WEST BRANCH CAPITAL REPORT

West Branch Capital LLC // 2020

April 2020

Part 1 of 2 – Growth Investing Vs. Value Investing – What's The Difference?

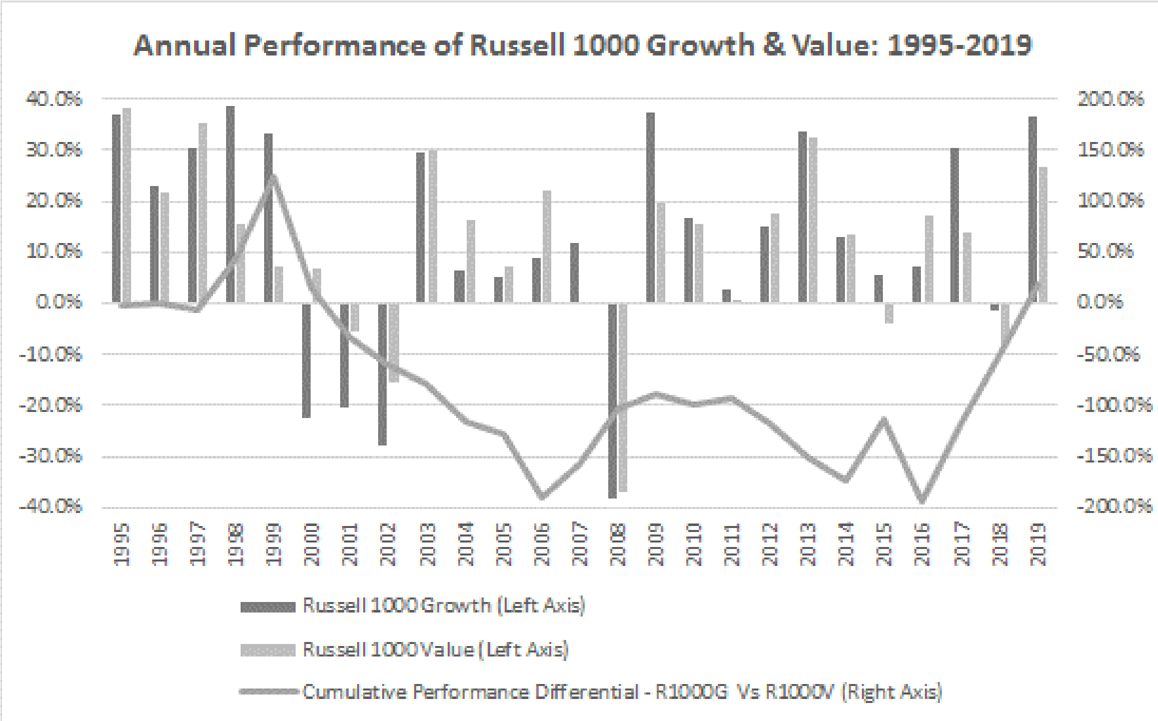
Growth investing and value investing are perhaps the two most common strategies for investing in stocks and stock mutual funds.

Growth investors tend to invest in companies with track records of above-average sales and earnings growth. Because of their attractive operating performance and rosy prospects, these companies often come with above-average price tags, based on valuation metrics like P/E (price-to-earnings), P/B (price-to-book), P/S (price-to-sales), etc. Not surprisingly, growth companies abound in high-growth, research-intensive industries like Technology and Life Sciences.

Value investors, on the other hand, prefer to search for out-of-favor companies whose future prospects are underappreciated by the market, based on these same valuation metrics. Value companies typically exhibit below-average sales and earnings growth but are often able to return more capital to shareholders in the form of dividends and share buybacks. Value companies are more likely to be found in mature, slower-growth industries like Consumer Staples and Finance or in cyclical industries like Industrials and Energy.

Complementary Strategies

As the chart below suggests, both growth and value investing styles enjoy extended periods of out- and underperformance. From 2000-2006, for example, the Russell 1000 Value index – a market-cap weighted index designed to reflect the value components of the largest 1000 public companies in the U.S. – outperformed the Russell 1000 Growth index – a similar index designed to reflect the growth components of the largest 1000 public companies – by approximately 112%. This trend has reversed since then, with the Russell 1000 Growth index outperforming the Russell 1000 Value index by nearly 77% from 2007-2019. The outperformance of growth has been particularly extreme more recently, with the Russell 1000 Growth index besting the Russell 1000 value index by nearly 37% between 2017-2019.



The cyclical nature of growth-dominated and value-dominated investment regimes suggests, to us at least, a balanced approach to portfolio management. By trying to maintain a fairly even allocation to growth and value stocks over time, we believe, one is less likely to experience prolonged periods of extreme underperformance. In fact, from 1995-2019, a simple strategy of rebalancing annually to maintain a 50% allocation to Russell 1000 Growth stocks and a 50% allocation to Russell 1000 Value stocks would have outperformed either index by approximately 0.2% per year over that period. As is true in so many aspects of investing, diversification is key.

Read more about Value & Growth in part 2 of this series.

Disclosures

The views and information contained in this document are those of West Branch Capital LLC and are provided for general information. The information herein should not serve as the sole determining factor for making investment decisions. All information is obtained from sources believed to be reliable, but West Branch Capital LLC does not guarantee its reliability. West Branch Capital LLC is not an attorney, accountant or actuary and does not provide legal, tax, accounting or actuarial advice.