

# Value Investing: Is There Any Value in It?

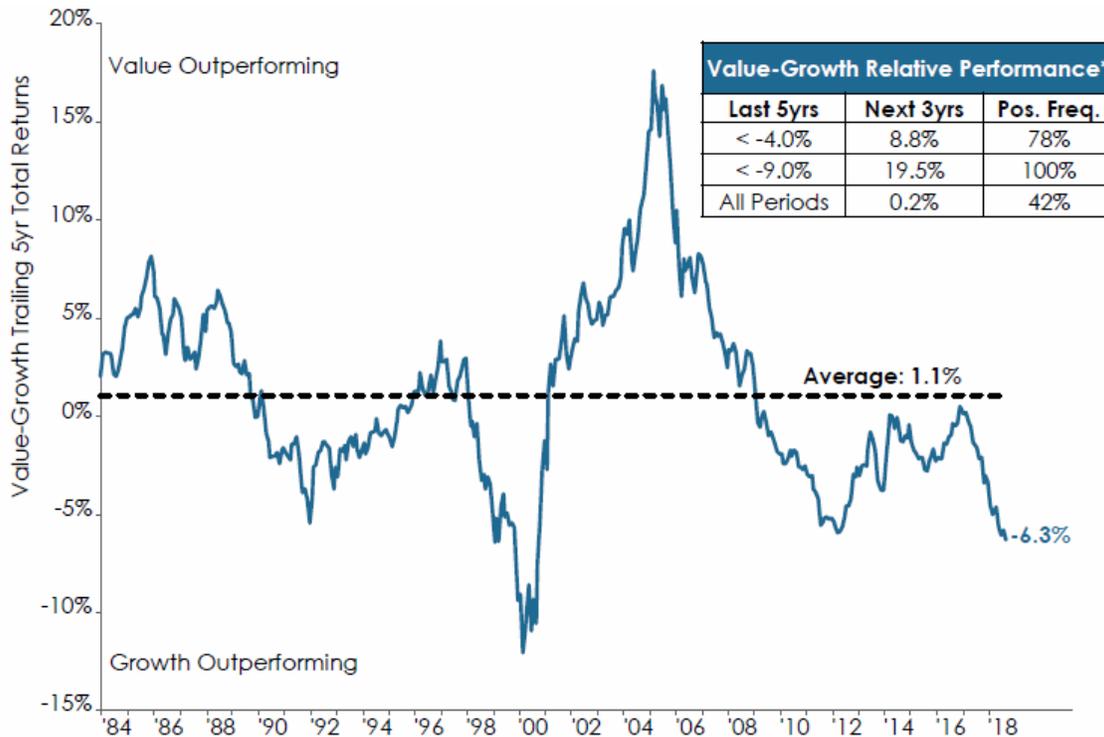
**Richard Snow, Chief Investment Officer**

## 2018 – Growth trumps Value...again

The year just ended with growth-oriented indices generating strong returns over traditional value-oriented indices again. The growth trend has persisted throughout the bull market that began in the first quarter of 2008 (see graph 1). In the ten years ending November 2018, the Russell 1000 Growth index

returned a cumulative 362% versus 224% for the Russell 1000 Value index. While unusually long, such style trends have occurred in past market cycles and the timing of their reversal is not predictable. However, some features of this cycle, particularly recently, are quite uncommon.

Graph 1



Source: Glenmede FactSet.

Value-Growth Trading 5 Year Total Returns is the 5-year return difference between the Russell 1000 Value and Russell 1000 Growth total return indices. Table values represent one and two standard deviations of the historic data. **Past performance is not indicative of future results.** Data as of 9/30/2018.

