

Is there Still Value in Value Investing?

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I read an article recently that I thought was very good, I'd like to share some thoughts on it. It coincides with part of our philosophy on investing. It's regarding the value premium, which has been studied for many years and made famous by Warren Buffett and Benjamin Graham.

In a recent article by Dimensional Funds, they discuss the gap between recent returns of growth funds and value funds. During the first 84 years of data (tracked from July 1926-June 2010), Value Funds outpaced growth funds by 3.8% (12.8% for Value/9.0% for Growth). Since that period ends in 2010 it takes into account the great depression, the "Dot Com" era and the downturn section of the financial crisis.

However, during the next 7 years (July 2010-June 2017), value actually outperformed its 84-year average at 14.3%, which is 1.5% above average. At the same time growth did 16.6%, or 7.6% above its average. From this we see that Value did fairly close to its average but outperformed while growth did almost double its average.

The final piece of this experiment was from July 2017 to June 2020, 3 years. In these 3 years, Value's return was a whopping -3.3%, which is 16.1% below its average, while Growth stocks did 17.9%, 8.9% above its average.

We believe that reversion to the mean is a strong factor in finance. Now I must tell you, I first read this article when it was written back in October 2020. But at that time, it was our believe that in the future that Value would outperform Growth. This was for 2 reasons, first, reversion to the mean. If Growth has well outperformed its average, the law of large numbers would state it would revert back to its mean, meaning that it would probably underperform its average. Over the past 10 years growth grew at 16.99%, so we would assume it would potentially grow below 9.0% to get back to its mean. While value, which had a 10-year return of 9.02% would outperform its mean of 12.8% to get it back to the mean. This would lead us to believe that value would outperform growth.

The second reason we believed this is the 94-year average. If we take the most recent 10 years and add them to the 84 previous years, we would have an average of 12.4% for value, down from 12.8% and 9.9% for growth, up from 9%.

Below you can see a picture from our financial software, Koyfin, that shows over the past 3 and 6 months, and year to date that ins small cap, mid cap, and large cap value has beat growth and it is quite possible that this could continue as we discussed above. (Side note, we can surely see the size premium here too, Small has well outperformed large).

Looking Back on an Unprecedented Year

Ticker	Name	Last Price	Price Chg % (1D)	Price Chg % (1W)	Price Chg % (1M)	Price Chg % (3M)	Price Chg % (6M)	Price Chg % (YTD)
• IWN	iShares Trust - iShares Russell 2000 Value ETF	144.17	2.05%	3.16%	11.37%	33.91%	53.63%	9.43%
• IWM	iShares Trust - iShares Russell 2000 ETF	213.94	2.00%	4.60%	12.42%	31.49%	53.34%	9.12%
• IWO	iShares Trust - iShares Russell 2000 Growth ETF	311.78	1.92%	5.98%	13.52%	29.27%	52.90%	8.75%
• IJJ	iShares Trust - iShares S&P Mid-Cap 400 Value ETF	91.58	1.17%	1.85%	8.10%	26.49%	40.68%	6.12%
• IJH	iShares Trust - iShares Core S&P Mid-Cap ETF	244.12	0.97%	2.25%	9.07%	22.87%	39.54%	6.22%
• IJK	iShares Trust - iShares S&P Mid-Cap 400 Growth ...	76.77	0.64%	2.72%	9.92%	19.94%	38.47%	6.30%
• EEM	iShares, Inc. - iShares MSCI Emerging Markets ETF	55.13	0.93%	4.41%	8.69%	19.74%	28.36%	6.70%
• IWD	iShares Trust - iShares Russell 1000 Value ETF	141.96	0.37%	1.79%	4.88%	15.41%	25.42%	3.83%
• IWV	iShares Trust - iShares Russell 3000 ETF	228.29	-0.15%	1.84%	4.44%	10.94%	24.70%	2.12%
• IWB	iShares Trust - iShares Russell 1000 ETF	215.14	-0.32%	1.53%	3.83%	9.58%	22.93%	1.56%
• IDEV	iShares Trust - iShares Core MSCI International De...	63.77	0.66%	0.71%	4.58%	15.09%	22.75%	3.47%
• IWF	iShares Trust - iShares Russell 1000 Growth ETF	239.73	-0.90%	1.44%	3.12%	4.67%	20.88%	-0.58%
• SPX	S&P 500	3,797.58	-0.32%	1.32%	3.66%	8.13%	20.36%	1.11%
• INDU	Dow Jones Industrial Average	31,016.80	-0.13%	0.61%	3.23%	8.15%	18.90%	1.34%

Data as of close on January 14, 2021

As you probably know, value and small were hit the hardest by COVID-19; however, it seems that they have both benefited strongly from the vaccine news and rebound we saw in 2020. Especially Large Value v Large Growth. We expect this to continue as the \$1,400 extra stimulus package is passed through the House and Senate. So, we do believe there is still **value in value investing**, especially in the short term, but also the long term.