

JULEX CAPITAL

Value vs Growth . . . and Smallcap vs Largecap

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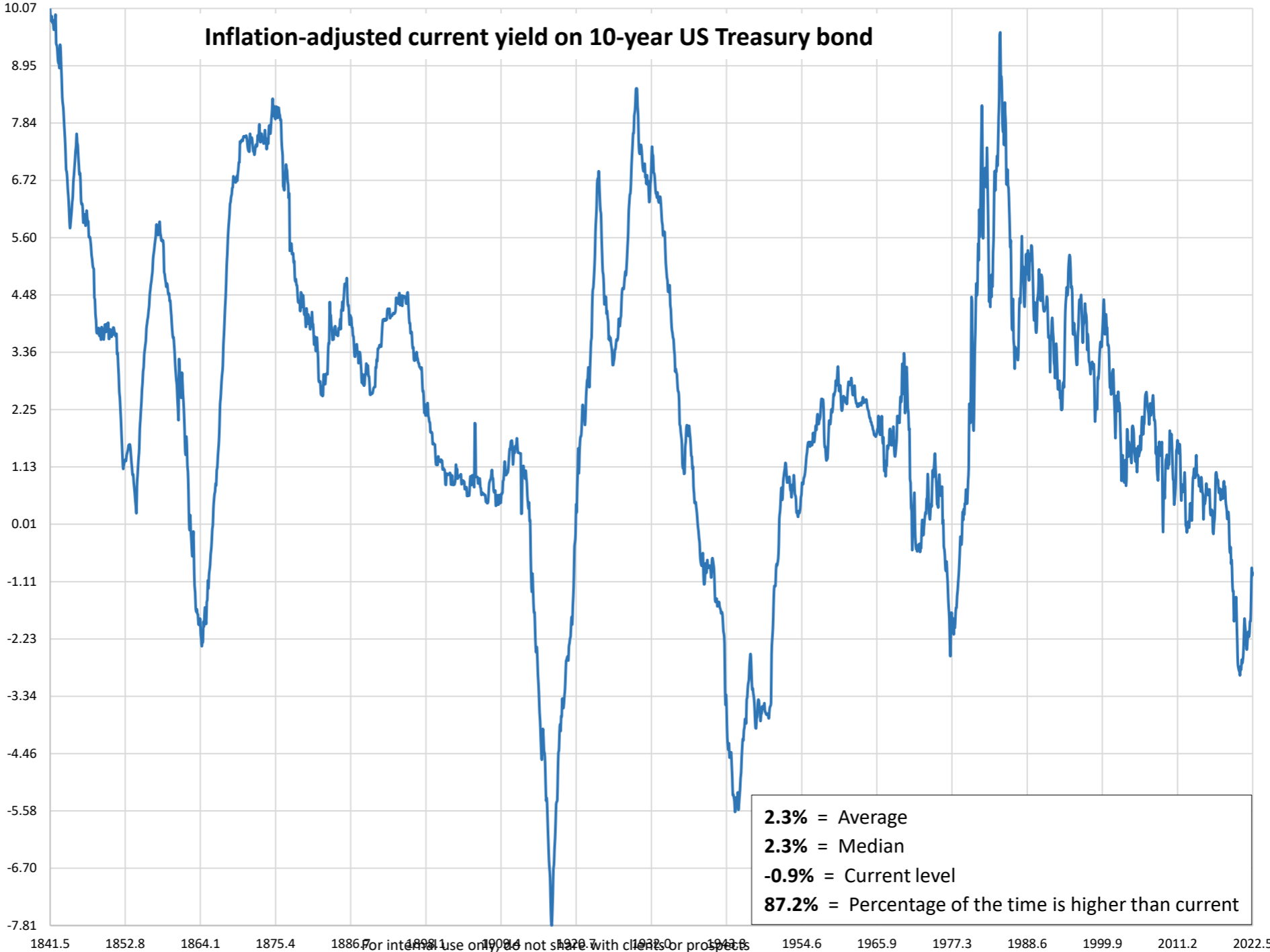
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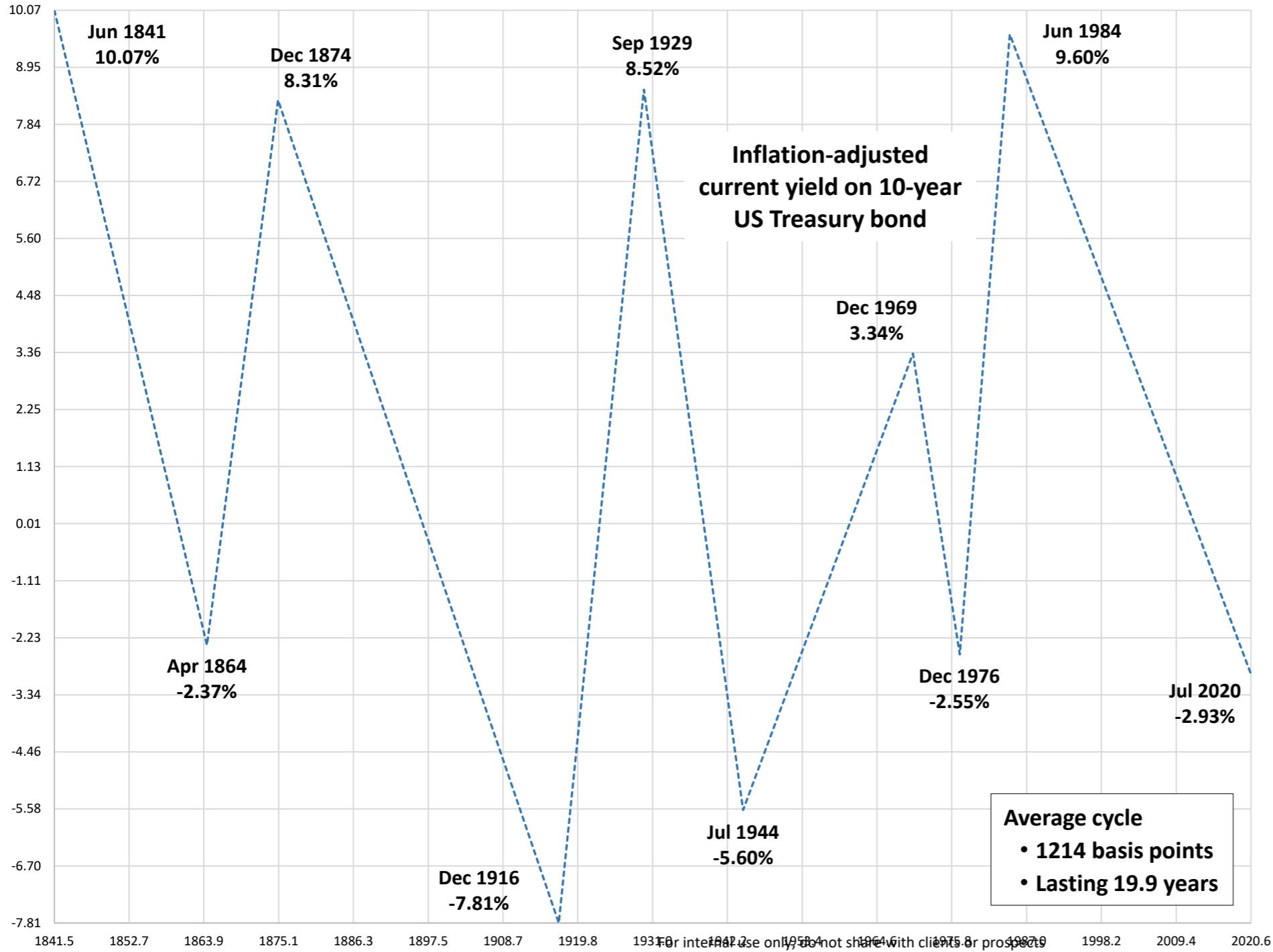
