

VOLATILITY: IMPLICATIONS FOR VALUE AND GLAMOUR STOCKS

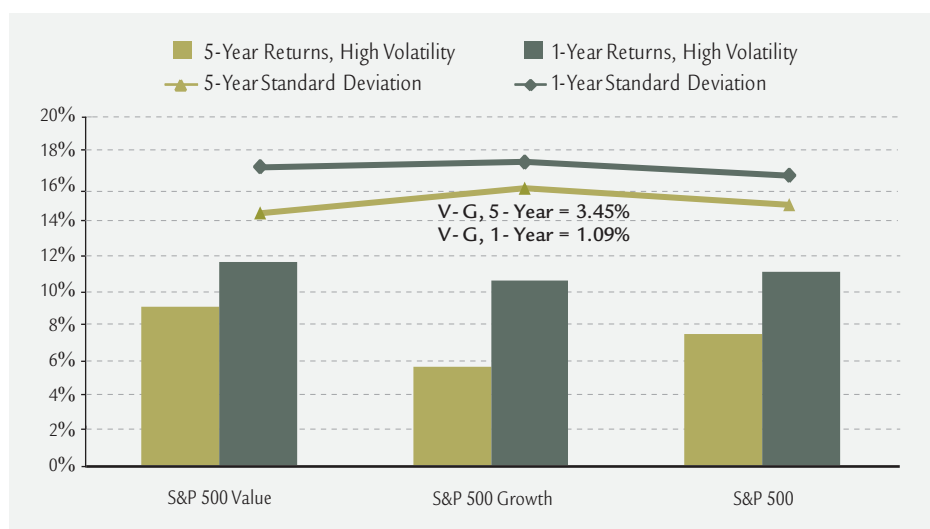
The Project

- Investors are commonly concerned with the impact of market volatility on returns. Rising levels in average volatility and increased awareness since the 2008 crisis motivate our study.
- What happens to value and growth stocks when investing after extreme volatility? We introduce the volatility context into our analysis for value vs. glamour returns.
 - Tracking buy-and-hold strategies for style indices (S&P 500 Value and S&P 500 Growth) after periods of high and low volatility from 1980 – 2011
 - We also tested a strategy of delaying three months to invest by waiting for high volatility to subside.
- As value investors, we believe volatility may create greater chances of encountering mispricings in the markets. Although intuitive, this notion is challenging to quantify. Building on previous Brandes Institute research, we reveal evidence that may help support this concept.

Key Findings

- Our key findings show that with a 1- and 5-year horizon, value stocks typically outperform growth stocks and do so with less variability (standard deviation). This suggests potentially better risk-adjusted performance for value stocks (Exhibit 1).
- We do not advocate an investment strategy rooted in timing or volatility forecasting. Instead, studying performance within the context of volatility may shed some light into behavioral biases responsible for abandoning equities as soon as high volatility sets in.

Exhibit 1: 1- and 5-Year Average Annualized Returns After High Volatility Months, 1980 - 2011



Source: FactSet, The Brandes Institute as of 6/30/11. Past performance is not a guarantee of future results.

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