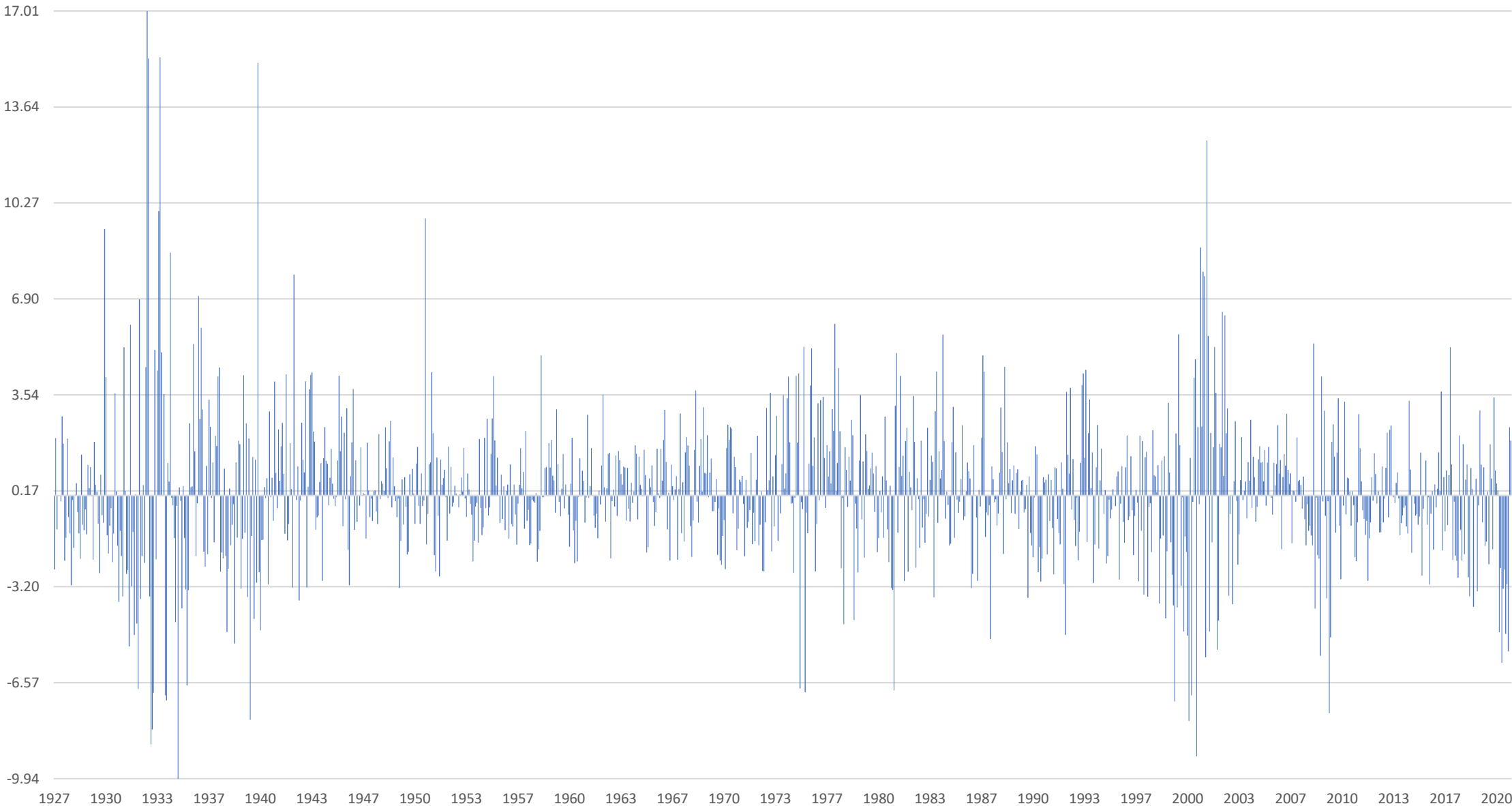
Value risk premium is random (noisy) during S&P 500 bear markets



How consistent is the value risk premium?

Is it episodic?

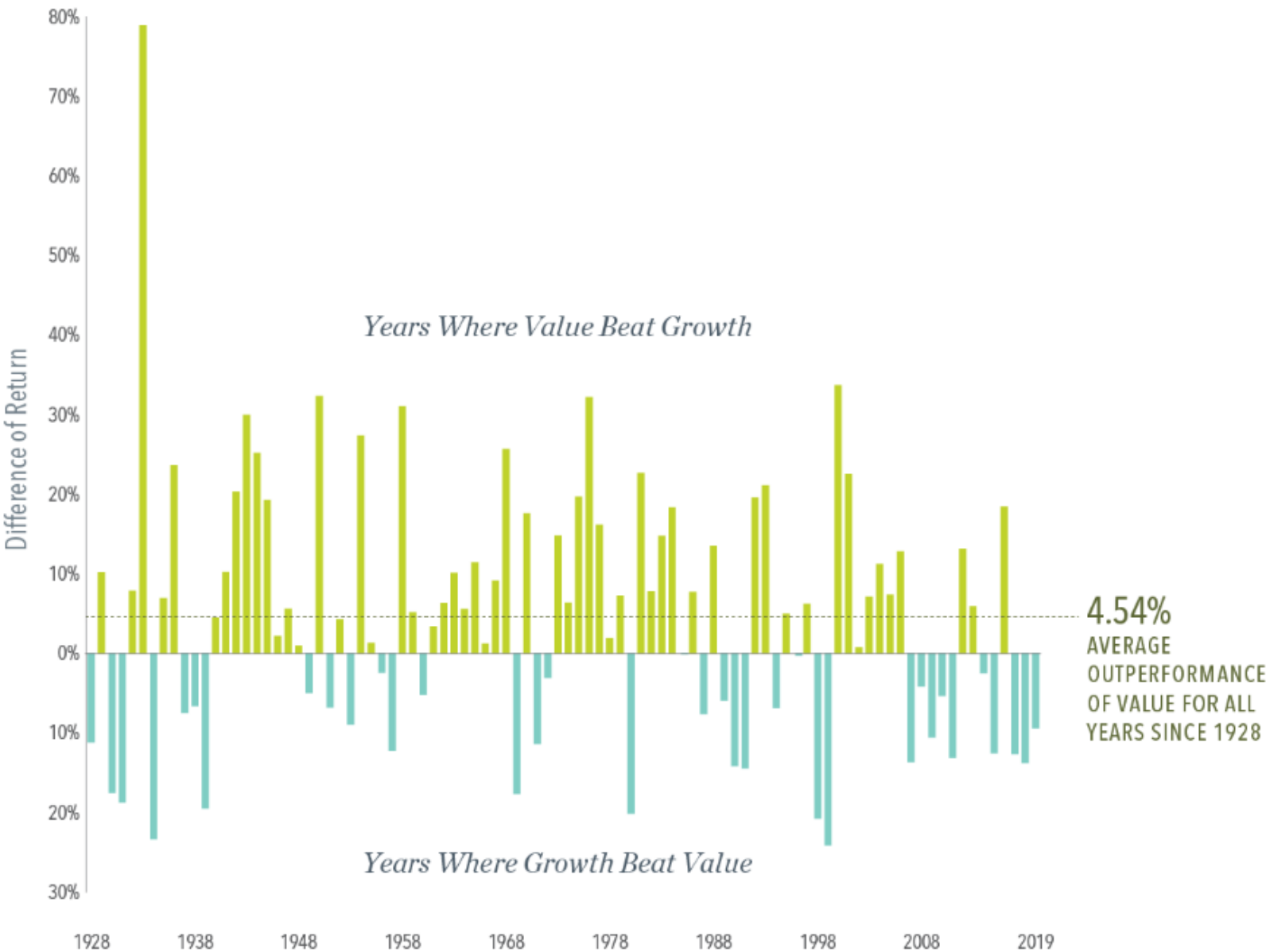
Monthly value risk premium has varied significantly over time