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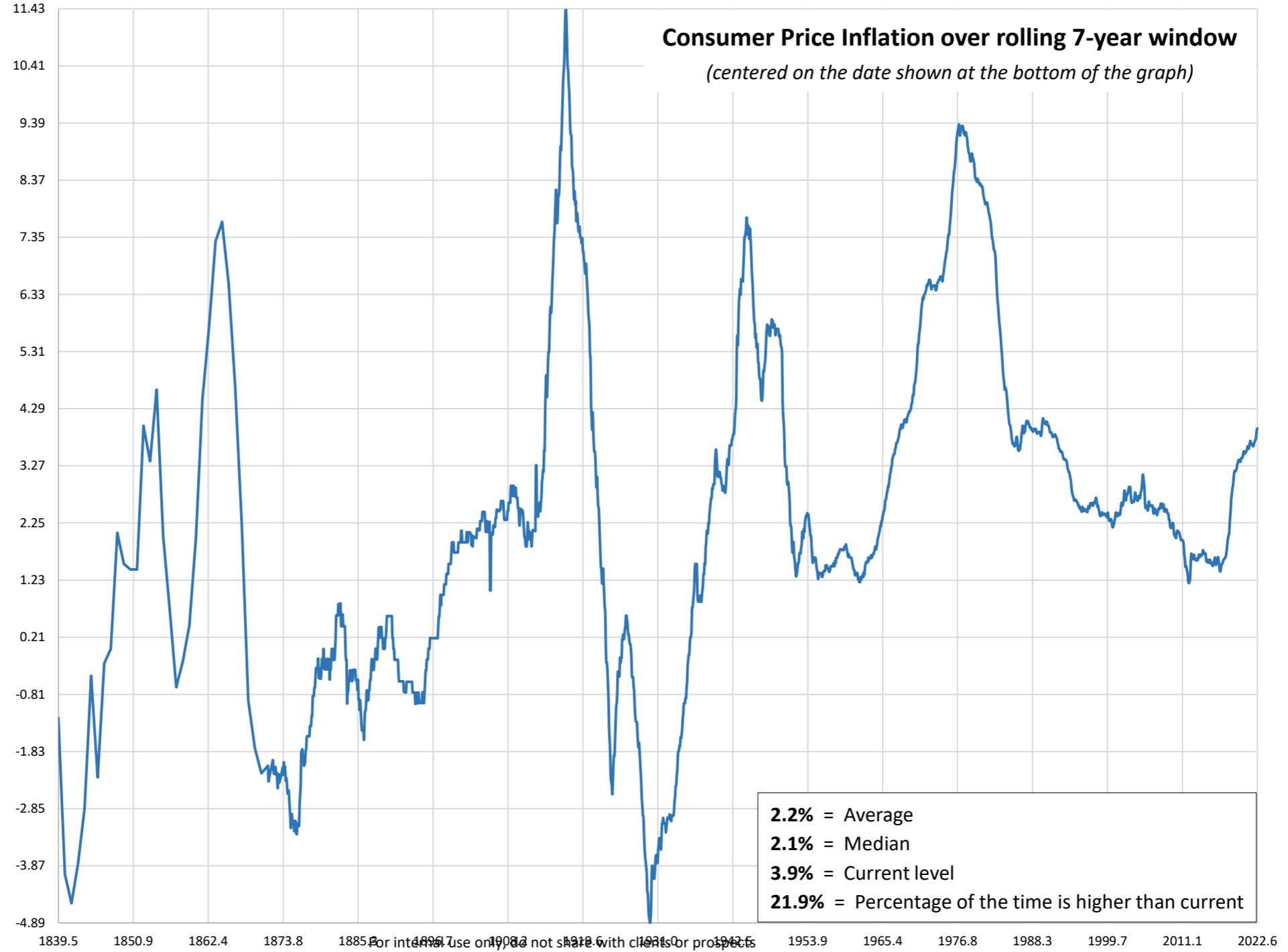
What 10 years from history might be most like the next 10 years

