GLOBAL
WEALTH ADVISORS LLC
Registered Investment Advisor

INSIGHTS

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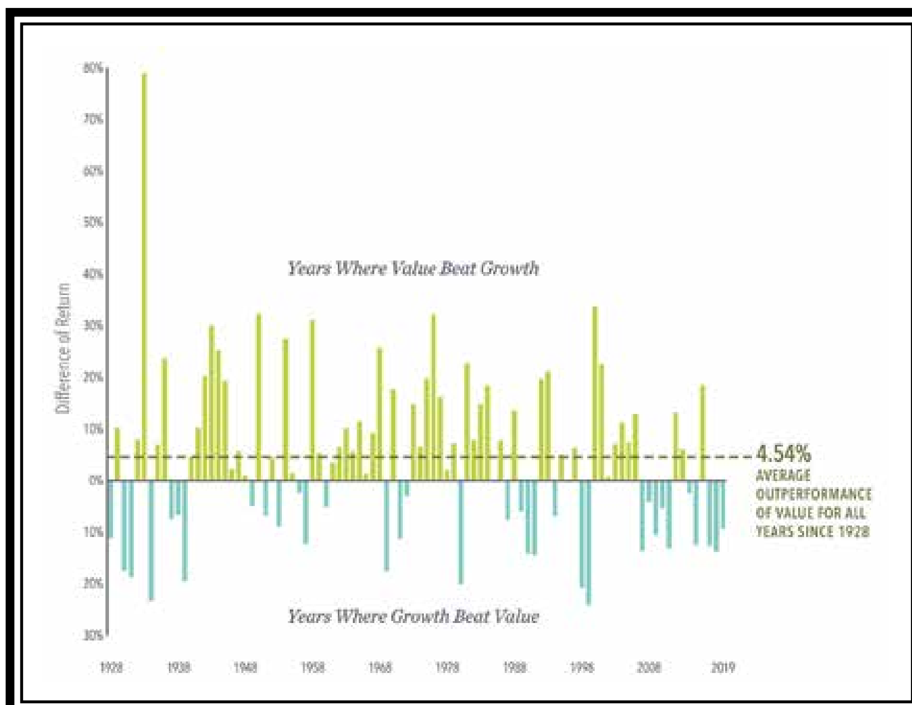
When It's Value vs. Growth, History Is on Value's Side

Logic and data provide the basis for a positive expected value premium, offering a guide for investors targeting higher potential returns. There is pervasive historical evidence of value stocks outperforming growth stocks. Data covering nearly a century in the US, and nearly five decades of market data outside the US, support the notion that value stocks—those with lower relative prices—have higher expected returns.

Recently, growth stocks have enjoyed a run of outperformance vs. their value counterparts. But while disappointing periods emerge from time to time, the principle that lower relative prices lead to higher expected returns remains the same. On average, value stocks have outperformed growth stocks by 4.54% annually in the US since 1928, as **Exhibit** 1 shows.

EXHIBIT 1: VALUE ADD

Yearly Observations of Premiums: Value Minus Growth in US Markets
1928–2019



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A Personal Note From Global Wealth Advisors

The equity premium exists to provide an additional rate of return for stocks over that of fixed income investments like bonds, CDs, money markets, etc. The premium is not guaranteed and is certainly unpredictable. The volatility and variability of equity returns this year is a perfect example of that.

However, the good news is that over time, this volatility tends to smooth out and we see equities providing positive rates of return over fixed income investments. In fact, in today's suppressed interest-rate environment brought on by the Federal Reserve Board, many US Treasury securities are yielding less than the current rate of inflation.

So what is the best way to take advantage of this premium? First, remember that equity investing is a long-term proposition. Secondly, your exposure to equities should be commensurate with your risk tolerance. Lastly, that exposure should be globally allocated and include various-sized companies that are of differing investment styles. This broad diversification helps to reduce the risk in your portfolio.

These equity investing guidelines will serve as good reminders as we approach the coming Federal and state elections as well as the appointment of a new Supreme Court Justice. So think long-term and hang on – we may experience a "little" short-term equity markets turbulence!