Games played with the data - be careful what you believe

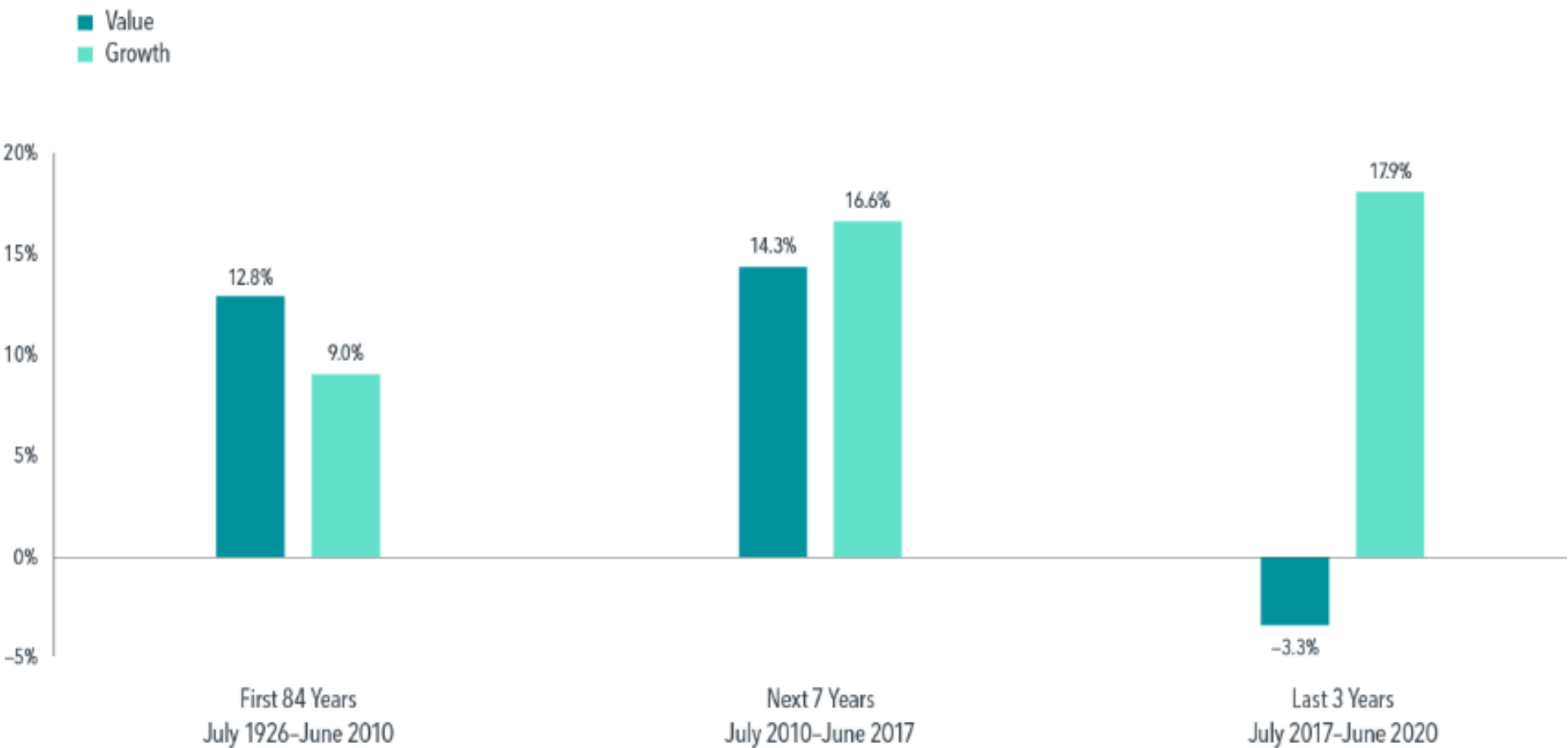
Value Add

Yearly observations of premiums: value minus growth in US markets, 1928–2019



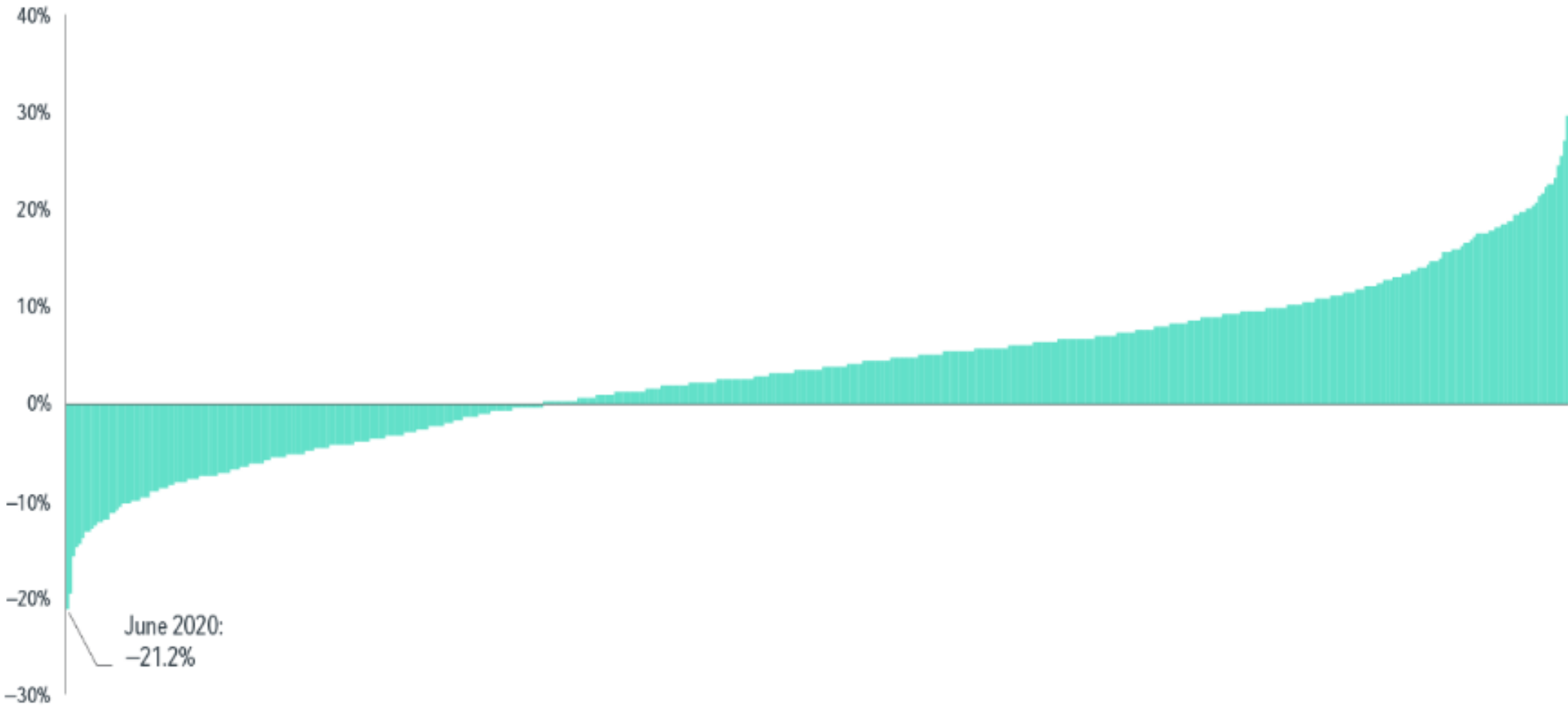
Growth Spurt

Annualized compound returns for value versus growth, US market