- **Rob embarks on the ultimate fool's errand**
 - I say this because such an effort remains incredibly “impossible”
 - Today . . . is just plain different . . . but it still rhymes
 - And . . . history gives us the all-important context . . . allowing us to interpret “today”
- **But . . . I chose**
 - The 10 years Feb 1973 through Feb 1983
- **Based on my “2-cent” interpretation of where we stand in the interest rate and inflation cycles**

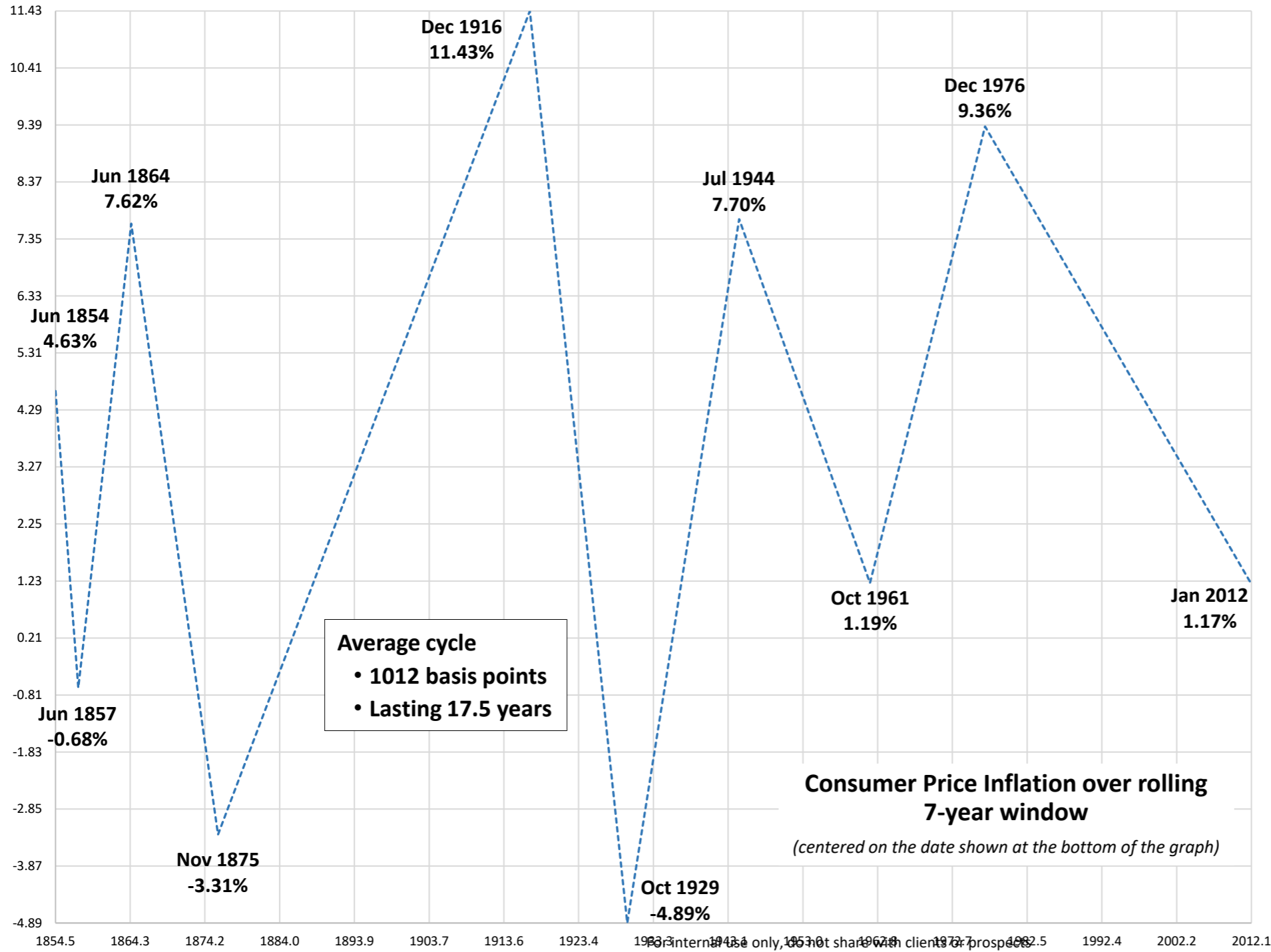


Interest rates - the cycles





Inflation - the cycles



Feb 1973 - Feb 1983

Ten years

- Actual experienced inflation

- Feb 1973 3.9% yoy

- Feb 1983 3.5% yoy

- Expected inflation

- Feb 1973 6.5% point in time

- Feb 1983 5.8% point in time

- Context is all-important

- Inflation hit a high of 14.8% on Mar 1980 yoy

- This level drove . . . vast . . . fear and uncertainty

- This is relevant for today's environment . . . fear, uncertainty, surprise

- **Nominal . . . not adjusted for expected inflation**

- Feb 1973 6.64%
- Feb 1983 10.27%

- **Real . . . adjusted for expected inflation**

- Feb 1973 0.17%
- Feb 1983 4.44%

Asset class returns - Feb 1973 through Feb 1983

- 10-year Treasury bond 7.16%
- Dow Jones investment grade US corporate bonds 8.77%
- S&P 500 7.76%

- BUT Inflation over this exact same period ran at 8.60%

Asset class returns - Feb 1973 through Feb 1983

- 10-year Treasury bond 7.16%
- Dow Jones investment grade US corporate bonds 8.77%
- S&P 500 7.76%
- BUT Inflation over this exact same period ran at 8.60%

• Bottom line . . . at the end of this ten years you'd lost 50% of your wealth to taxes and inflation



- S&P 500 7.76%
- Value 17.55%
- Growth 6.17%
- Small Cap 18.26%
- Large Cap 7.39%

- BUT Inflation over this exact same period ran at 8.60%

- Bottom line . . . at the end of this ten years You did just fine loading up on Value and also Small Cap

Value/Growth and Small/Large - Feb 1973 through Feb 1983

- S&P 500 7.76%
- Value 17.55%
- Growth 6.17%
- Small Cap 18.26%
- Large Cap 7.39%

- Kenneth French Data Library, Dartmouth College
- Based on book value
- “Value” is 30% of the entire market with the lowest P/B ratio
- “Growth” is the 30% of the entire market with the highest P/B ratio
- So this constitutes **deep value** versus **deep growth**

- BUT Inflation over this exact same period ran at 8.60%

- Bottom line . . . at the end of this ten years You did just fine loading up on Value and also Small Cap

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- Bottom line . . . at the end of this ten years You did just fine loading up on Value and also Small Cap

