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The Case for Value Now

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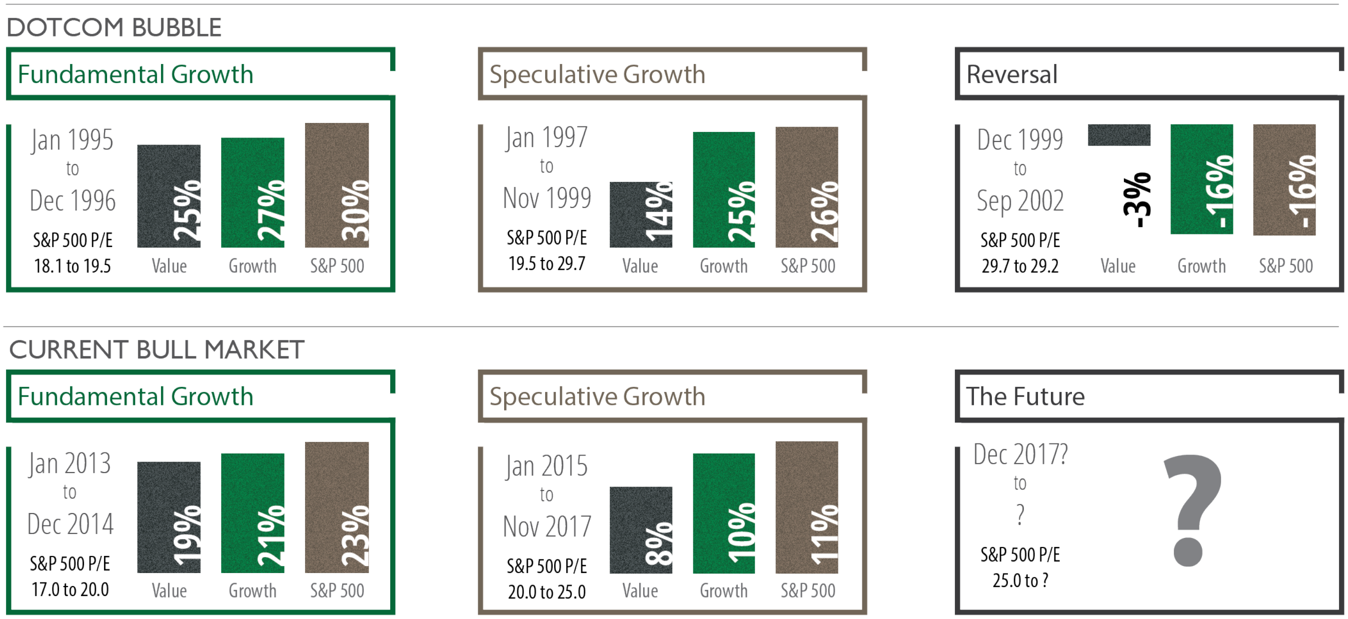
Since the 2009 financial crisis, value investing has struggled to keep up with the broad market and had an even tougher time keeping pace with high-flying growth stocks. This long stretch has led investors to consider dumping their value investments for passive indexing or growth strategies. We think a little long-term perspective is needed and dumping value for growth now could be a costly mistake.



Value is represented by AthenaInvest's US Valuation Benchmark, which comprises all US active equity mutual funds primarily pursuing a Valuation strategy. Growth is represented by AthenaInvest's US Future Growth Benchmark, which comprises all US active equity mutual funds primarily pursuing a Future Growth strategy. For more information about AthenaInvest's Strategy Framework, see https://www.athenainvest.com/strategy-summary. The S&P 500 is total return and the P/E is the trailing 12-month price to earnings ratio. Source: S&P Dow Jones Indices LLC, AthenaInvest, Inc.

As the chart above shows, there have been periods when growth has outperformed value handily while lifting the performance of the overall index. The best example of this occurred in the late 1990's during the Dotcom Bubble. Eventually growth stocks, and specifically internet stocks, became overvalued and returned to earth as market participants refocused on fundamentals. It is at exactly these times that value strategies begin to shine because the stock holdings of such strategies tend to be undervalued investments rather than stocks held in anticipation of future growth.

Value strategies also benefit from the increase in investment demand when investors rotate out of growth strategies. As the bull market is fueled by alluring tech stocks, don't forget about finding good investments at a good price. Hang on to your value investments, their day will come.

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From the Behavioral Viewpoint

What is going on?

1. **Regret** is a powerful emotion. We see growth stocks and the index surging and wish we had been invested in them. This becomes even more pronounced with the media hyping well-known companies such as Facebook, Apple, Google etc.
2. **Anchoring** is very common. We compare our own investment results to investments which the market currently favors and the media is highlighting. This leaves us feeling like we missed out.
3. Investors tend to jump in and out of stocks at precisely the wrong time, buying at the top and selling at the bottom, by following the crowd. This **herding** behavior only increases as categories of stocks surge or plunge.
4. **Immediacy bias** drives present negative emotions around missing out on surging stocks to be stronger than past positive emotions experienced when we developed a disciplined long-term plan.

What can we do?

1. Remember that while one type of investment or asset class may dominate at times, things can and do change. View current market conditions in the context of a longer-term perspective.
2. Take a disciplined approach to rebalancing to effectively capture gains over time and to avoid product and performance chasing.
3. Work with a professional financial advisor who can provide valuable perspective, expertise, education and behavioral coaching.

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