Jim Knaus Mike Krencicki

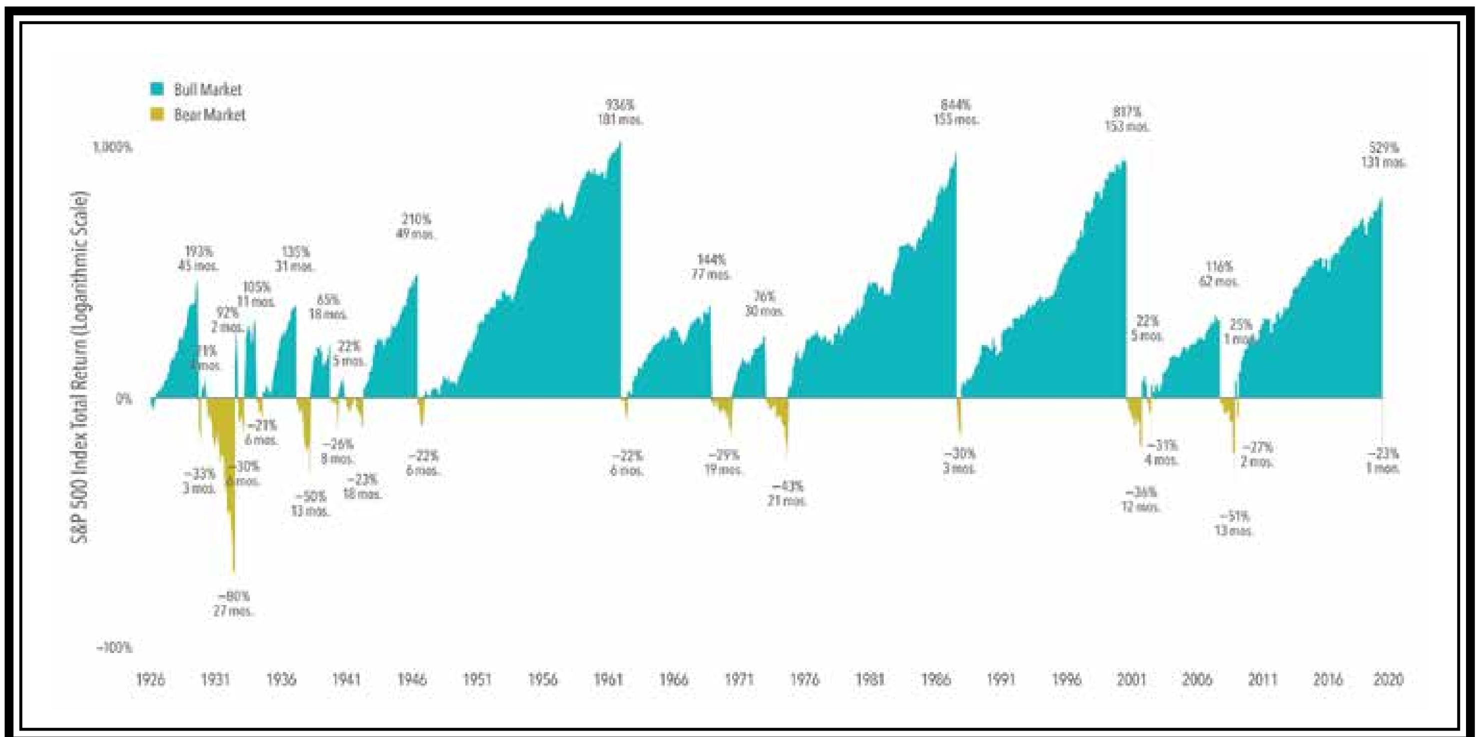
Bulls, Bears, and Long-Term Benefits of Stock Investing

Stock returns are volatile, but nearly a century of bull and bear markets shows that the good times have outshined the bad times.

- From 1926 through March 31, 2020, the S&P 500 Index experienced 17 bear markets, or a fall of at least 20% from a previous peak. The declines ranged from —21% to —80% across an average length of around 10 months.
- On the upside, there were 17 bull markets, or gains of at least 20% from a previous trough. They averaged 56 months in length, and advances ranged from 21% to 936%.
- When the bull and bear markets are viewed together, it's clear equities have rewarded disciplined investors.

The stock market's ups and downs are unpredictable, but history supports an expectation of positive returns over the long term. For the best shot at the benefits the market can offer, stay the course.

S&P 500 INDEX TOTAL RETURNS
January 1926–March 2020



Past performance is no guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

In USD. Chart end date is 3/31/2020, the last peak to trough return of −23% represents the return through March 2020. Due to availability of data, monthly returns are used January 1926 through December 1989; daily returns are used January 1990 through present. Periods in which cumulative return from peak is −20% or lower and a recovery of 20% from trough has not yet occurred are considered Bear markets. Bull markets are subsequent rises following the bear market trough through the next recovery of at least 20%. The chart shows bear markets and bull markets, the number of months they lasted and the associated cumulative performance for each market period. Results for different time periods could differ from the results shown. A logarithmic scale is a nonlinear scale in which the numbers shown are a set distance along the axis and the increments are a power, or logarithm, of a base number. This allows data over a wide range of values to be displayed in a condensed way.

Source: S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

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Taking Stock of Lump-Sum Investing vs. Dollar-Cost Averaging

Some investors favor a **dollar-cost averaging (DCA)** approach to deploying their investment capital. Unlike **lump-sum** investing, in which the full amount of available capital is invested up front, DCA spreads out investment contributions using installments over time. The appeal of DCA is the perception that it helps investors "diversify" the cost of entry into the market, buying shares at prices that fall somewhere between the highs and lows of a fluctuating market. So what are the implications of DCA for investors aiming to generate long-term wealth?