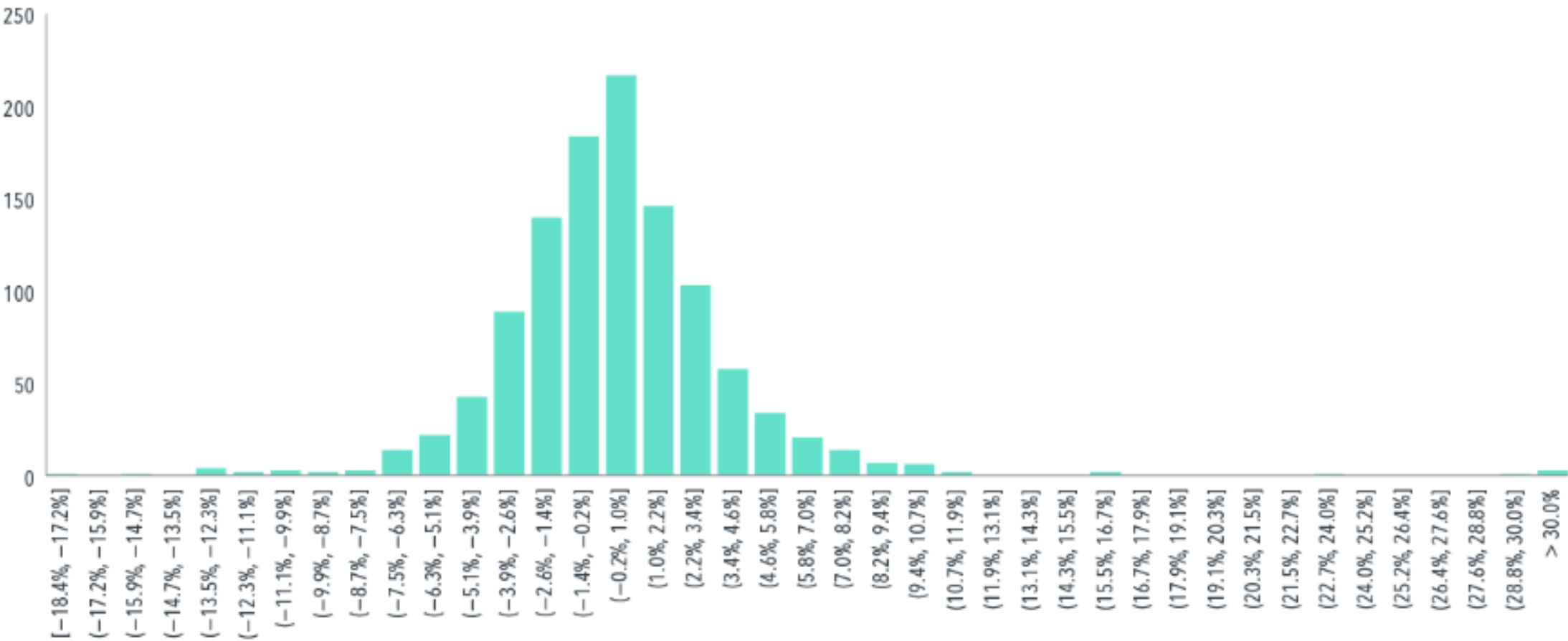
Back of the Pack

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



Monthly Statement

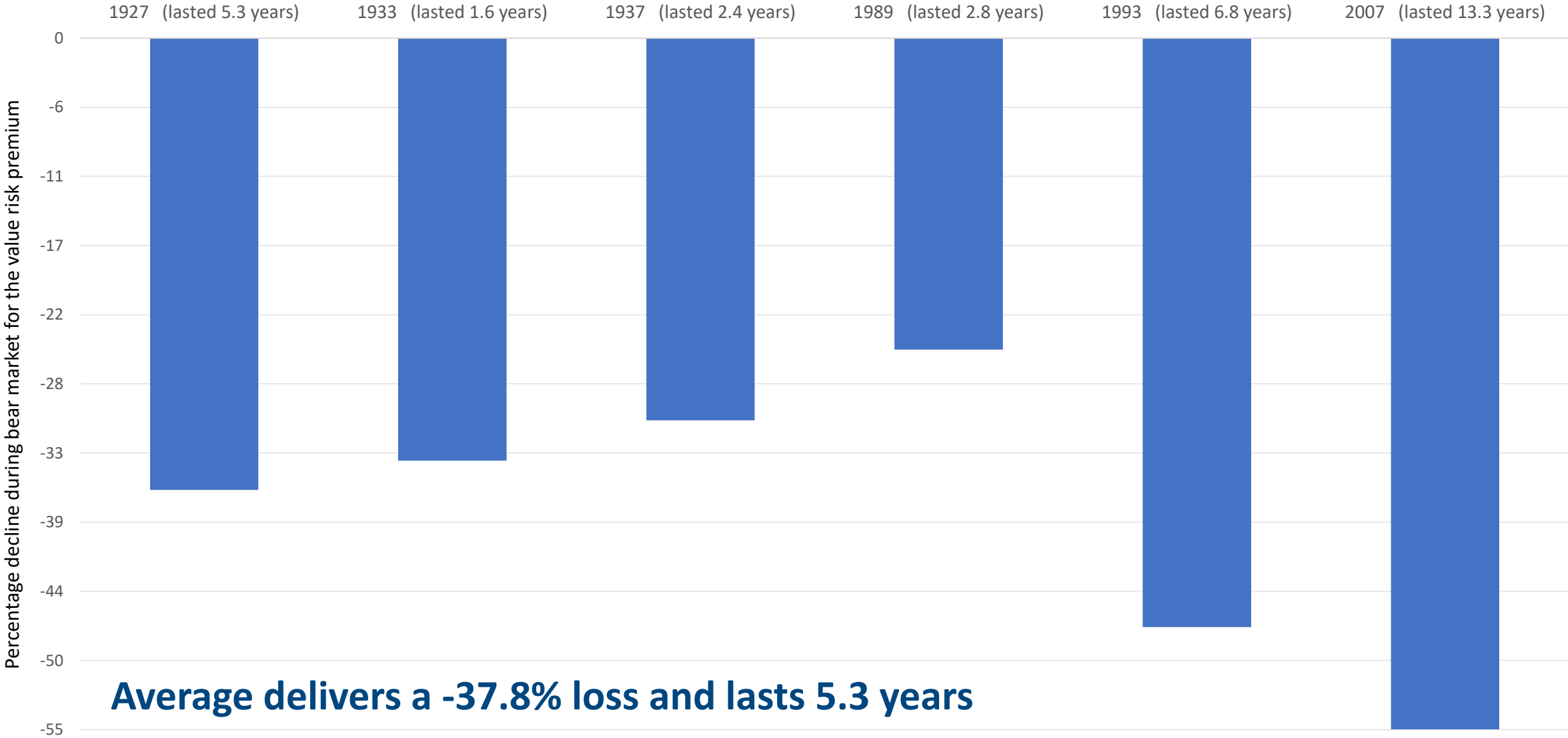
*Distribution of monthly return differences for value versus growth,
US market, July 31, 1926–June 30, 2020*



