

Value vs. Glamour: A Study of the Indices

As described in the Brandes Institute research “Value vs. Glamour,” value stocks have outperformed glamour stocks over the long term in both U.S. and non-U.S. markets. The Institute’s research used valuation measures such as price-to-book, price-to-earnings, and price-to-cash flow ratios to distinguish between value and glamour stocks. The approach replicates and expands upon the methodology originally developed by Professors Lakonishok, Shleifer, and Vishny in their landmark study, “Contrarian Investment, Extrapolation, and Risk,” published in 1994.

But what about commonly used benchmarks? Over the long term, aren’t glamour stocks just growth stocks, and aren’t returns for growth and value indices about the same?

While the Brandes Institute research used 5-year horizon measurements, questions have been raised as to whether similar differences occur on an annual basis, when measured by traditional value and growth indices. Using Russell Value Indices as a proxy for U.S. value stocks and the Russell Growth Indices as a proxy for U.S. growth stocks, we compared returns since the indices’ inception in 1979.

	Large Cap		Small Cap	
	Russell 1000 Value Index	Russell 1000 Growth Index	Russell 2000 Value Index	Russell 2000 Growth Index
Annualized Return*	11.83%	9.68%	13.10%	8.08%
Difference (Value minus Growth) [†]	2.15%		5.01%	

Source: FactSet, The Brandes Institute. Past performance is not a guarantee of future results.

*Since inception on January 1, 1990 through December 31, 2008. [†]Difference reflects rounding of numbers from primary data.

For large- and small-cap stocks, value outperformed growth over the 30-year period ending December 31, 2008. Using calendar years, we measured how often value outperformed growth. Of the 30 years in this study, the large-cap Russell 1000 Value Index ended ahead of the Russell 1000 Growth Index 16 times, or 53% of the years. The smaller-cap Russell 2000 Value Index outperformed its growth counterpart 63% of the years, or 19 out of 30.

Using annual returns data we also measured returns over rolling¹ 5-year periods since 1979.

	Large Cap		Small Cap	
	Russell 1000 Value Index	Russell 1000 Growth Index	Russell 2000 Value Index	Russell 2000 Growth Index
Average of Rolling, 5-Year Periods*	13.75%	11.32%	14.37%	8.41%
Difference (Value minus Growth) [†]	2.42%		5.98%	

Source: FactSet, The Brandes Institute. Past performance is not a guarantee of future results.

*Since inception on January 1, 1990 through December 31, 2008. [†]Difference reflects rounding of numbers from primary data.

¹Rolling periods represent a series of overlapping, smaller time periods within a single, longer-term time period. A hypothetical example is the 20-year time period from 12/31/82 through 12/31/02. This long-term period consists of 16 smaller five-year “rolling” segments. The first segment is the five-year period from 12/31/82 to 12/31/87. The next rolling segment is the five-year period from 12/31/83 to 12/31/88, and so on.

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During the 26 rolling 5-year periods in our study, among large-cap stocks, the Russell 1000 Value Index ended ahead of the Russell 1000 Growth Index 18 times, representing 67% of the 5-year periods. For small caps, the Russell 2000 Value Index outperformed the Russell 2000 Growth Index in 23 of the 26 5-year periods, or 88% of the time.

Similarly compelling results were uncovered in a study of non-U.S. indices. Using the MSCI EAFE Value Index as a proxy for non-U.S. value stocks, and the MSCI EAFE Growth Index as a proxy for non-U.S. growth stocks, we compared returns during the same period used for the Russell Indices.

On an annual basis, our study found that the MSCI EAFE Value Index outperformed the MSCI EAFE Growth Index component during 19 of the 30 years studied, or 63% of the period under review. In addition to this persistent outperformance, value stocks averaged a 3.4% performance premium annually over their growth counterparts. Examining performance on a rolling 5-year basis, the value component of the MSCI EAFE outperformed the growth component in 25 of the 26 rolling 5-year periods, or 96% of the time.

To investigate these results among large- and small-cap non-U.S. stocks, we used the S&P Developed Ex-U.S. Large-MidCap and SmallCap Value and Growth Indices. Although annual performance data is only available beginning 1990, we found a convincing value premium across both large- and small-cap non-U.S. stocks. On an annual basis, large- and mid-cap non-U.S. value stocks outperformed their growth equivalents in 13 out of the 19 years reviewed, or 68% of the time. Parallel results were found among small-cap non-U.S. value and growth stocks.

	Large Cap		Small Cap	
	S&P Developed Large-MidCap Ex-U.S. Value Index	S&P Developed Large-MidCap Ex-U.S. Growth Index	S&P Developed Ex-U.S. SmallCap Value Index	S&P Developed Ex-U.S. SmallCap Growth Index
Annualized Return*	4.66%	2.87%	4.23%	1.51%
Difference (Value minus Growth) ⁺	1.79%		2.77%	

Source: FactSet, The Brandes Institute. Past performance is not a guarantee of future results.

