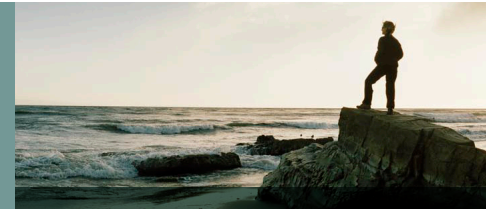


# Value Investing During and After U.S. Recessions

## A Historical Perspective



In the years after recessions, value stocks have tended to outperform growth stocks by wide margins, suggesting that recessions could lead to important opportunities for value investors.

The table below examines cumulative U.S. stock returns in the wake of each of the 15 recessions the United States has experienced since 1926. The data comes from the website of Dartmouth finance professor Kenneth French, who has spent decades studying out-of-favor “value” stocks and their more popular “growth” counterparts.

### Value Has Outperformed Growth Following U.S. Recessions

Recession Start	Recession End	During Recession		1 Year After Recession		5 Years After Recession		10 Years After Recession	
		Growth	Value	Growth	Value	Growth	Value	Growth	Value
Oct. 1926	Nov. 1927	65%	49%	51%	34%	-62%	-77%	-13%	-55%
Aug. 1929	March 1933	-80%	-85%	84%	263%	97%	5%	241%	196%
May 1937	June 1938	-22%	-66%	5%	-22%	35%	112%	107%	418%
Feb. 1945	Oct. 1945	0%	30%	-9%	-11%	50%	54%	319%	334%
Nov. 1948	Oct. 1949	22%	7%	24%	51%	151%	196%	490%	592%
July 1953	May 1954	30%	4%	39%	61%	159%	152%	242%	335%
Aug. 1957	April 1958	5%	11%	53%	67%	78%	128%	250%	500%
April 1960	Feb. 1961	13%	13%	7%	17%	51%	191%	98%	261%
Dec. 1969	Nov. 1970	-17%	-2%	19%	15%	16%	51%	99%	368%
Nov. 1973	March 1975	-17%	17%	15%	55%	15%	153%	96%	845%
Jan. 1980	July 1980	11%	-1%	19%	19%	41%	239%	189%	577%
July 1981	Nov. 1982	0%	31%	14%	49%	36%	170%	265%	501%
July 1990	March 1991	16%	-5%	21%	36%	80%	185%	239%	580%
March 2001	Nov. 2001	3%	0%	-19%	-28%	12%	74%	?	?
Dec. 2007	Dec. 2009	-16%	-14%	20%	16%	?	?	?	?
<b>Averages:</b>		<b>1%</b>	<b>-1%</b>	<b>23%</b>	<b>41%</b>	<b>54%</b>	<b>117%</b>	<b>202%</b>	<b>419%</b>

In the table, returns in the “growth” columns refer to hypothetical portfolios of stocks with the highest price-to-book (P/B) ratios. Conversely, the “value” returns apply to hypothetical portfolios of stocks with the lowest P/B ratios. While past performance is not a guarantee of future results, the historical results are compelling. As the table shows, value stocks have tended to outperform growth stocks after recessions, particularly over longer-term periods such as 5 or 10 years.

Source: Brandes Investment Partners, as of 12/31/10.

Kenneth French data: <http://mba.tuck.dartmouth.edu/pages/faculty/ken.french>

Past performance is not a guarantee of future results.

This hypothetical example is for illustrative purposes only. Actual results may vary.

= growth > value  
 = value > growth

Past performance is not a guarantee of future results. The book-to-market ratio (B/M) is a company's book value divided by its market value. Price-to-book (P/B) is the inverse of the book-to-market ratio. Securities in the Center for Research in Security Pricing (CRSP) database were deciled based on B/M. Securities in the deciles with the lowest and highest B/M ratios were used to calculate returns for growth and value stocks, respectively. Data July 1, 1926 to December 31, 2010.

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