Rob's 2-cents on that 10-years

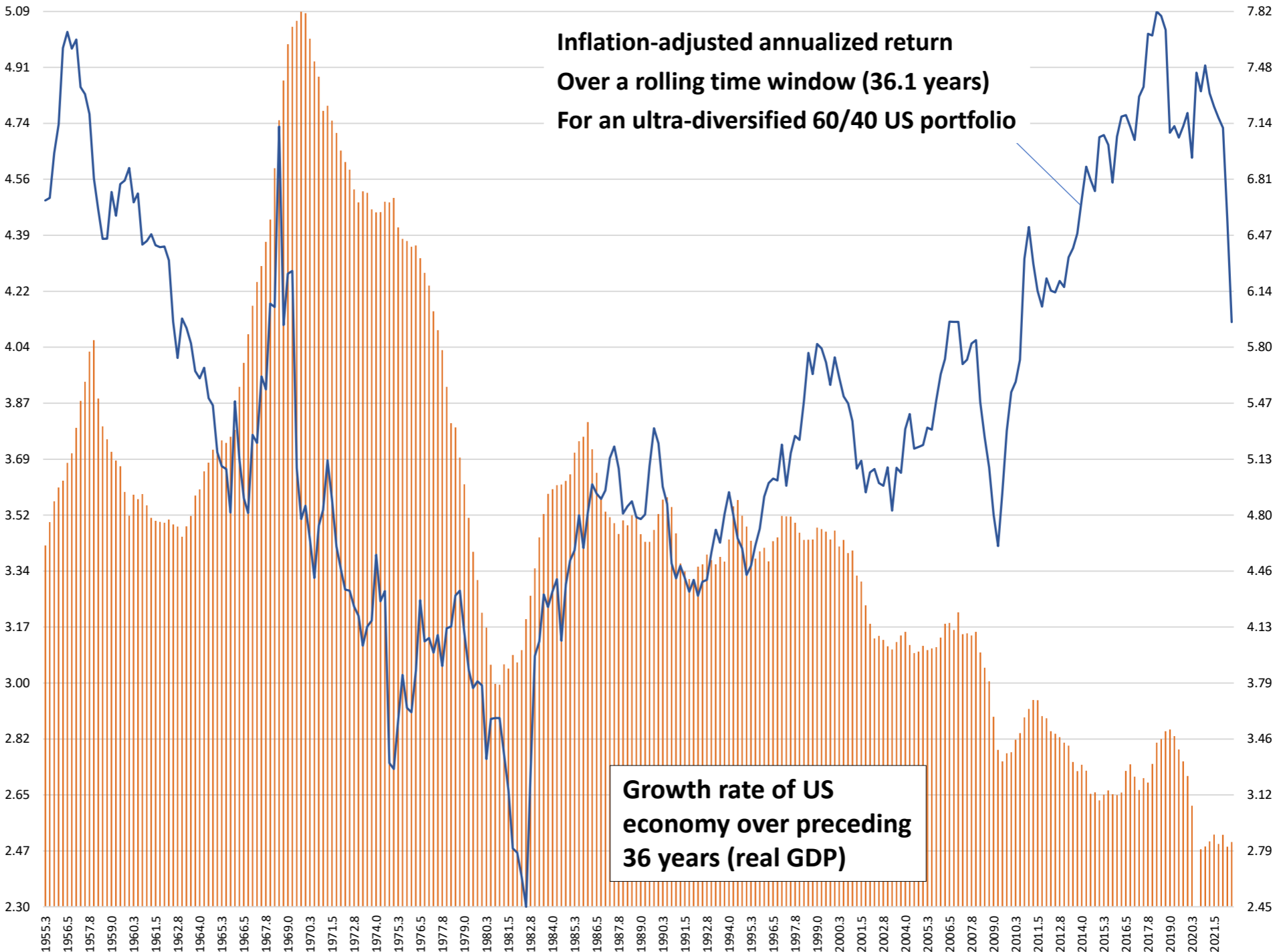
