



## *Growth or Value?*

Modern portfolio construction calls for several, varied decisions regarding size and quality of equity investments. One such decision making has to do with the appropriateness of Growth or Value stocks or some combination of the two. First a review of the differences should be made.

### **Types Defined**

Characteristics of Growth stocks include rapidly growing companies compared to the market in general. As these companies retain as much earning as possible to grow the businesses, dividends, if they exist at all, remain small. Perhaps the best known Growth stocks currently include Facebook, Amazon, Netflix, and Google, collectively known as the FANG stocks. Over the last several years, investment in Growth stocks has been the place to be.

Value stocks behave, not the opposite of Growth types, only differently. On the buy side of the equation, investors look for stocks that pay large dividends, and currently sell at a discount to the marketplace. Major industries whose companies are trading at big discounts to the book values include banking, oil and gas, and basic resources.

### **Trends**

Now, how well have Growth and Value performed in the recent past?

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Annualized 5 Year Return</u>
<b>Large Growth %</b>	1.56	17.98	32.46	14.38	7.71	14.35
<b>Large Value %</b>	2.23	12.89	28.92	9.24	-1.43	9.88

*All above calculated as total returns by Morningstar.*

Within the Large Cap universe Growth has beaten Value, pretty much for the last 5 years, but note the recent years 2014 and 2015 where Growth grew considerably more than its counterpart. Now, the trend appears to favor Value. In March J.P. Morgan made note of the fact that there has been a market shift from Growth to Value. Slower U.S. economic growth, a flat dollar, some improvement in the Chinese economy, and stable, rising commodity prices (oil, in particular) have driven this rotation from Growth to Value. Furthermore, these trends likely will remain in place for the next few quarters. Barron's made note, also in March, of the fact that "Value stocks are poised to take the baton from Growth shares." Finally, note comments from well respected Research Affiliates in Newport Beach, Ca. stating that investors now should "dump Quality (Growth) stocks and buy Value stocks." His reason reflects the fact that Quality has performed so well in the recent past, Value is due its "day in the sun."

### **"Dogs of the Dow"**

High yield stocks this year have captured an important group of investors. Disenchanted by low bond yields, (10 year Treasury bonds yield only 1.76%) these investors have turned their attention to high dividend paying stocks, certainly a Value trait. These companies include J.P. Morgan Chase (3.05% dividend yield), Boeing (3.41%), Caterpillar (4.14%), and Exxon Mobil (3.51%). These "Dogs" may indeed perform well as the Value trend continues.

### **From Here**

Probably the best advice for investors remains, do not to try to time the market. This same rationale applies to decisions with respect to Value or Growth. "Keep feet in both camps," and over time investors will be rewarded most effectively.