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Victoria Capital Management, Inc.

Market Musings

A newsletter brought to you by Victoria Capital Management, Inc.

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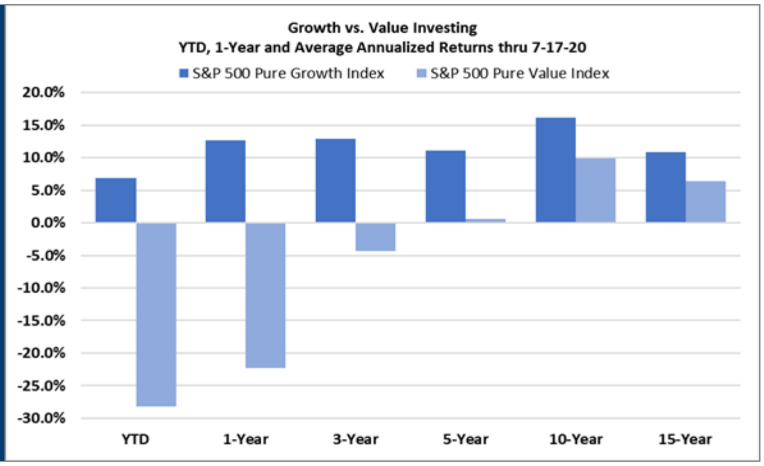
The chart to the right shows that Growth has outperformed its Value counterpart in all six periods featured. Growth stocks have held up exceptionally well year-to-date which has been shaped by the COVID-19 pandemic. ***(source: Standard & Poor's)***



Growth versus Value Investing

Investors seeking to go beyond owning the S&P 500 index can invest in several different ways to fine tune their portfolios while maintaining broad diversification. One traditional option has been to invest in growth stocks or value stocks. Proponents of each strategy observe that their approach is more rewarding based on historic performance. For example, the value school uses long-term investment results to bolster their case. "On average, value stocks have outperformed growth stocks by 4.54% annually in the US since 1928" according to research done by Dimensional Fund Advisors. However, a cursory review of the numbers indicates that value outperformance was bolstered by an 80% differential in 1933, a time when there were few investors interested in the stock market. Another important characteristic is the performance volatility over short time periods. Value stocks outperformed growth stocks by more than 30% on six different years over this 92-year period. Such a differential has not happened since the year 2000.

The chart above provides a performance comparison over six time periods. As we had mentioned in a recent Weekly Missive discussing performance measurement, the magnitude of current returns can affect long-term performance. For example, the year to date comparison differential is more than 30% in favor of growth stocks. There has never been a time when the differential in favor of growth stocks has been more than 30%. The value universe as measured by the S&P 500 Pure Value Index is down more than 20% over the past year for an index that is considered less risky than the S&P 500 Pure Growth Index.

For investors who bought the fundamental story about value outperforming growth over the past fifteen years, they have not been rewarded as history was not a good predictor of future results. For investors who believed in rebalancing a portfolio out of growth and into value on a "return to the mean belief," they have also been misled about the consistency of such theories. If, at the beginning of that period of 15 years, an investor held equal positions in value stocks and growth stocks, the outperformance of the growth stocks would have made a positive difference in portfolio returns.

As growth stocks survive and prosper during difficult times and value stocks are pummeled by the impact of the coronavirus, this performance differential favoring growth stocks may continue until the coronavirus is eliminated.

"Change is the law of life. And those who look only to the past or present are certain to miss the future."

John F. Kennedy

Market Commentary

Both fiscal and monetary policies have been expansive to the tune of trillions of dollars, but there has been little effect on interest rates. Gold is surging to record levels suggesting inflation is imminent but there is no inflation based on the latest statistics on the Producer and Consumer Price indices. The second wave of the coronavirus is disconcerting but further progress on the vaccine as well as other therapeutics are providing the conviction necessary to keep the stock market in an uptrend. Large cap technology stocks continue to be the big winners as are several pharmaceutical companies working on the cure for the virus. When the vaccine is available then the equity market may experience a change in leadership.

The national average interest rate for a 30-year fixed rate mortgage was 2.98% in July, an all-time record low, producing a $421 principal and interest payment per $100,000 borrowed. ***(source: Fannie Mae)***