

Growth vs. Value Stocks

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On balance, we are leaning toward growth stocks but don't believe a big bet is warranted yet.

Currently there is not a compelling valuation argument to prefer either growth or value stocks. Relative forward P/E's slightly favor growth stocks, but we prefer to make bets when valuations are at extremes. Although economic

conditions have deteriorated (which favors growth stocks), we remain optimistic about the economy looking forward (which typically benefits value stocks). Growth stocks tend to outperform in the latter stages of market and economic cycles. We do not foresee a recession or an end to the bull market over the next year. However, a slight overweighting is justified given our

belief that returns tend to revert to the mean. Growth has significantly underperformed value for the last four years after briefly outperforming in 2002. A reversion to relative mean returns would suggest growth is due to outperform. If relative momentum turns decidedly toward growth stocks, we will likely move to more of an overweighting in this area.

growth vs. value stock monitor

valuation	current bias	rule of thumb
Relative Forward P/E	Growth	Watch for valuation extremes
Relative Trailing P/E	Neutral	Watch for valuation extremes
Relative Dividend Yield	Neutral	Watch for valuation extremes
Equity Risk Proxy	Growth	Low favors growth
market catalysts	current bias	rule of thumb
Economic Cycle	Neutral	Early cycle — value; late cycle — growth
Market Cycle	Neutral	6-12 months before peak prefer growth
ISM Leading Index	Growth	Rising favors value
Coincident Indicators	Growth	High and rising favors value
Commodity Prices	Value	Rising commodity prices favor value
Interest Rates	Neutral	Rising favors growth
Dollar and Yield Curve	Growth	Weak \$ and flat curve favors growth
Earning Surprise	Growth	Forward earnings exceeds trailing earnings
price action	current bias	rule of thumb
Relative Momentum	Value	Relative strength growth vs. value
Growth Assets-to-Growth + Value	Growth	Under allocation ETFs and mutual funds to growth
Trend Indicators	Neutral	Trend reversal/extremes
Seasonality	Value	Q1,Q2 favors value
Reversion to Mean	Growth	Growth/value y-y ROC
NDR Models	Value	Ned Davis long-term and intermediate-term

Sources: Bailard Research, Bloomberg, Ned Davis Research

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