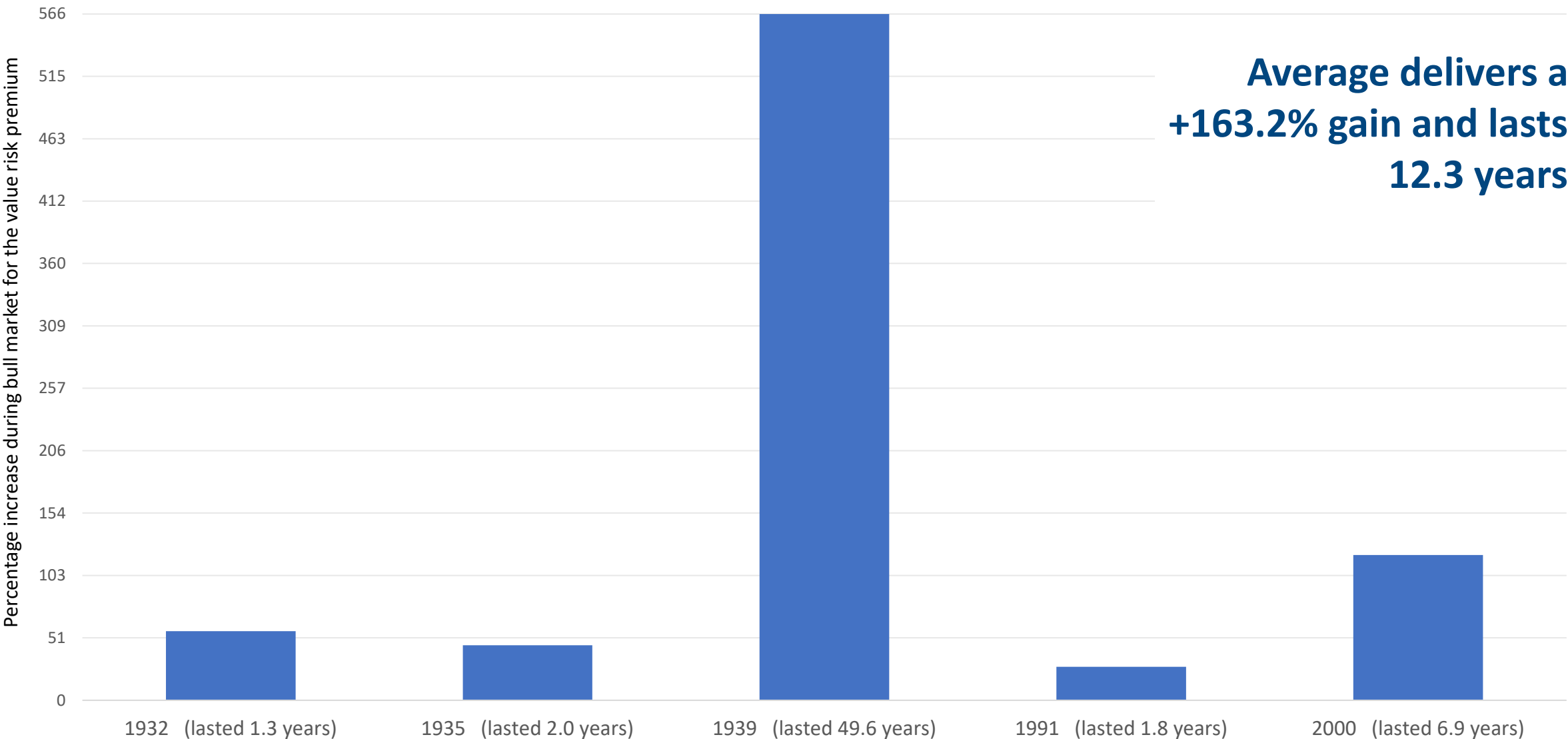
The real story

The value risk premium is remarkably episodic

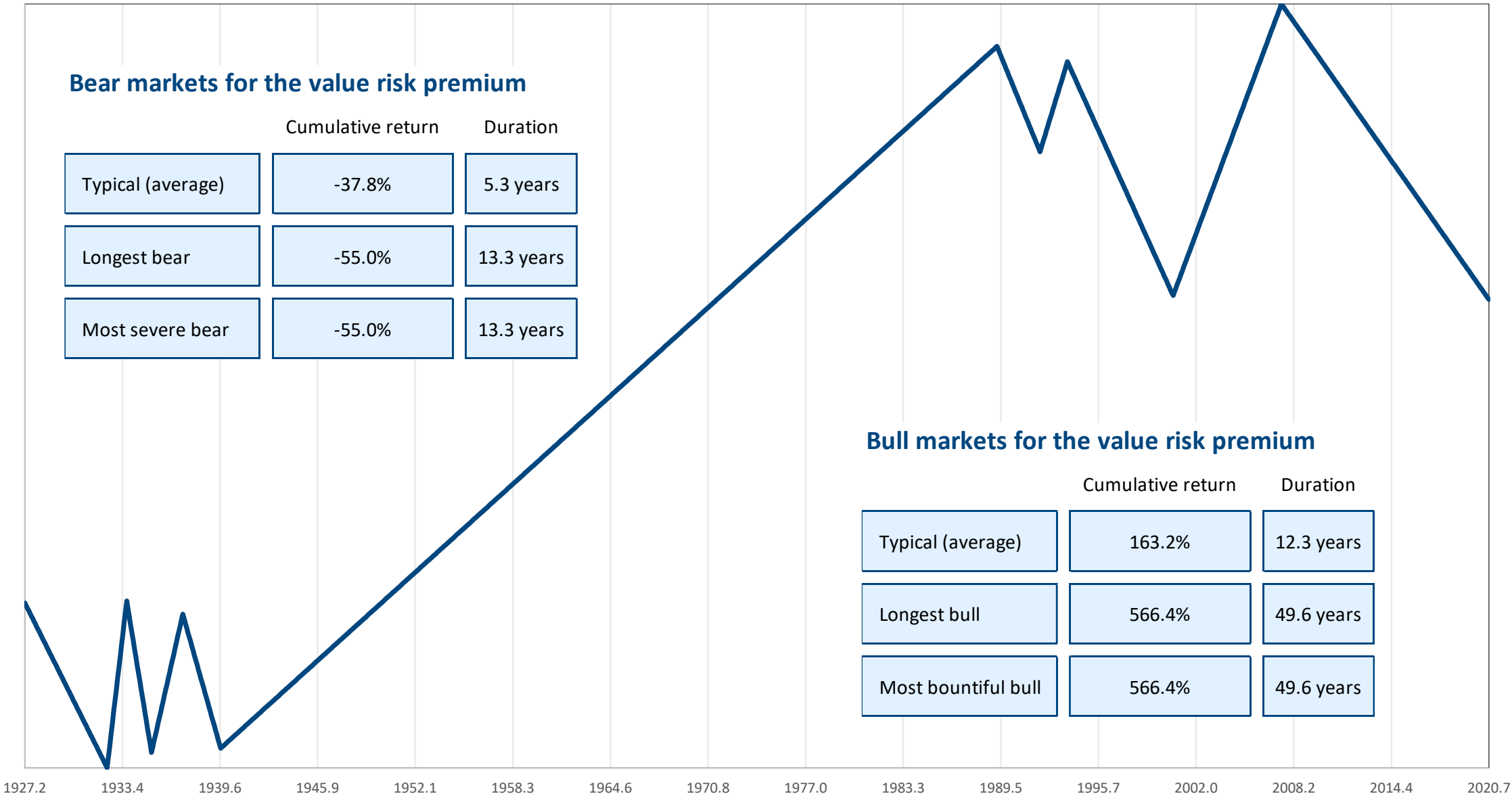
Bear markets for the value risk premium have been both severe and long-lasting



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



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

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

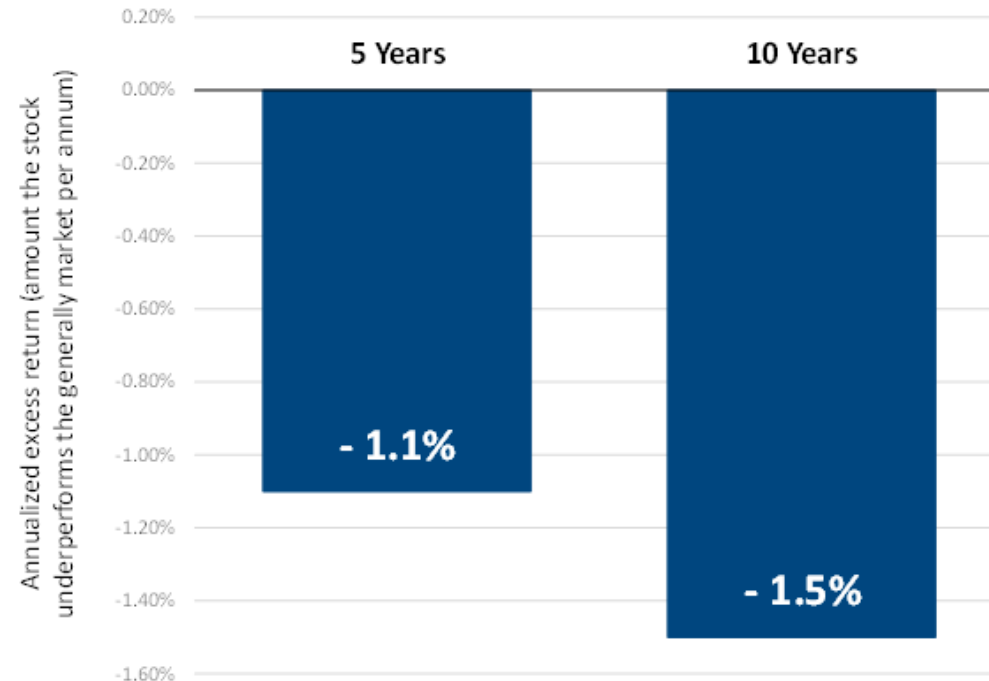
Excluding the largest companies on a global basis

Just leaving out the single largest company has historically added **+0.22%** per year⁷ over and above the relevant index fund. If instead, one excluded the ten largest companies, the resulting portfolio outperformed by **+0.46%** per year⁷. In contrast, if one excluded the single largest company in each country, the resulting portfolio outperformed the comparable index fund by **+0.35%** per year⁷.

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 margin⁸.

Periods after a company first became one of the ten largest stocks



But, why now

Reason 2 - Tech is in a bubble

"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).

finance

Charlie Munger, Vice Chairman of Berk...

yahoo!finance LIVE EXCLUSIVE

DAILY JOURNAL ANNUAL MEETING

CHARLIE MUNGER

DAILY JOURNAL CHAIRMAN & BERKSHIRE HATHAWAY VICE CHAIRMAN

FEB 24 | 1-3PM ET

finance.yahoo.com

Watch on

YouTube

Watch later

Share



US Spacs zoom to record in banner year

Proceeds raised in special purpose acquisition companies (\$bn)

