



The Differences Between Growth, Core & Value

Understanding your style of investing is an important step – especially today

Are you a Growth investor or a Value investor? Or do you prefer a mix of the two?

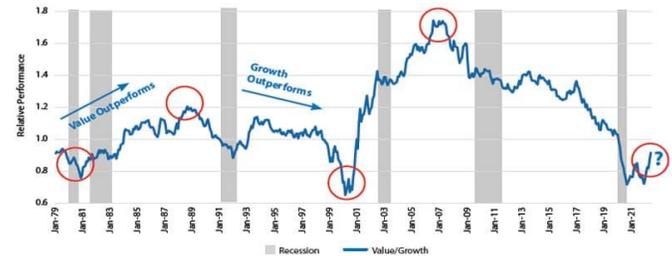
Understanding your style of investing is an important step in deciding where to allocate your portfolio – but trying to predict which style will outperform relative to the other is as challenging now as it has ever been. And COVID and the latest recession has further upended the debate in ways few could have predicted.

At the beginning of 2020 – long before COVID was on anyone's radar – one could have made a very logical argument for why Growth was poised to continue to outpace Value, as it had done for the past few years.

But once COVID started dominating the news and the markets at the end of the first quarter in 2020, you probably concluded that Value stocks would hold up better than Growth, right? And your conclusion would have made a lot of sense because Value has historically held up better during market downturns.

Value Versus Growth

Russell 1000® Value Index/Russell 1000® Growth Index
Monthly data: January 1979 through May 2022



Sources: Frank Russell Company, Bloomberg

Did you also know that historical studies demonstrate that the Value style has outperformed the Growth style over long-term periods? But more interesting is that the leadership changes from one to another have usually happened near the end of economic cycles – possibly like the one we're seeing in the summer of 2022.

The Growth Vs. Value Styles

At a very rudimentary level, the stock market can be divided into two halves: Growth and Value halves (some like research firm Morningstar suggest three thirds instead: Growth, Core and Value, with Core being a category that exhibits neither overwhelming Growth nor Value characteristics). Whether a stock is

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considered Growth or Value depends on a number of factors relative to other stocks.

Morningstar uses the following components and prescribes weights to determine whether a stock (or mutual fund) should reside within the Growth, Value or Core Style:

- Price to projected earnings
- Price-to-book
- Price-to-sales
- Price-to-cash flow
- Dividend Yield

While those metrics are of course helpful, intuitively you can probably deduce whether a stock is considered a Growth or Value stock. While not fool-proof, the Growth names are the ones that are the exciting ones doing exciting things, whereas the Value names are the stodgier ones.

But – what one investor considers stodgy might be overly exciting for another investor – so it's best to stick to fundamentals.

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