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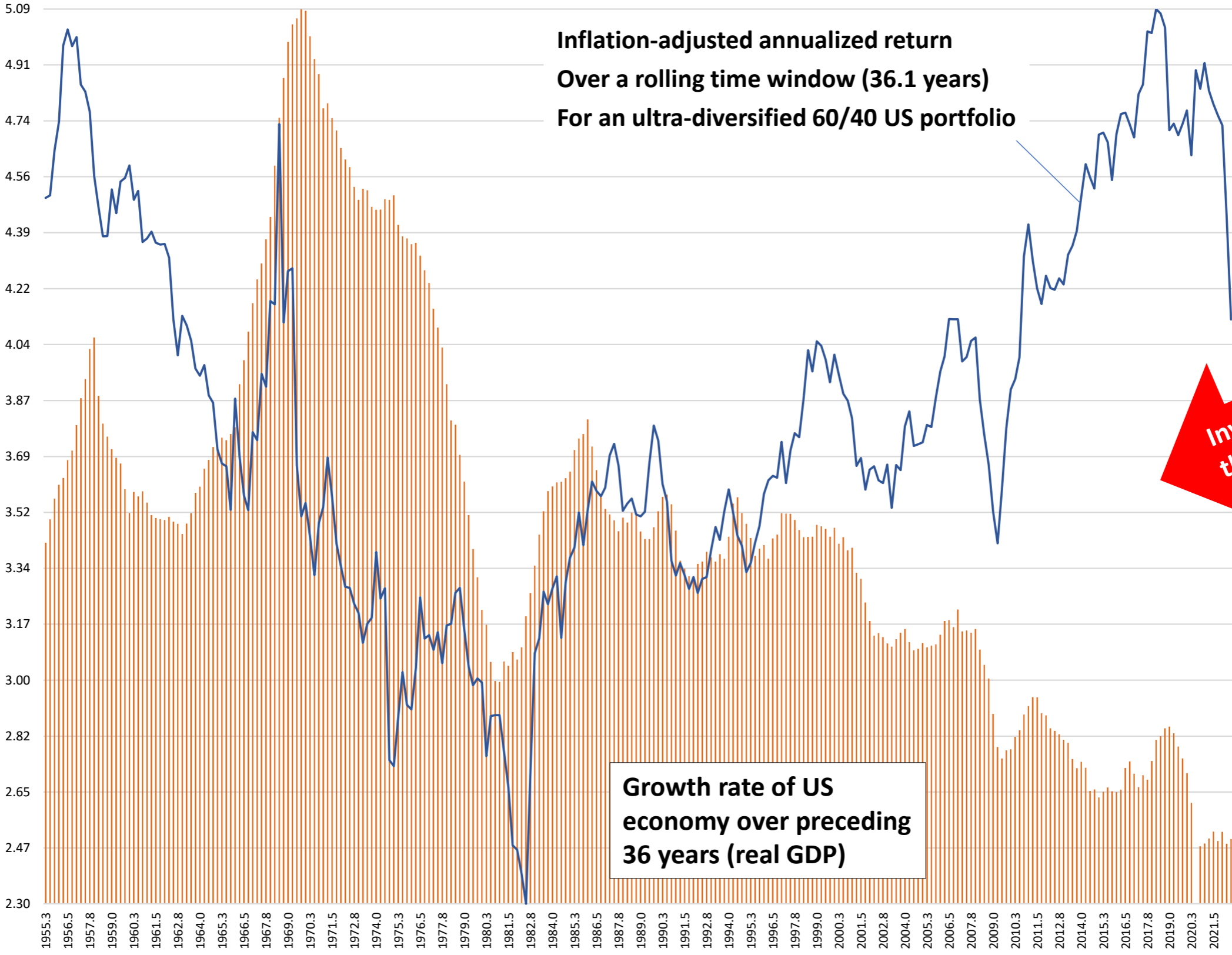
What was really going on