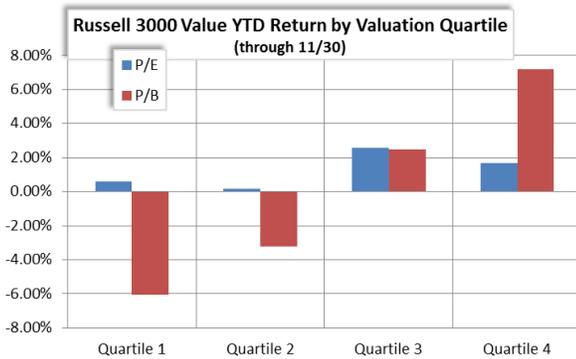
## Low Valuation Stocks Underperform

Snow Capital’s contrarian, relative value approach leads us to stocks selling at a discount to their ‘normalized’ valuations. Recently we have been finding the most attractive investment opportunities among stocks selling at low price/earnings ratio (P/E) valuations. Across all

our investment disciplines our portfolios feature extremely low P/E multiples relative to both their market benchmarks and to their respective peer universes. This year’s market environment, however, has favored the most expensive stocks, not only in terms of the macro trend toward high priced growth stocks,

but also within the value universe which largely constitutes our selection universe. On both a P/E and a price-to-book ratio (P/B) basis, higher priced stocks outperformed lower priced ones (see graph 2). As this trend persists our low P/E stocks become more and more attractive relative to their high P/E counterparts.

Graph 2



Source: Bloomberg

### Earnings Growth not reflected in valuations

Another uncommon feature of this year's market background is the lack of correlation, within the value universe, between stock valuations and expected earnings per share (EPS) growth. Normally, stocks exhibiting higher earnings growth trade at higher multiples than slow growers. This year, however, the correlation between growth and valuation is virtually nonexistent (see graph 3). This anomaly has enabled Snow Capital to construct portfolios across our disciplines that feature expected earnings growth near or above that of the market benchmark,

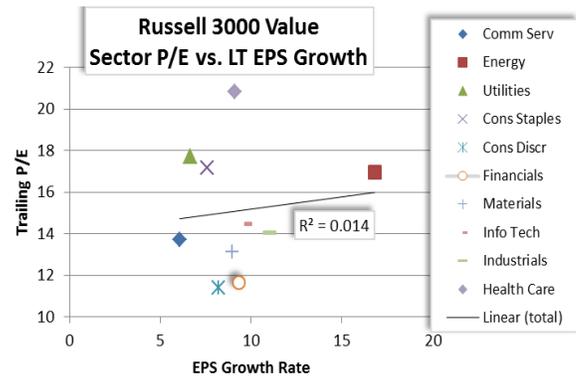
The views expressed herein are solely the opinions of Snow Capital Management L.P. There is no assurance any of the trends mentioned will continue or forecasts will occur. This communication is intended for informational purposes only and does not constitute a solicitation to invest money nor a recommendation to buy or sell certain securities. **Investing involves risk; clients may experience a profit or a loss. Prior to making an investment decision, please consult with your financial advisor about your individual situation.**

The Russell 1000 Index measures the large-cap segment of the U.S. equity universe representing approximately 92% of the U.S. market. The index includes the largest 1000 securities in the Russell 3000 Index. The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 1000 Growth Index measures a segment of the Russell 1000 Index with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. The Russell 3000 Value Index measures the performance of the broad value segment of U.S. equity value universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values. **Indexes are unmanaged. It is not possible to invest directly in an index.**

The price/earnings ratio (P/E) is the ratio of a company's stock price to the company's earnings per share. The price-to-book ratio (P/B) is the ratio of a company's stock price to the company's book value per share. Earnings per share (EPS) growth is the percentage change in normalized earnings per share over the previous 12-month period to the latest year end. R-squared is generally considered the percentage of a fund or security's movements that can be explained by movements in a benchmark index.

but with substantially lower P/E valuations.

Graph 3



Source: Bloomberg

### Outlook

We are disappointed with the recent performance of our portfolios, but we are very comfortable with their composition. We construct portfolios stock by stock with the resulting portfolio characteristics a residual of the stock selection process. The stocks we find most attractive today happen to have low P/E valuations and solid growth prospects. The recent violent selloff is giving us the opportunity to purchase stocks with upside to our target prices approaching levels last seen during the financial crisis of 2008-2009. There is no way to predict when the growth vs. value trend will reverse or when our clients will be compensated for holding portfolios of sound companies with attractive valuations and competitive earnings growth expectations. We are confident, however, that, as in past trying environments, patience will be rewarded.