Growth and Value

First Ascent Asset Management

Stocks are often grouped into two distinct categories or “styles:” growth and value.

Growth stocks are stocks of companies that are priced higher than the broad market based on some measure like price-to-earnings, price-to-book, or price-to-sales.

Value stocks are stocks of companies that are priced lower than the broad market based on some measure like price-to-earnings, price-to-book, or price-to-sales.

Performance of Growth and Value

Historically, growth stocks and value stocks have outperformed each other in hard to predict cycles.

- Over the last 50 years (1972-2021) large cap value stocks hold a slight advantage, returning 11.43% on an annualized basis, while large growth stocks returned 11.05%.
- Yet, over the last 40 years (1982-2021), large cap growth stocks have the advantage, returning 12.99% vs. 11.85% for large cap value stocks.
- During that same 40 years, however, small cap value stocks significantly outperformed small cap growth stocks, 13.53% vs. 10.63%. (Source: Portfolio Visualizer)

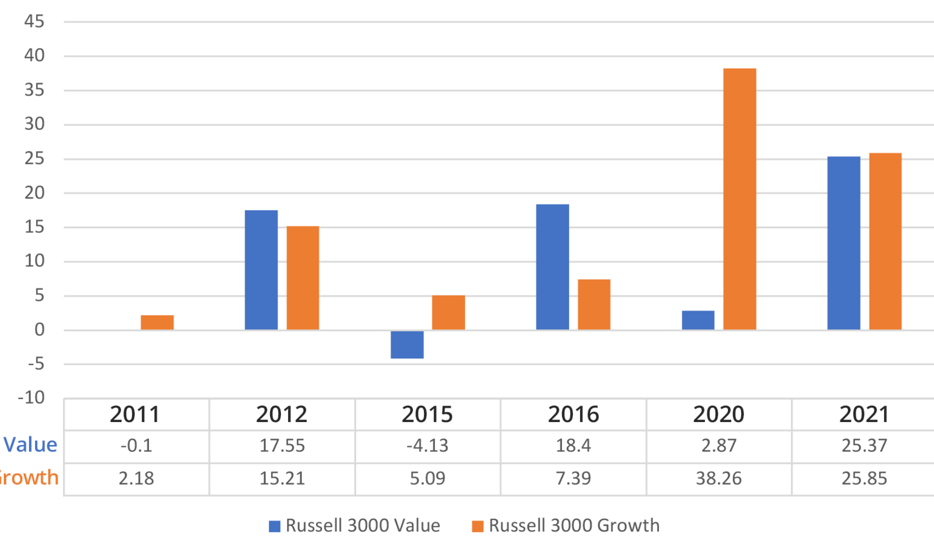
There is no absolute winner. The advantage depends greatly on the period you examine and whether you are looking at the small, mid, or large segments of growth and value. The lead is in constant flux.

On a year-to-year basis the advantage can shift dramatically, as the illustration below demonstrates.

- Value had negative returns in 2011 and 2015 and badly underperformed growth
- In the subsequent years (2012 and 2016), value regained the advantage
- In 2020 growth outperformed value by a huge margin, but in 2021 that margin evaporated

The Advantage Changes Year-to-Year

Growth vs. Value



	2011	2012	2015	2016	2020	2021
Value	-0.1	17.55	-4.13	18.4	2.87	25.37
Growth	2.18	15.21	5.09	7.39	38.26	25.85

Data Source: Morningstar.

What About the Future?

Whether growth or value will have the edge in the future is the subject of much debate. However, history firmly teaches us that growth and value are likely to go in and out of favor over the coming years.

Given this cyclicality of performance, it may be tempting to try to time investments in growth and value to correspond to their respective periods of outperformance. However, there is no regularity to those cycles and there is no evidence that timing those cycles can be done successfully over the long term.

Including exposure to both growth and value can help in properly diversifying a long-term portfolio.