Value vs. Glamour – A Global Phenomenon

In 1994, Josef Lakonishok, Andrei Shleifer, and Robert Vishny (LSV) published “Contrarian Investment, Extrapolation, and Risk,” a landmark study investigating the performance of value stocks relative to glamour securities in the United States over a 26-year period. Their research concluded that value stocks tended to outperform glamour stocks by wide margins. The Brandes Institute subsequently updated their work and extended the scope of the initial study to include non-U.S. markets to determine if the value premium was consistent across global markets. Now updated through June 2012, the study includes both the glamour-driven markets of the late 1990s and early 2000s, as well as the more recent worldwide economic downturn.

This paper does not attempt to resolve why the value premium is evident, or explain its persistence. Instead, it seeks to quantify the value premium and gauge its prevalence.

Methodology:

Our first step was to duplicate LSV’s original study. Exhibit 1 compares LSV’s findings for the price-to-book (P/B) criterion with the results yielded by our synchronized methodology. The conclusions are not identical, but we believe their parity is strong enough to validate our methodology as a functional approximation of the LSV framework.1

Exhibit 1: Annualized Average 5-Year Returns
(P/B Deciles, April 30, 1968–April 30, 1994)

After validating the methodology, we extended and broadened the scope of our study by:

- removing micro-cap stocks to create a sample that more accurately represented a truly “investable” universe
- expanding the scope of the study to include international and emerging markets
- updating the study through June 2012

1We noted similar parity in tests of our P/CF and P/E methodology, as seen in Appendix Part D. For all three criteria, our results are somewhat different than LSV’s results. We believe this may stem from minor differences in our methodology.
Key Findings:
Over the long term, this study reveals a consistent value premium across valuation metrics, geography and market capitalizations.

VALUATION METRICS

As seen in Exhibit 2, the results of our study confirmed a consistent value premium across P/B, price-to-cash flow (P/CF), and price-to-earnings (P/E) deciles. The smallest value outperformance between decile 1 glamour stocks and decile 10 value stocks can be observed with a price-to-book measurement, where the average outperformance was 7.1%.

Exhibit 2: Annualized Average 5-Year Returns Across Metrics
(June 30, 1980–June 30, 2012)


GEOGRAPHY

Exhibit 3 shows the outperformance of value stocks around the globe, with notable outperformance in emerging markets. While the recent underperformance of value stocks is noteworthy, the long-term results confirm a historically persistent value premium measurable across global equity markets.

Exhibit 3: Annualized Average 5-Year Returns Across Regions

MARKET CAPITALIZATION

On an aggregate basis, our global results revealed that value stocks outperformed their glamour counterparts substantially in both the large-cap and small-cap segments. As Exhibit 4 indicates, annualized average 5-year returns for glamour deciles were significantly outdistanced by returns for deciles at the value end of the spectrum. For example, large-cap stocks in decile 1 – those with the highest P/B ratios – posted average returns of 9.0%. In contrast, large-cap stocks in decile 10, or those with the lowest P/B ratios, registered average gains of 14.4%. These annualized figures are equivalent to cumulative rates of return of 54.2% and 95.7%, respectively. Returns for global small caps proved similar. While decile 1 small-cap glamour stocks delivered an average annualized return of 7.2%, decile 10 small-cap value stocks yielded 14.1%. Annualized figures for global small-cap stocks are equivalent to cumulative rates of return of 1.5% and 93.8%, respectively.²

Exhibit 4: Annualized Average 5-Year Returns Across Market Capitalization
(P/B Deciles, June 30, 1980–June 30, 2012)

![Graph showing annualized average 5-year returns across market capitalization](source: Worldscope via FactSet, The Brandes Institute; as of 6/30/2012. Past performance is not a guarantee of future results.)

²1980 - 2012 results for deciles based on P/CF and P/E produced similar results, as Appendix Part G in the white paper illustrates.