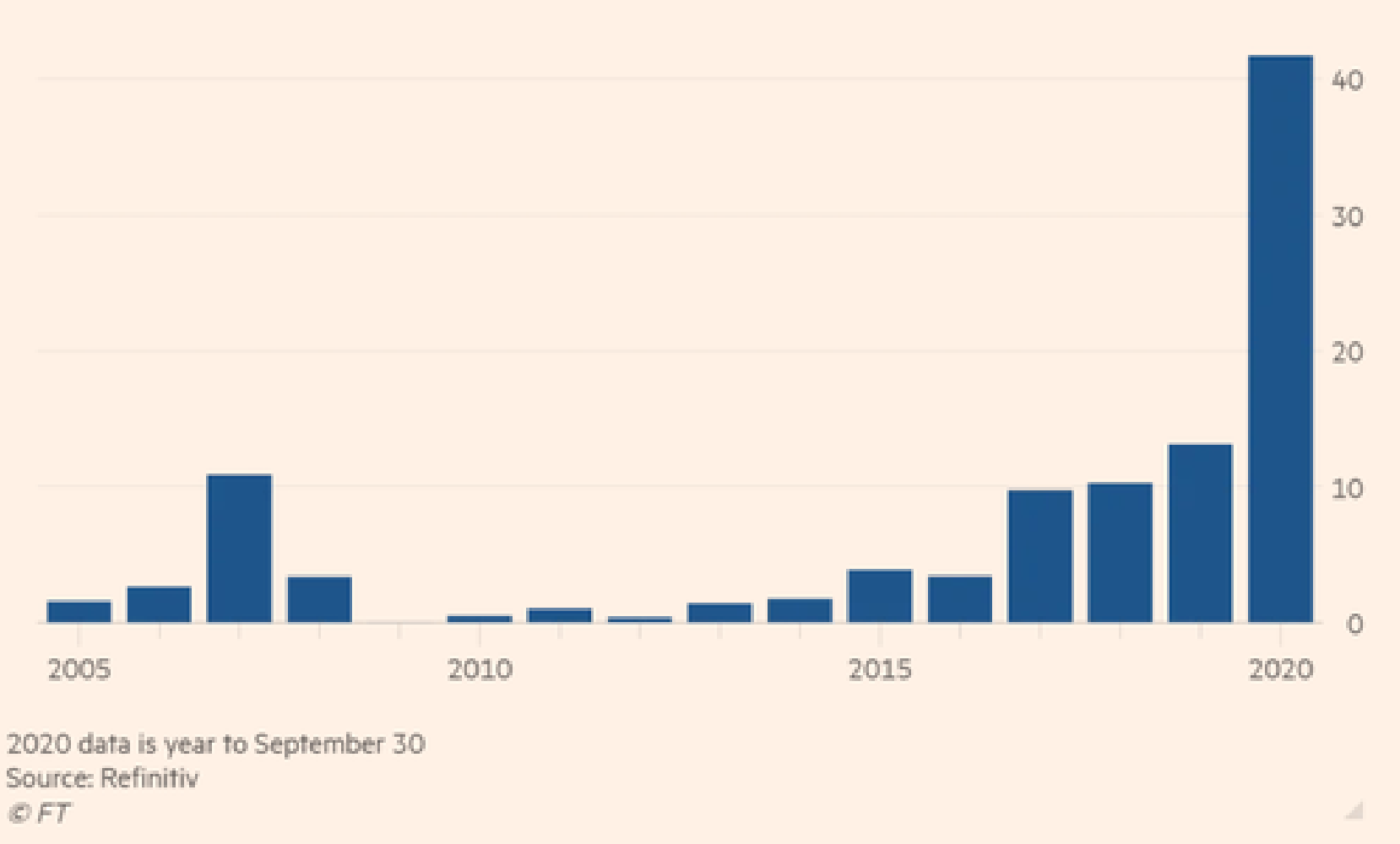
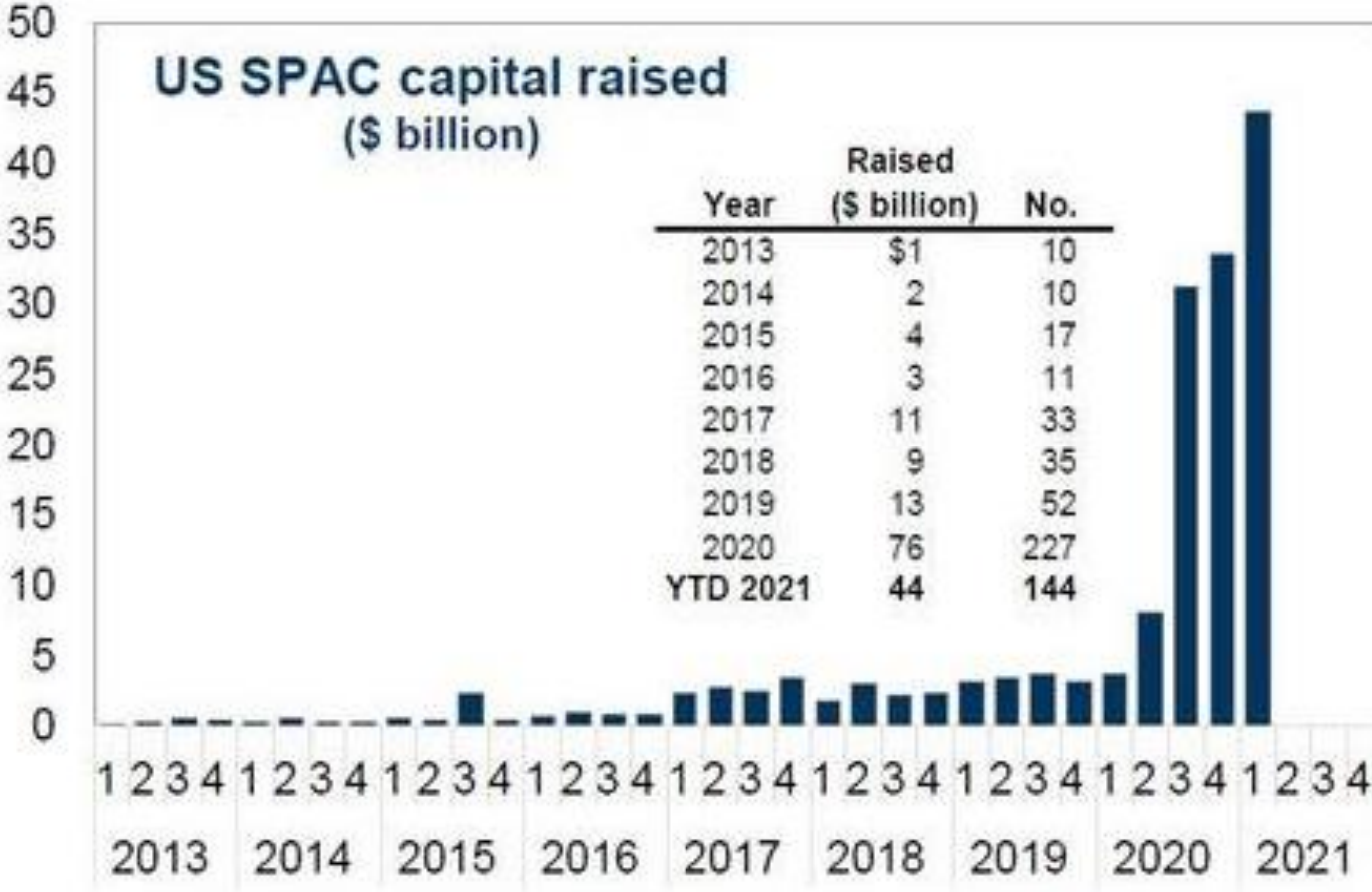
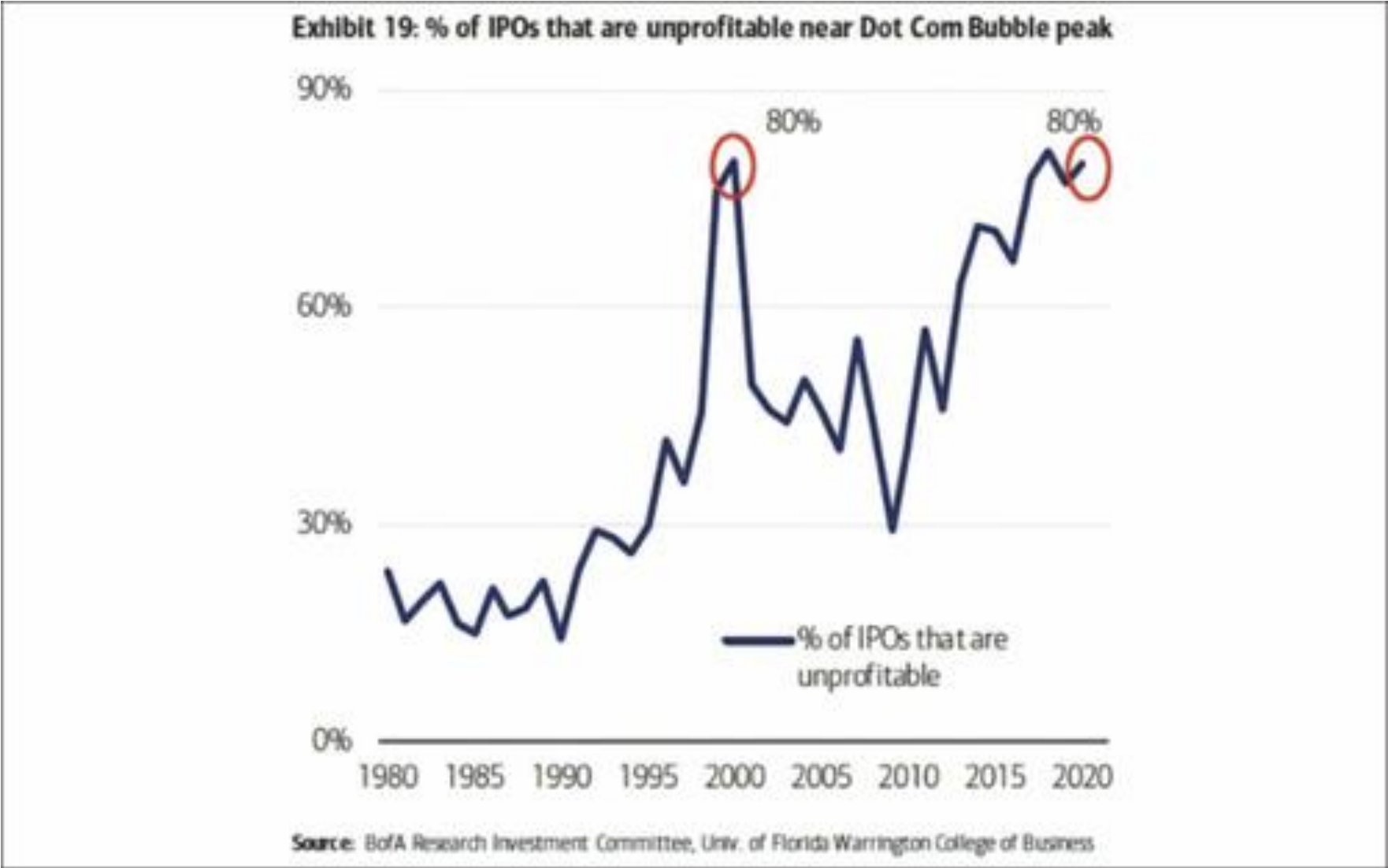


