



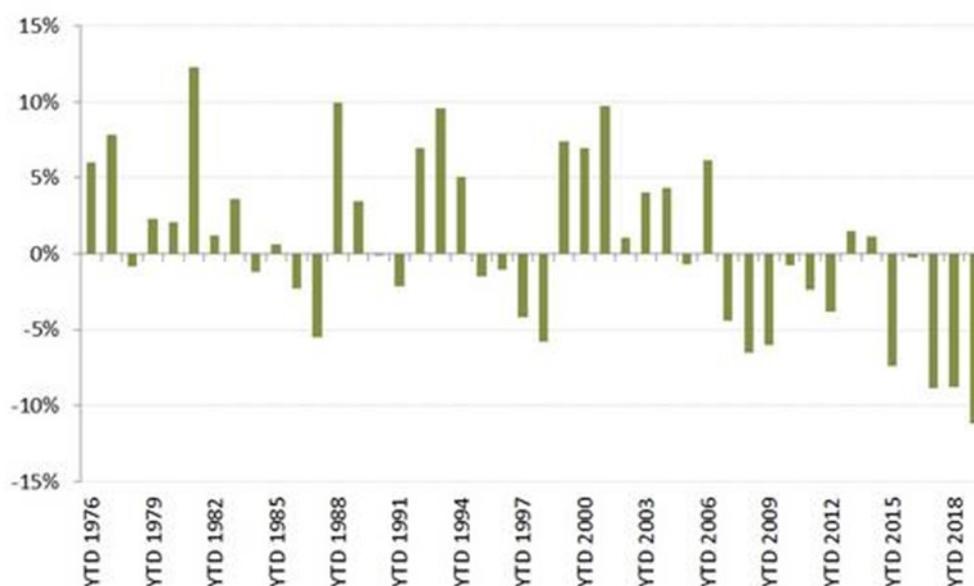
## Friday Morning Coffee

### Nr. 68 — Worst ever

While we are celebrating the 50<sup>th</sup> year anniversary of the moon landing, that undoubtedly a “big step for mankind” and the 50 years of Woodstock, certainly an important trigger for profound sociocultural change in our societies, we are having little reason to celebrate as value investors when we look at the performance statistics of our investment style. Not only has value underperformed growth by several percentage points a year since the financial crisis, but the picture has been particularly bleak in 2019 so far.

Kurt Kara from Maja Invest compared in a recent blog the relative year-to-date performances of benchmarks MSCI World Value versus MSCI World Growth going back to 1976. I assume adding the 7 years going back to Woodstock or the moon landing would not have changed the picture dramatically. So looking back at 50 years period, 2019 is appearing to be the year that has started out as worst ever for our investment style!

Year To Date performance of  
MSCI World Value vs. MSCI World Growth



Source: Maja Invest, MSCI

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On a worldwide basis, growth has outperformed value by more than 10% this year. There are only three possibilities this can happen :

### 1. Value is excessively cheap.

The list of culprits of why value is out of favor remains long. Low interest rates, technological disruption of “old” traditional cash-flow generative businesses, structural difficulties in financials and automotives, a “winner takes it all” trend of big tech like Amazon or Google, emergence of passive investment strategies that favor the momentum stocks and trade wars to name the main arguments we read.

### 2. Growth is excessively expensive.

According to Maja Invest, within the US stock market, the most expensive quintile is now more than 7 times expensive than the least expensive quintile (measured by the P/E ratio). The dispersion is clearly above year 2009 levels - and getting near to the year 2000 levels.

### 3. A combination of the above

If reversion to the mean works as well in finance as in statistics ( and it did in the past to my knowledge ), the investment opportunity going forward lies within the value investment style. We continue to follow the path of patience and stay firm on our investment principles: we only invest in quality companies at low valuations that have solid earning power.

I wish you a nice weekend,

**Léon Kirch, CFA**  
*Partner & Chief Investment Officer*  
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