

PERSPECTIVES

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

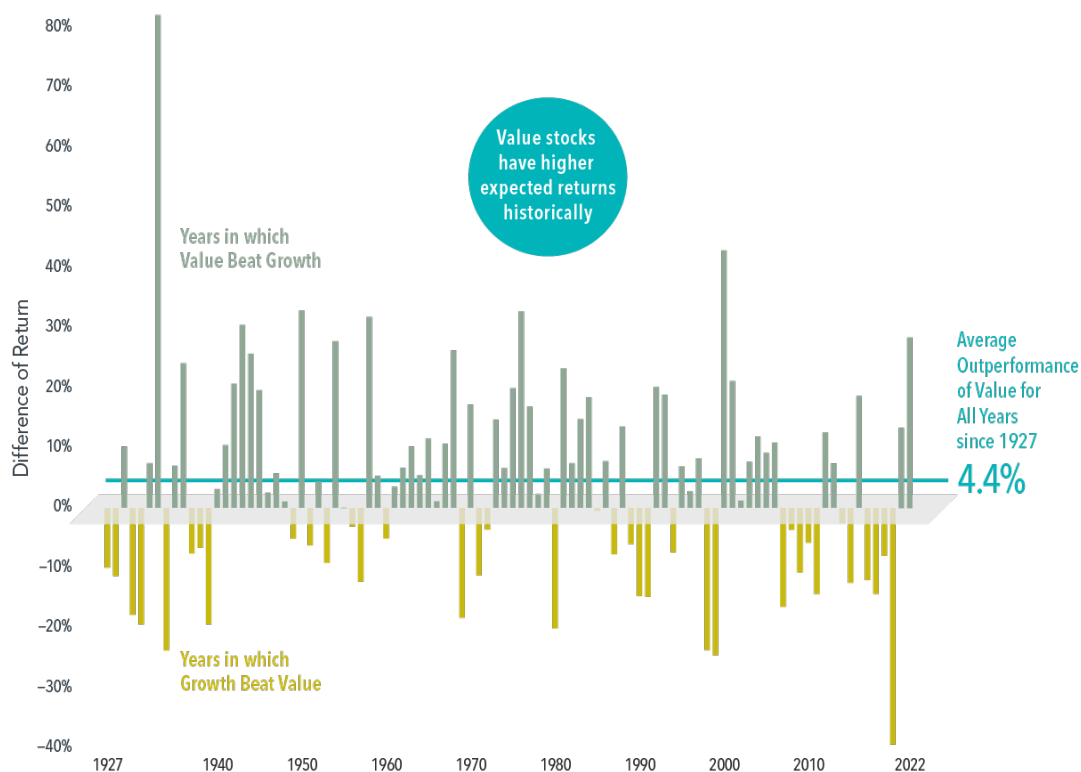
Sep 26, 2023

Historically, value stocks have outperformed growth stocks in the US, often by a striking amount. Data covering nearly a century backs up the notion that value stocks—those with lower relative prices—have higher expected returns.

While disappointing periods emerge from time to time, the principle that lower relative prices lead to higher expected returns remains the same. Value premiums have often shown up quickly and in large magnitudes. For example, in years when value outperformed growth, the average premium was nearly 15%. On average, value stocks have outperformed growth stocks by 4.4% annually in the US since 1927, as **Exhibit 1** shows.

Exhibit 1**Value Add**

Yearly observations of premiums: value minus growth in US markets, 1927–2022



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. The Fama/French indices represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment.

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 MKT (formerly 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 MKT (formerly AMEX) equivalents since July 1962 and Nasdaq equivalents since 1973).

Results shown during periods prior to each index's inception date do not represent actual returns of the respective index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance results assume the reinvestment of dividends and capital gains.

A consistent focus on value stocks is essential to capturing these outsize value premiums when they appear. 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. Logic and history support a commitment to value stocks so investors can be positioned to take part when those shares outperform in the future.

GLOSSARY

Value stock: A stock trading at a low price relative to a measure of fundamental value such as book equity.

Growth stock: A stock trading at a high price relative to a measure of fundamental value such as book equity.

Value premium: The return difference between stocks with low relative prices (value) and stocks with high relative prices (growth).

Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.

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