*Since inception on January 1, 1990 through December 31, 2008. ⁺Difference reflects rounding of numbers from primary data.

We also measured returns over rolling 5-year periods since 1990:

	Large Cap		Small Cap	
	S&P Developed Large-MidCap Ex-U.S. Value Index	S&P Developed Large-MidCap Ex-U.S. Growth Index	S&P Developed Ex-U.S. SmallCap Value Index	S&P Developed Ex-U.S. SmallCap Growth Index
Average of Rolling, 5-year Periods*	8.75%	6.63%	9.06%	6.02%
Difference (Value minus Growth) ⁺	2.12%		3.04%	

Source: FactSet, The Brandes Institute. Past performance is not a guarantee of future results.

*Since inception on January 1, 1990 through December 31, 2008. ⁺Difference reflects rounding of numbers from primary data.

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These findings demonstrate:

- Value stocks have outperformed growth stocks over the long term.
- Value stocks generally have delivered consistent outperformance.
- Value stocks have outperformed in both large and small caps.
- Value stocks have outperformed growth stocks in non-U.S. markets.

Past performance is not a guarantee of future results.

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S&P Developed Ex-U.S. SmallCap Growth Index is an unmanaged, float-adjusted market capitalization weighted index that measures the equity performance of small capitalization companies from developed markets around the world, excluding the United States, that have a value style. This index includes dividends and distributions but does not reflect fees, brokerage commissions, withholding taxes, or other expenses of investing.

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The S&P Developed Large-MidCap Ex-U.S. Growth Index is an unmanaged, float-adjusted market capitalization weighted index that measures the equity performance of large capitalization companies from developed markets around the world, excluding the United States, that have a growth style. This index includes dividends and distributions but does not reflect fees, brokerage commissions, withholding taxes, or other expenses of investing.

The S&P Developed Large-MidCap Ex-U.S. Value Index is an unmanaged, float-adjusted market capitalization weighted index that measures the equity performance of large capitalization companies from developed markets around the world, excluding the United States, that have a value style. This index includes dividends and distributions but does not reflect fees, brokerage commissions, withholding taxes, or other expenses of investing.

The MSCI EAFE (Europe, Australasia, Far East) Index is an unmanaged, free float-adjusted market capitalization weighted index designed to measure equity market performance of developed markets, excluding the United States and Canada. This index often is used as a benchmark for international equity portfolios and includes dividends and distributions net of withholding taxes, but does not reflect fees, brokerage commissions, or other expenses of investing.

The MSCI EAFE (Europe, Australasia, Far East) Value Index is an unmanaged, free float-adjusted market capitalization weighted index designed to measure equity market performance of developed markets, excluding the United States and Canada. The index is generally considered to be representative of international value stock market activity and often used as a benchmark for international value equity portfolios and includes dividends and distributions net of withholding taxes, but does not reflect fees, brokerage commissions, or other expenses of investing.

The MSCI EAFE (Europe, Australasia, Far East) Growth Index is an unmanaged, free float-adjusted market capitalization weighted index designed to measure equity market performance of developed markets, excluding the United States and Canada. The index is generally considered to be representative of international growth stock market activity and often used as a benchmark for international growth equity portfolios and includes dividends and distributions net of withholding taxes, but does not reflect fees, brokerage commissions, or other expenses of investing.

The Russell 1000 Value Index is an unmanaged, market capitalization weighted index that measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values. The index includes the reinvestment of dividends and income, but does not reflect fees, brokerage commissions, withholding taxes, or other expenses of investing.

The Russell 1000 Growth Index is an unmanaged, market capitalization weighted index that measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher expected growth values. The index includes the reinvestment of dividends and income, but does not reflect fees, brokerage commissions, withholding taxes, or other expenses of investing.

The Russell 1000 Index is an unmanaged, market capitalization weighted index that measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1,000 of the largest securities based on a combination of their market capitalization and current index membership. The Russell 1000 represents approximately 92% of the U.S. market. This index includes the reinvestment of dividends and income, but does not reflect fees, brokerage commissions, withholding taxes, or other expenses of investing.

The Russell 2000 Growth Index is an unmanaged, market capitalization weighted index that measures the performance of the small-cap segment of the U.S. equity universe. It includes those Russell 2000 Index companies with higher price-to-book ratios and higher expected growth values. This index includes the reinvestment of dividends and income, but does not reflect fees, brokerage commissions, withholding taxes, or other expenses of investing.

The Russell 2000 Value Index is an unmanaged, market capitalization weighted index that measures the performance of the small-cap segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower expected growth values. This index includes the reinvestment of dividends and income, but does not reflect fees, brokerage commissions, withholding taxes, or other expenses of investing.

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