ENTRY LEVEL

Let's take the hypothetical example of an investor with $12,000 in cash earmarked for investment in stocks. Instead of buying $12,000 in stocks today, an investor going the DCA route buys $1,000 worth of stocks each month for the next 12 months. If the market increases in value each month during this period, the DCA investor will pay a higher price on average than if investing all up front. If the market decreases steadily over the next 12 months, the opposite will be true.

While investors may focus on the prices paid for these installments, it's important to remember that, unlike with the lump-sum approach, a meaningful portion of the investor's capital is remaining in cash rather than gaining exposure to the stock market. During the process of capital deployment in this hypothetical example, half of the investable assets on average are forfeiting the higher expected returns of the stock market. For investors with the goal of accumulating wealth, this is potentially a big opportunity cost.

Despite the drawbacks of dollar-cost averaging, some may be hesitant to plunk down all their investable money at once. If markets have recently hit all-time highs, investors may wonder whether they have already missed the best returns and so ought to wait for a pullback before getting into the market. Conversely, if stocks have just fallen and news reports suggest more declines could be on the way, some investors might take that as a signal waiting to buy is the wiser course. Driving the similar reactions to these very different scenarios is one fear: what if I make an investment today and the price goes down tomorrow?

Exhibit 1 puts those fears in a broader context. It shows the average annualized compound returns of the S&P 500 from 1926–2019. After the index has hit all-time highs, the subsequent one-, three-, and five-year

EXHIBIT 1
Highs and Lows
Average annualized compound returns after market highs and declines
1926–2019

		Forward Period		
		1 Year	**3 Years**	**5 Years**
After New Market Highs	S&P 500	13.9%	10.5%	9.9%
	One-Month US Treasury Bill	3.9%	4.1%	4.1%
After Market Decline of More than 10%	S&P 500	11.3%	10.2%	9.6%
	One-Month US Treasury Bill	1.9%	2.0%	2.0%

Past performance is not a guarantee of future results.

In US dollars. New market highs are defined as months ending with the market above all previous levels for the sample period. Annualized compound returns are computed for the relevant time periods subsequent to new market highs and averaged across all new market high observations. Declines are defined as months ending with the market below the previous market high by at least 10%. Annualized compound returns are computed for the relevant time periods after each decline observed and averaged across all declines for the cutoff. There were 1,127 observation months in the sample. January 1990–present: S&P 500 Total Returns Index. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. January 1926–December 1989; S&P 500 Total Return Index, Stocks, Bonds, Bills and Inflation Yearbook™, Ibbotson Associates, Chicago. For illustrative purposes only. Index is not available for direct investment; therefore, its performance does not reflect the expenses associated with the management of an actual portfolio. "One-Month US Treasury Bills" is the IA SBBI US 30 Day TBill TR USD, provided by Morningstar. There is always a risk that an investor may lose money.

Taking Stock of Lump-Sum Investing vs. Dollar-Cost Averaging

Continued

returns are positive, on average. After the S&P 500 has fallen more than 10%, the subsequent one-, three-, and five-year returns are also positive, on average. Both data sets show returns that outperform those of one-month Treasury bills. Overall, the data do not support that recent market performance should influence the timing of investing in stocks.

DIFFERENT STROKES

Both theory and data suggest that lump-sum investing is the more efficient approach to building wealth over time. But dollar-cost averaging may be a reasonable strategy for investors who might otherwise decide to stay out of the market altogether due to fears of a large downturn after investing a lump sum.

The stock market has offered a high average return historically, and it can be an important ally in helping investors reach their goals. Getting capital into stocks, whether gradually or all at once, puts the holder in position to reap the potential benefits. A trusted financial advisor can help investors decide which approach—lump-sum investing or dollar-cost averaging—is better for them. What's clear is that markets have rewarded investors over time. Whichever method one pursues, the goal is the same: developing a plan and sticking with it. ●

When It's Value vs. Growth, History Is on Value's Side

Continued

Some historical context is helpful in providing perspective for growth stocks' recent outperformance. As Exhibit 1 demonstrates, realized premiums are highly volatile. While periods of underperformance are disappointing, they are also within the range of possible outcomes.

We believe investors are best served by making decisions based on sound economic principles supported by a preponderance of evidence. Value investing is based on the premise that paying less for a set of future cash flows is associated with a higher expected return. That's one of the most fundamental tenets of investing. Combined with the long series of empirical data on the value premium, our research shows that value investing continues to be a reliable way for investors to increase expected returns going forward. ●

Past performance is no guarantee of future results. Investing risks include loss of principal and fluctuating value. There is no guarantee an investment strategy will be successful. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

In US dollars. Yearly premiums are calculated as the difference in one-year returns between the two indices described. Value minus growth: Fama/French US Value Research Index minus the Fama/French US Growth Research Index.

Fama/French US Value Research Index: Provided by Fama/French from CRSP securities data. Includes the lower 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

Fama/French US Growth Research Index: Provided by Fama/French from CRSP securities data. Includes the higher 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

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