BULL & BEAR BULLETIN

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Market Misnomer

Growing up, winter was my favorite season. I loved the cold, the snow, and the jolliness of everyone, even when I had to shovel our driveway for the first three hours of the day. To my ten year old brain, this was the season of opportunity.

Once a buddy and I were done shoveling, we would spend some of our hard earned money at a local penny candy store. We each had different styles of allocating our money. He would pay a premium for the flashy candy in the middle of the store, while I chose higher quantities of the actual penny candy. His candy was more exciting most of the time, but if he didn't like a new flavor, he had nothing left. A few stale pieces didn't ruin my bag of candy, but Swedish Fish was certainly not as jaw dropping as a foot long piece of Laffy Taffy.

These two styles, called growth and value, manifest themselves in the investing world as well. Investors usually gravitate towards the flashier, faster growing companies than their slower counterparts. Over time, this is usually the correct allocation, while growth conditions remain or improve. Investors have traditionally flocked to value companies when economies start to roll over. Historically, this has led to moments of massive relative outperformance in value stocks. We do not know what the future holds, but market participants are looking at softening data such as retail sales, manufacturing survey data, and business spending. Is it time to rotate into value? Regardless of one's near-term economic outlook, assumptions about value stocks should be reevaluated.

If markets should start experiencing more volatility, value might perform differently relative to growth due to the concept of cheapness. Using "cheap" and "value" interchangeably is a common market misnomer. Going back to my anecdote, why did I go for the penny candy versus the middle aisles? Both types of candy held value, but the penny candy was much cheaper than the other options. If the other candy was only two cents, I certainly would have chosen it. If the other candy was ten cents, I might have considered some of both, but when the center candy was a dollar each, I gladly went for the pennies.

In the markets, finding that sweet spot, the equilibrium of cheapness between growth and value is a dynamic and moving target. Historically, the value bucket had long forgotten names where some investors found refuge because they were so relatively cheap. Now, with a long bull market in progress, there is not as much gap between growth and value as in years past. From 1 March 2009 to 1 December 2019, S&P 500 Growth has returned an average 17.80% annually, while S&P 500 Value has returned an average 15.79%. That is a historically high average return for both growth and value; therefore, value investors have still participated in this bull run, albeit not as much as growth. There may be fewer diamonds in the rough now than in years past.

Altogether, these, of course, are just averages put together. There will be individual winners that keep on winning and underpriced nuggets to be found. Coming out of a very strong year, the Bull and Bear will certainly be busy next year fighting for investors' dollars. We'll be keeping a close eye on the markets and looking to find you the best valued candy out there.

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