

Markets

## **Will ‘value investors’ win in 2017?**

Value investing enjoyed a turnaround in fortunes in 2016, but after many years of underperformance compared with growth could 2017 be the year for value investors?

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Value investing, the discipline made famous by the legendary investor Benjamin Graham in the 1930s and 1940s, fell out of favour after the global financial crisis.

Investors have instead preferred to pay a premium for more dependable stocks rather than back those unloved by the market. That trend may be turning around.

### **What is value investing?**

Value investing is the art of buying stocks which trade at a significant discount to their true value, stocks that are overlooked without good reason. Benjamin Graham’s 1949 book, *The Intelligent Investor*, is regarded as the value investor’s bible.

Kevin Murphy, a Schroders fund manager who specialises in value, said: “Value investing seeks to exploit the irrational behaviour of emotional investors.

“Emotion is a constant feature of investment markets through time and while the companies available to stockmarket investors change from decade to decade, the human nature of the investors themselves doesn’t.

“Fear and greed remain ever present and frequently lead to poor investment decisions based on perception and emotion rather than reality.”

### **How do I identify value stocks?**

It is not easy, otherwise everyone would do it. However, a value investment might display some of these characteristics:

However, even if an asset exhibits all those characteristics, it does not guarantee it’s a true value investment. Investors must be aware of the “value trap” – a value opportunity where there is no trigger for revaluation. Identifying true value stocks requires in-depth analysis.

### **When were the best value opportunities?**

Examples of extreme mispricing were during the tech bubble of the 1990s, when investors were obsessed with racy growth stocks, and the Great Depression of the 1930s. Today’s market, with value out of favour, may also offer a good entry point.

### **What is a growth investment?**

Growth investing is a different discipline from value. Growth stocks grow profits faster than average, and are expected to continue to do so. Investors are happy to pay a premium for this.

## **Which has performed best: value or growth?**

As the chart below shows, value stocks delivered better returns than growth stocks most years in the Eighties, Nineties and Noughties. But this has not been the case in recent years.

Value has underperformed growth for the longest period since records began in 1974 and is currently trading at the widest discount to growth since the dotcom bubble in 2000.

Central banks' loose monetary policy and low interest rates have forced investors into stocks which are perceived as more stable with predictable profits.

## **Should I consider investing in value or growth shares now?**

History may point to a significant opportunity in value stocks today. The chart below shows the difference in performance between value stocks and growth stocks, according to MSCI indices.

Andrew Williams, a value investment specialist at Schroders, said: "Look on the far right hand side of the chart and there is a small uptick. That is value's 'recovery'.

"While past performance is no indication of future results, we believe it will take more than a few months to unwind the value style's so-called 'lost decade'. Value's recent recovery is nascent in the context of history."

This comes against a backdrop of a shift in economics. Even before Donald Trump won the US election, market expectations were for US rate rises.

Those expectations have only grown given the incoming president's plans to borrow and spend to boost the economy. Arguably, the conditions that held back value stocks are being further unwound.

Please remember that past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

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