The ten years . . . Feb 1973 through Feb 1983

- We were consolidating
- Failing, dropping the ball, struggling, doubts were rising . . . we'd lost our way
- But . . . **what was really going on** . . . was quite different
- Instead . . . we were preparing for the next ten years (Feb 83 - Feb 93)
- Feb 1983 through Feb 1993 was all about
 - Restructuring
 - Embracing pain . . . and those 10 years did hurt
 - Reinventing ourselves
 - Innovating to a better place
 - Abandoning "*what was*" and replacing it with "*what would be*"

The whale's mouth - Sets up the US 60/40 portfolio for guaranteed failure





**Inflation-adjusted annualized return
Over a rolling time window (36.1 years)
For an ultra-diversified 60/40 US portfolio**

**Growth rate of US
economy over preceding
36 years (real GDP)**

**Investments versus
the economy**

But what about the coming recession

Value vs growth

Small cap vs large cap

The data It's always about the data

- Spans the time period 6/30/1926 through 4/30/2022
- Uses NBER definitions for recessions and expansions

- U.S. has spent **18%** of the time in recession
- And **82%** of the time in expansion
- Recessions are very common but only last 10.3 months (on average since WWII)

- All of the returns are adjusted for inflation
- Inflation was subtracted out

- WHY?
- Because inflation has varied to such an extreme extent over the last 100 years, that without inflation adjustment the numbers are meaningless