Exhibit 5: The SPAC boom has continued in early 2021
as of February 18, 2021



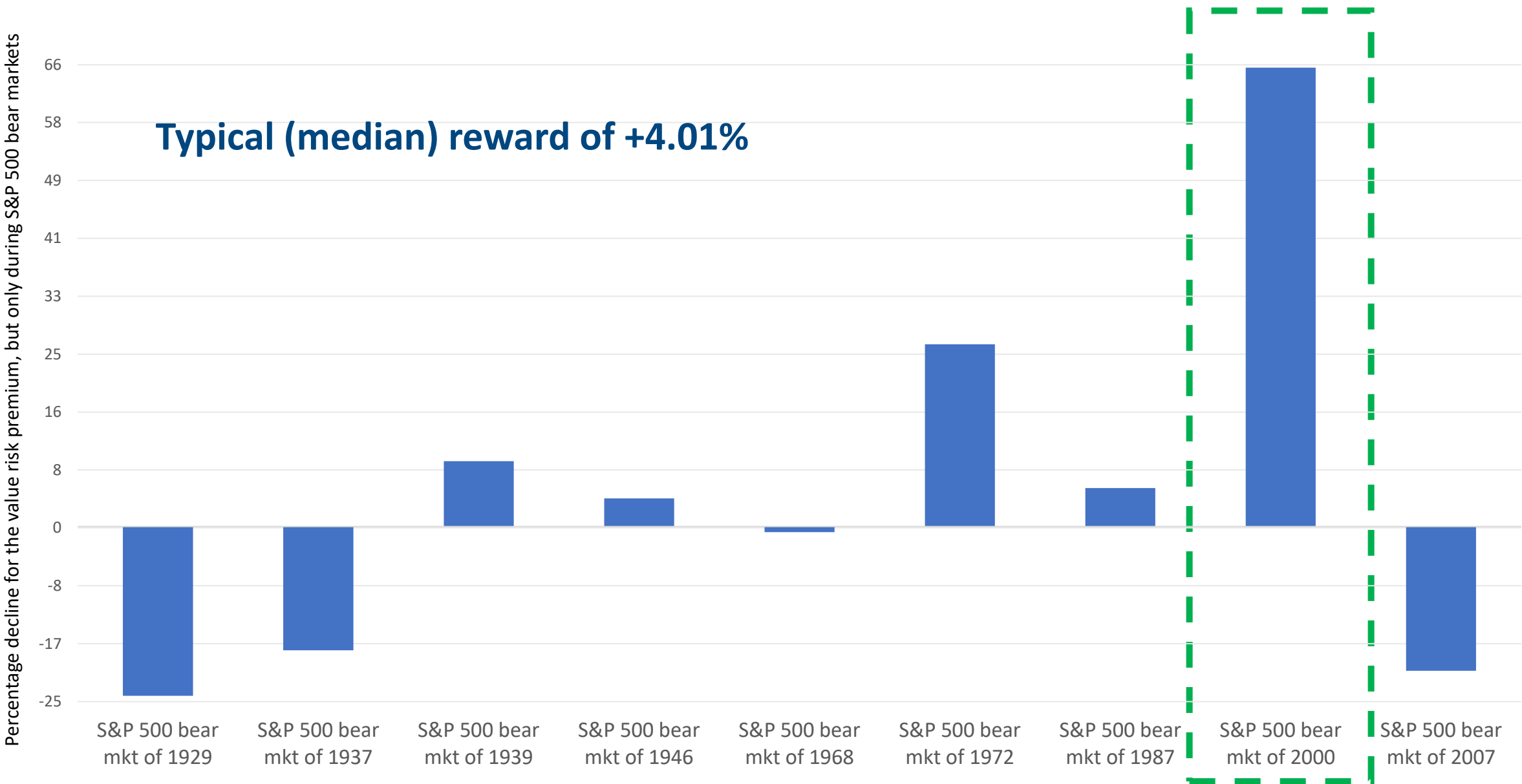
Source: Dealogic, Goldman Sachs Global Investment Research



But, why now

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

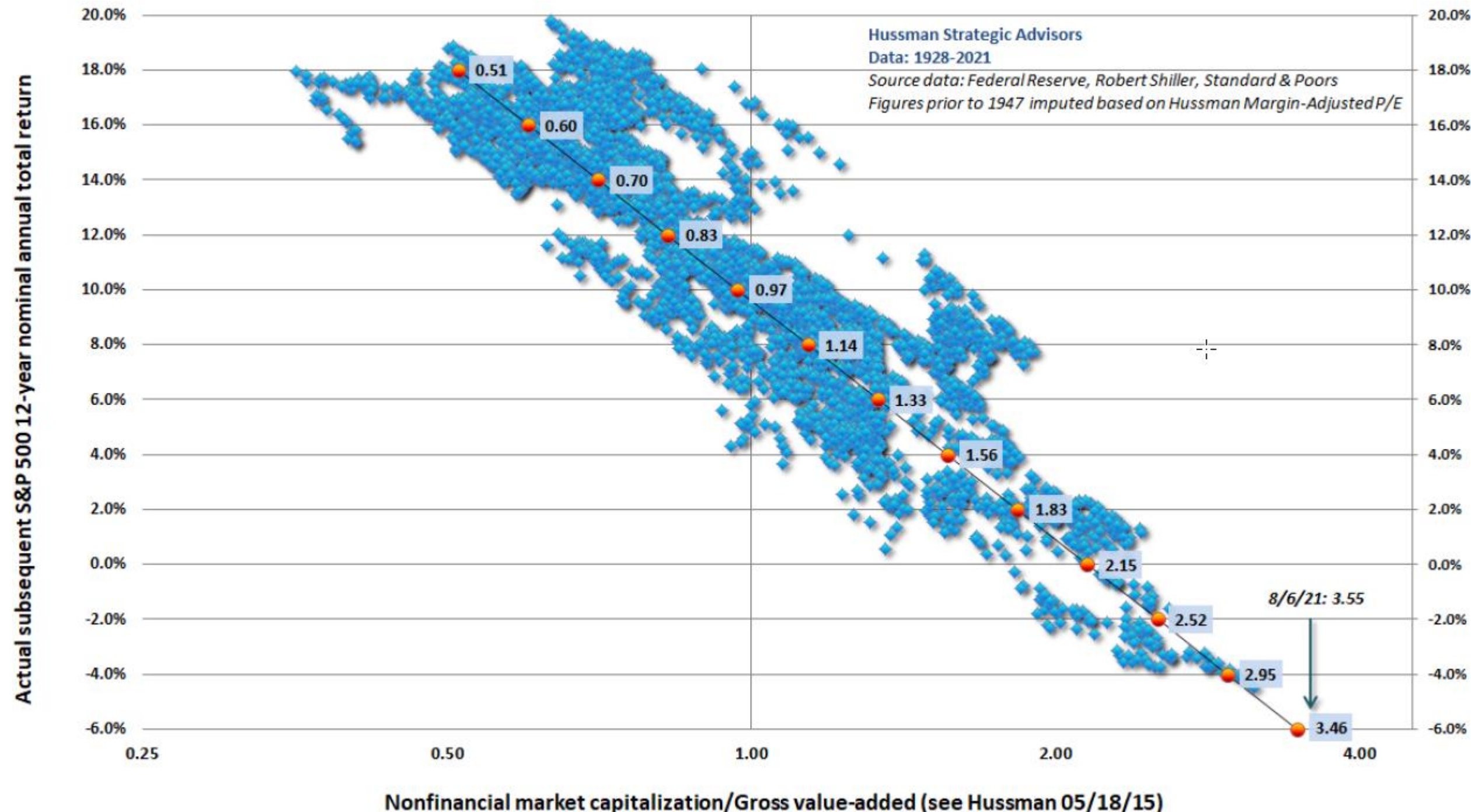
Value risk premium is random (noisy) during S&P 500 bear markets



But, why now

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

Are companies really worth 34% more today, than a year ago?



