Is Growth Ready To Outperform Value?

Value Has Outperformed Since September 2000

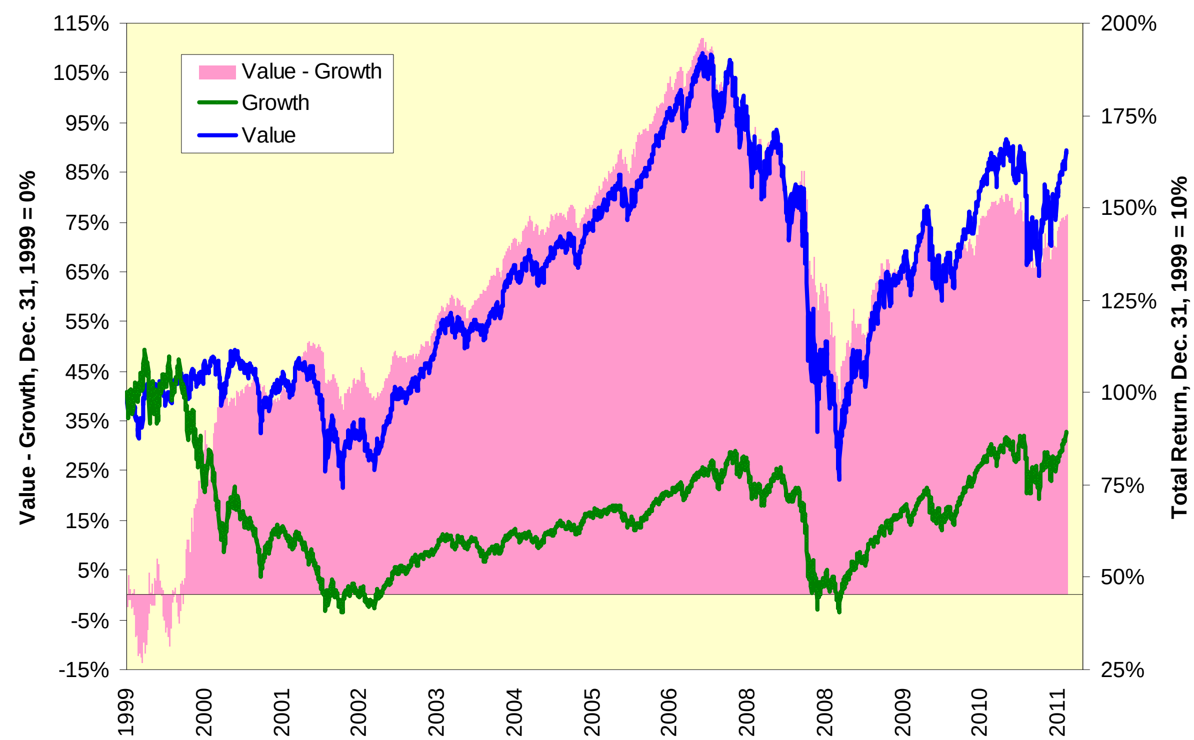
Which should you believe this Valentine's week, your cheating heart or your lying eyes? While you sort out the implications, I will turn to that ultimate conundrum keeping us from our rest, the division between value and growth stocks.

Why do fools fall in love? Because they are fools. Why do investors divide the world between value and growth? Because they are fools. The differences between the two categories are remarkably subjective and center on price-to-book ratios and expected earnings growth rates. The Russell 3000 Value and Growth indices have 2,004 and 1,742 members at present, which exceeds the 2,936 members of the Russell 3000, which means 810 stocks have proportional representation in both indices. If human gender divisions were so muddled, at least one common insult would so possible as to lose all meaning.

Value's Long Dominance

If we re-index the Growth and Value indices to December 31, 1999, we find Value has outperformed Growth since September 21, 2000; this was just after long 1982-2000 bull market reached its secondary and final peak and we began that long day's journey into night, or something similar thereto. This outpeformance is even more stunning when you consider the financial sector accounts for 11.5% of the Value index and only 3.4% of the Growth index. If you owned Value, you owned Bank of America (BAC), Citigroup (C) and a number of other stocks in the dearly departed category.

Value's Long Run Of Outperformance



It gets even stranger. Value has outperformed Growth since the November 30, 2011 expansion of currency swap lines by world central banks, 14.88% to 13.51%. The standard deviation of Value's returns has been higher as well. You would think in a world amped-up by central bank easing, the higher-beta stocks would have charged ahead and been more volatile; you would have been wrong on both counts.

Of course, the last three months have been very kind to growth stocks such as Inhibitex (INHX), Cobalt International CIE), Amicus Therapeutics (FOLD), Affymax (AFFY) and Dendreon (DNDN). The dispersion of individual stock returns in the Growth index has been and generally always will be greater than that of stocks in the

Value index. However, if you are trading a broad index ETF such as the IWW for the value stocks or IWZ for the growth stocks, you would have received higher returns and greater volatility in value.

Going forward, I think there are going to be some surprises. The industrial and technology sectors, both populated heavily with growth issues, have outperformed the broad market since the end of November. If the long secular bear market in place since 2000 is drawing to a close – and let's remember no one will ring a bell when this happens – I would expect the next decade to see growth outperform value.