

VALUE VS. GROWTH

Blog Post



Over the past decade Growth Stocks have been the primary driver of the US stock market's outperformance as compared to the rest of the world. As of December 11th, the S&P 500 Growth index has outperformed the S&P 500 Value index by just over 6% per year over the last rolling 10-year period. Considering monthly compounding, a \$10,000 investment in the S&P 500 Growth Index would have turned in to \$41,517, while the same investment in the S&P 500 Value Index would have only turned in to \$22,240.

Growth stocks are typically expected to grow their sales and earnings faster than the market average. A higher-than-average Price/Earnings ratio is also a characteristic of a Growth Stock, as well as higher than average market volatility. Stocks that are considered Growth Stocks rarely pay dividends as they prefer to reinvest profits back into the company.

Value stocks are usually seen as trading below the fundamental value of their business. Often, Value Stocks pay a relatively high dividend yield compared to their market peers and carry a below market average Price/Earnings ratio. The majority of the time, Value Stocks have less volatility than their counterparts.

While the growth side of the spectrum has been the place to be for the past 10 years, that isn't always the case. From 2000-2008 Value stocks got the better of Growth stocks. The rotation of outperformance between Growth and Value tends to go in cycles. We have talked about these types of rotations often over the past few years in defense of the underperformance our International Holdings have provided as compared to the US Market.

Knowing that we will never have a crystal ball to tell us exactly when these things will flip, diversification will always be a key component of our portfolios. Market rotations can happen quickly, and it is important to make sure you have exposure to a broad range of asset classes. It is easy to get blinded by the eye-popping returns of some of the biggest Growth Stocks; Amazon, Apple, Microsoft, Facebook, Google, Netflix, Tesla. It is important to keep in mind that we are building an "All Weather" portfolio that will perform well relative to the market over the long term, not trying to chase the hottest Growth Stocks. At some point Value Stocks will come back in to favor and some of our holdings will be in a great position to add value to our client's portfolios.

Please contact us to discuss your portfolio at landmark-info@wealthenhancement.com .