Different asset categories

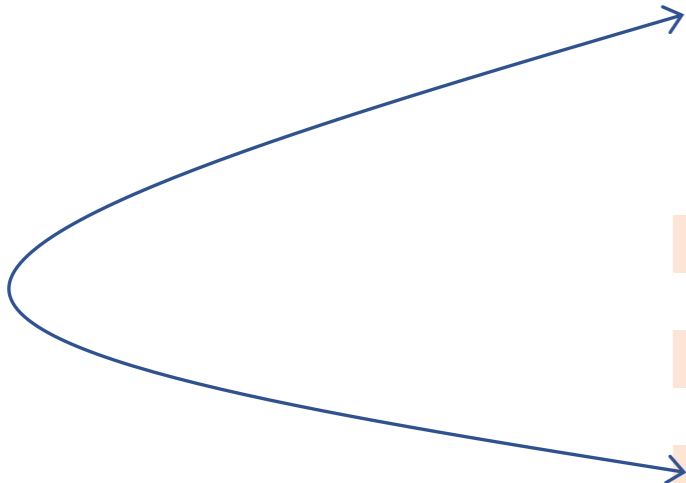
Asset category	Annualized returns during	
	Recessions	Expansions
100 largest companies (S&P 100 Index)	-5.3	10.1
10-year US Treasury bonds	9.8	0.3
30-year US Treasury bonds	10.9	0.5
5-year US Treasury bonds	8.8	0.1
90-day US Treasury bills	3.2	-0.2
British stocks	-8.6	8.9
Diversified commodities	-12.6	5.9
Dow Jones corporate bonds (investment grade)	6.8	2.7
Dow Jones Industrials (30 extra large companies)	-6.2	10.2
Emerging market equities	-6.0	8.4
Gold	4.7	1.2
Health Care - S&P 500	2.9	9.8
International developed country stocks	-8.1	7.6
Japanese stocks	-11.1	6.7
Large cap growth	-5.6	9.3
Large cap value	-9.6	11.9
Long-term AAA-rated corporate bonds	8.0	1.8
Municipal bonds AAA-rated	6.6	-0.3
Oil	-14.7	4.2
Palladium	-14.8	4.4
Platinum	-18.2	3.6
Small cap	-11.6	13.0
Utilities - S&P 500	-3.5	8.0

Recessions - worst and best

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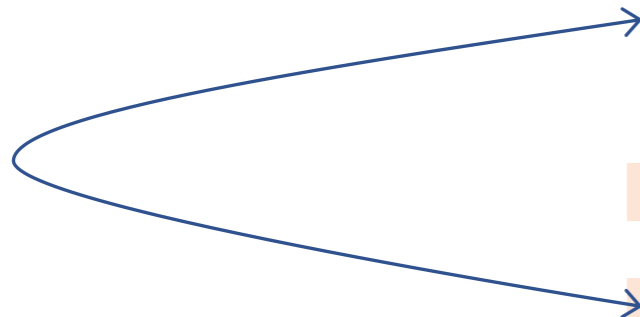
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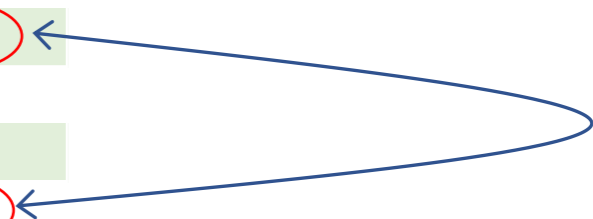


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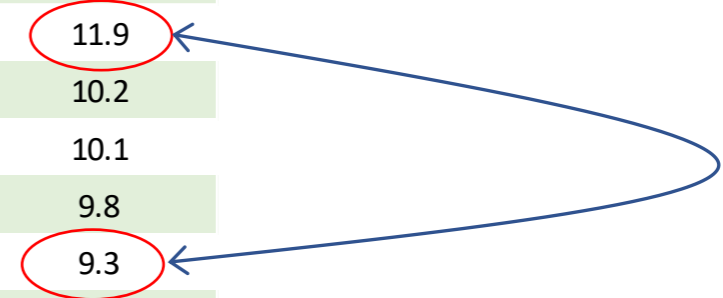
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Serving needs 0 to 5 years in the future, the landscape has changed !!

Friday

September 30th

11:00 a.m. EASTERN

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