But, why now

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



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

+44 (0)207 627 0635

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



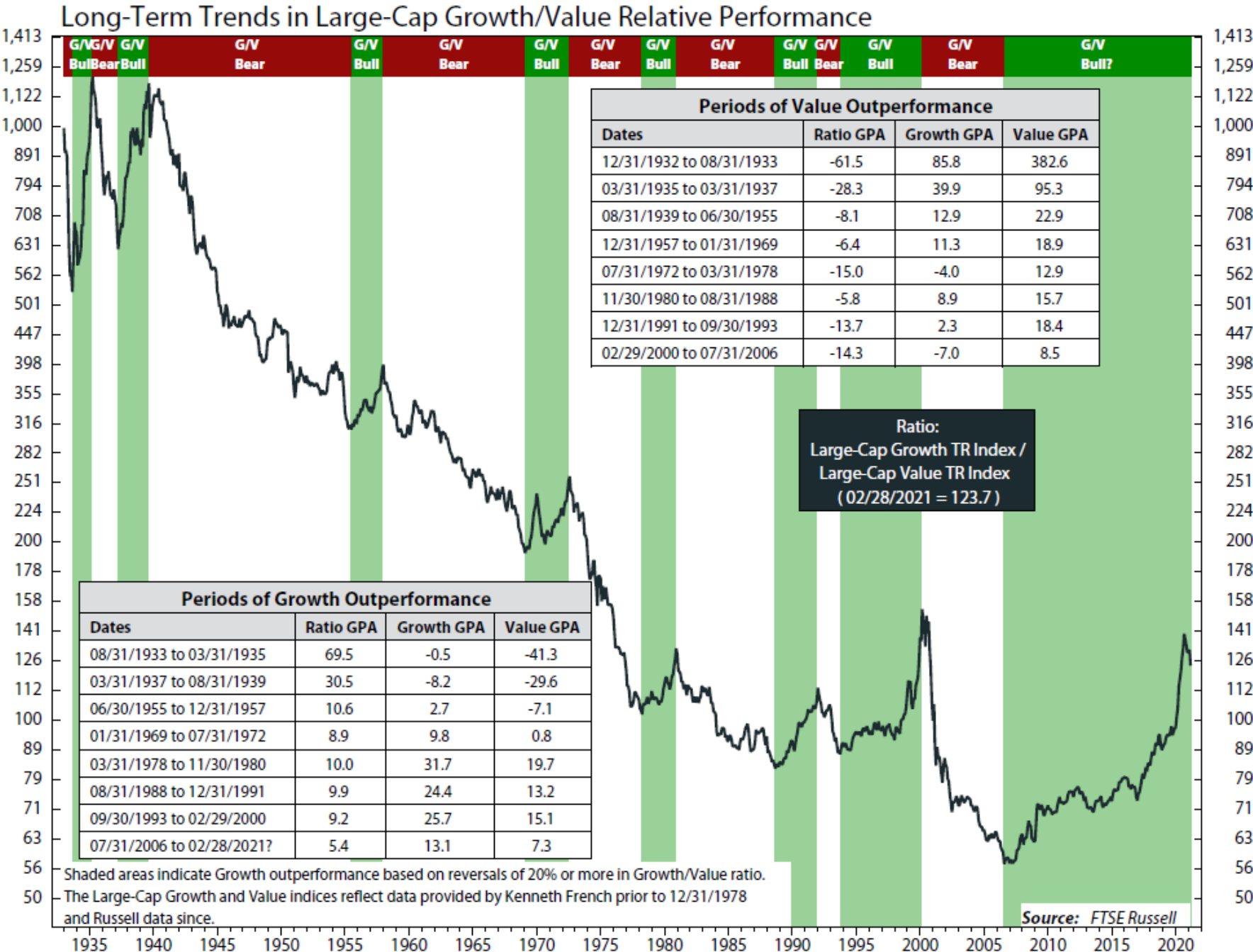
Source; Google Opensource

But, why now

Reason 6 - The growth cycle is long in the tooth

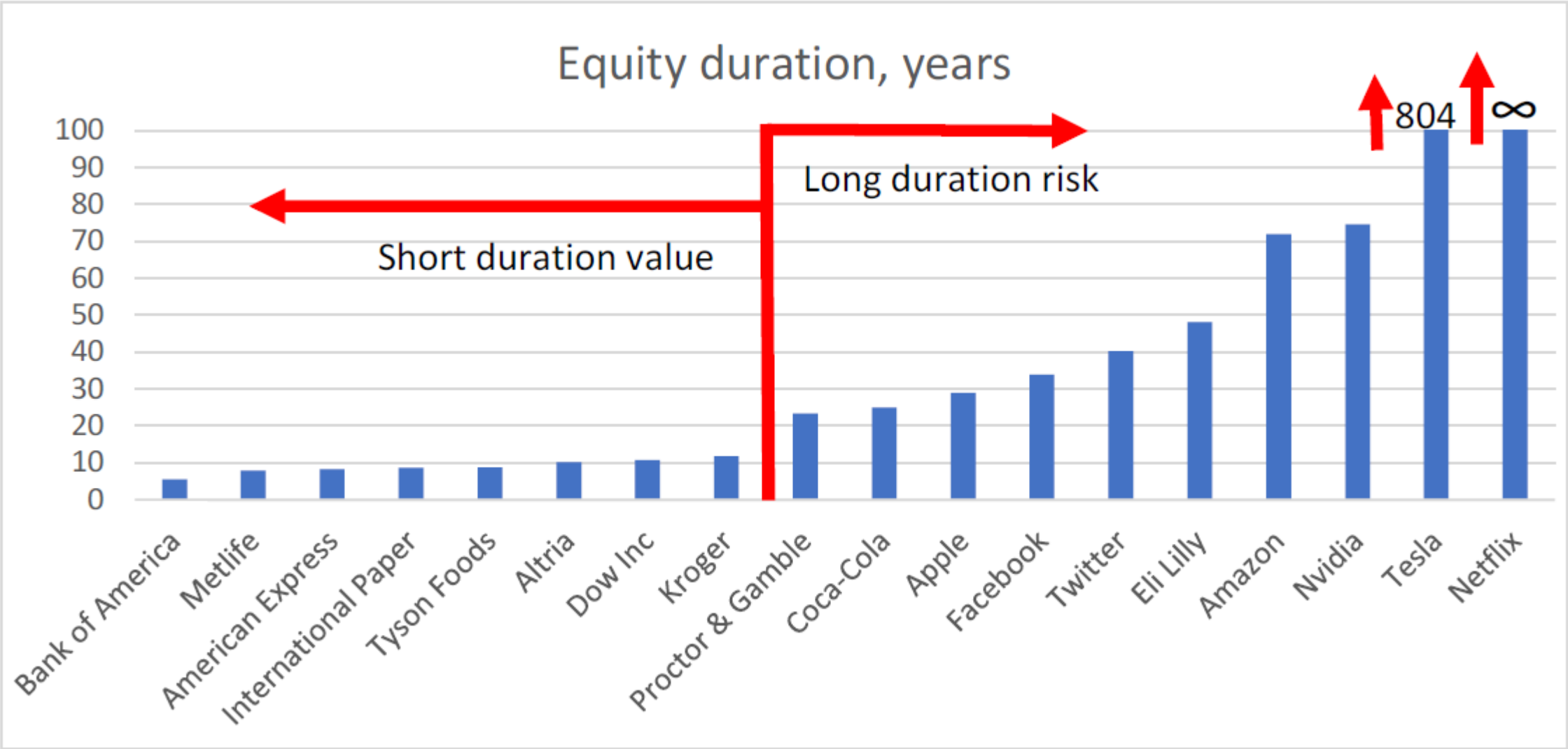
Trees don't grow to the sky

Monthly Data 1932-12-31 to 2021-02-28 (Log Scale)

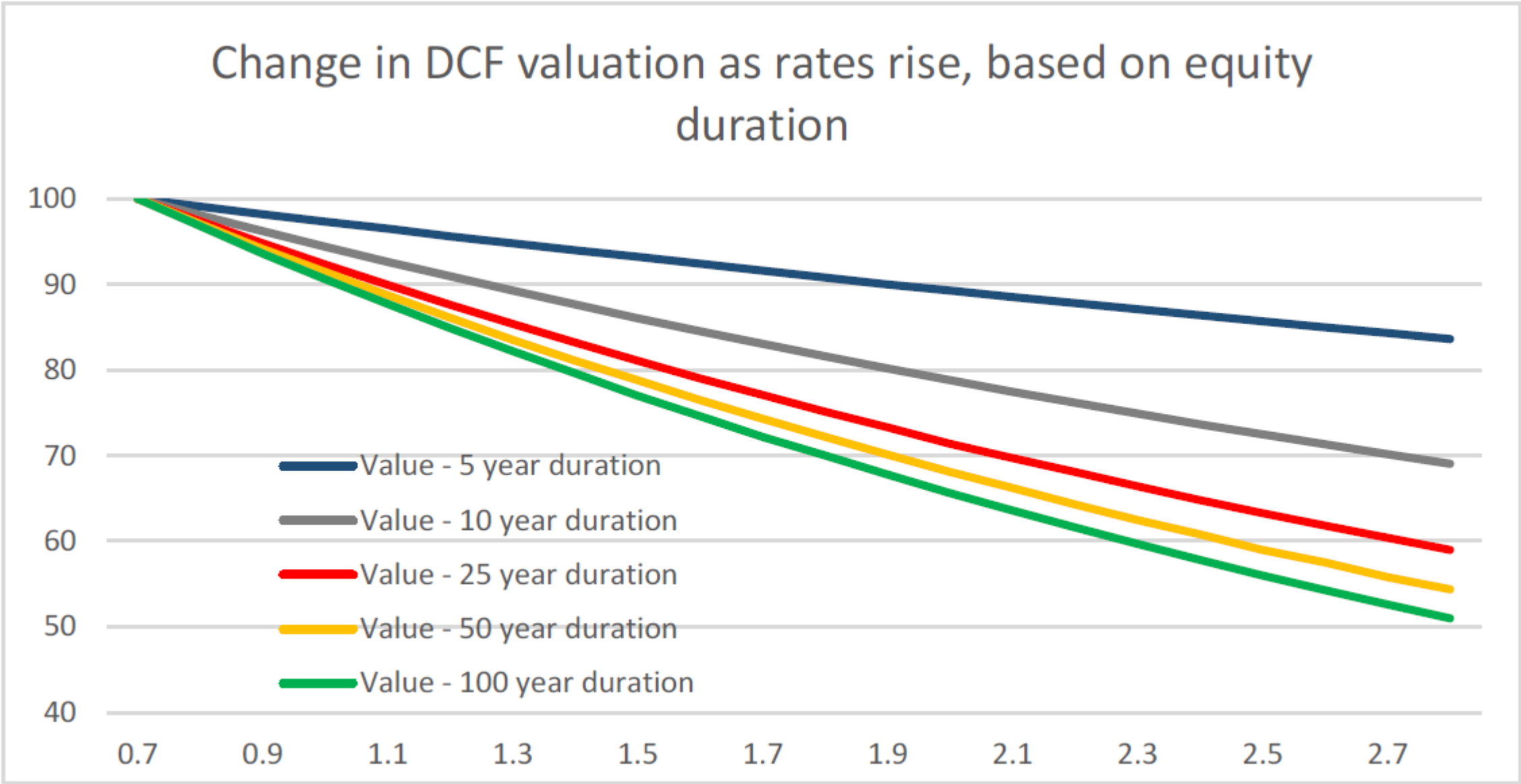


But, why now

Reason 7 - The problem of rising interest rates



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



Source; The MacroStrategy Partnership

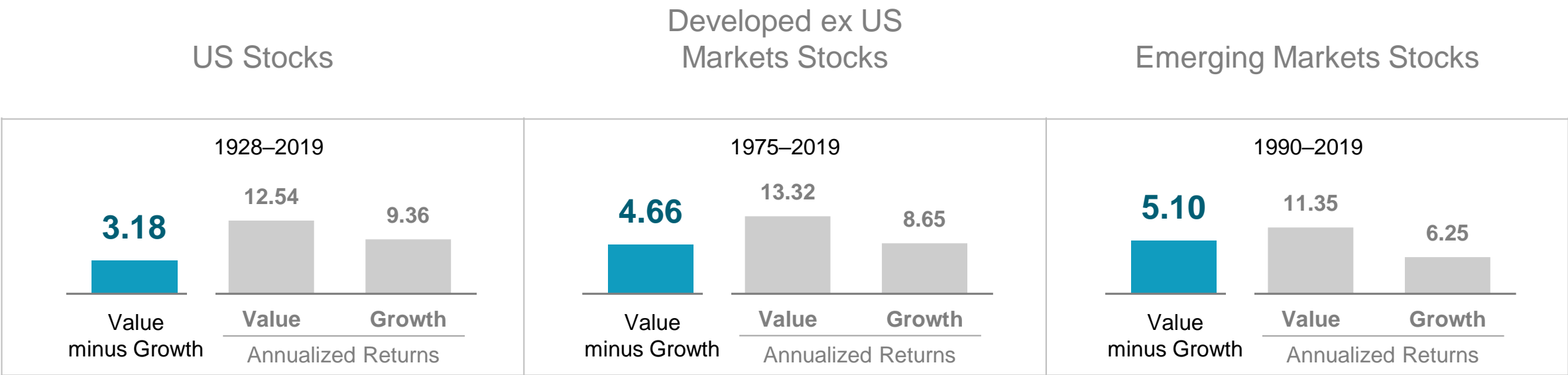
Additional considerations

Observation 1 - Value works across all geographies

Value risk premium across different geographies

Relative Price

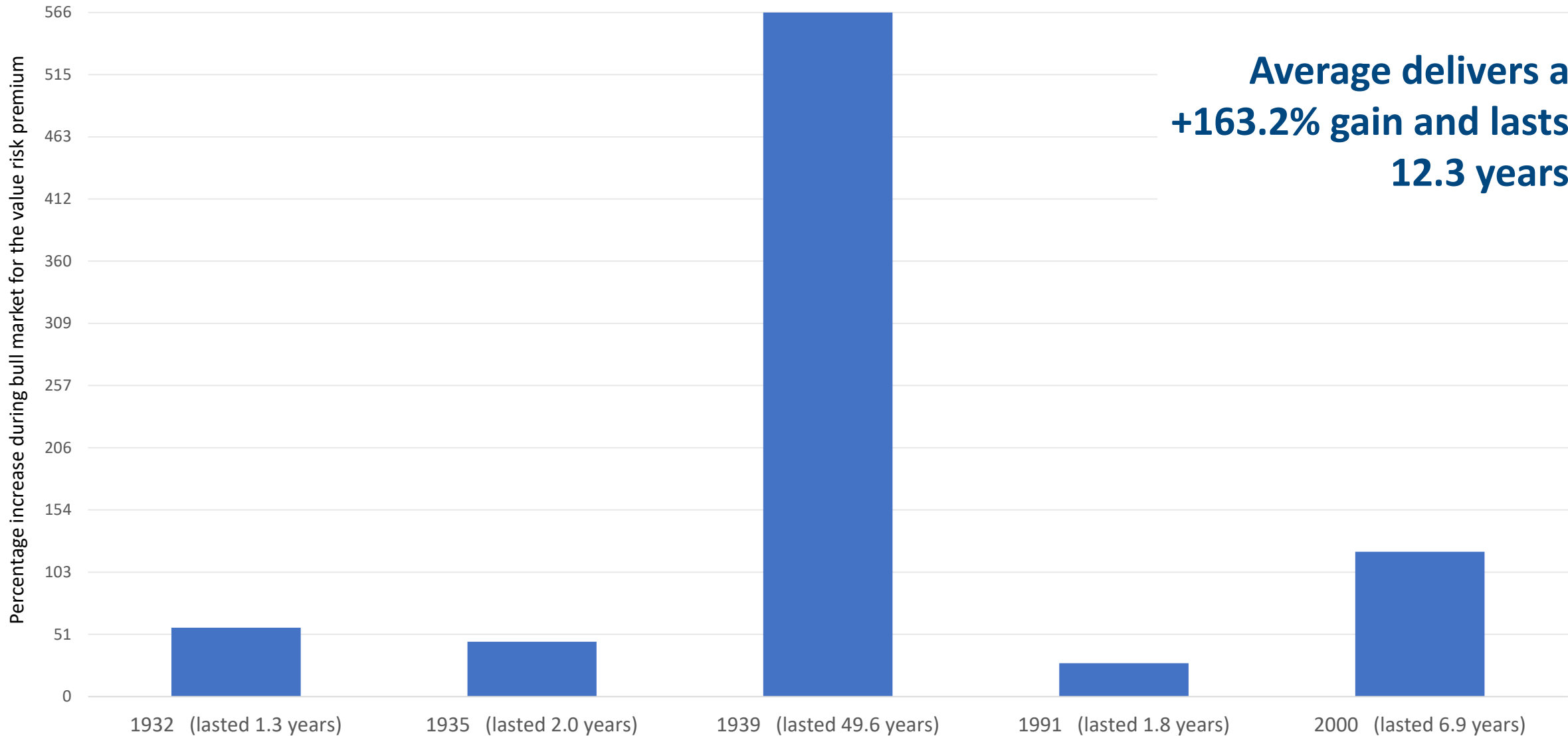
Relative performance of value stocks vs. growth stocks (%)



Additional considerations

Observation 2 - The juice is worth the squeeze

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



Average delivers a +163.2% gain and lasts 12.3 years

Additional considerations

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

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

- Current income
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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 the myopic P/B to identify value

- High Dividend strategy . . . Individual stocks
- ESG strategy . . . Individual stocks

For more information contact



Jeff Megar, CFA
Email jeff.megar@julexcapital.com
Office 781-772-1378



Bob Peatman
Email bob.peatman@julexcapital.com
Cell 617-875-9316

All data and statistics were provided by Global Financial Data, Inc., Hussman Strategic Advisors, Macro Strategy out of London England, and by BCA Research out of Montreal Canada.

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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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