

This is actually a trick question. Column A consists entirely of stocks in the R1G, growth stocks. Column B is stocks in the R1V, value stocks. The “trick” is that stocks in column C are in BOTH indices! FTSE Russell classifies roughly 70% of the market as all-growth or all-value while the remaining 30% have some portion of their market value assigned to both indices.

Looking at the investment objectives of some of our preferred investment managers doesn’t offer much more clarity on classifying stocks. A large cap growth stock manager, “seeks long-term capital growth by focusing on stocks that have superior growth in earnings and cash flow²” while a large cap value stock manager, “seeks long-term growth of principal and income by investing in companies that appear to be undervalued but have a favorable outlook for long-term growth.³”

This “blurring” of the growth/value line is pretty typical. Most managers tend to want to see some growth in the companies they choose (no one wants to own a dying business) and would like to pay a price that is a discount to their assessment of the company’s value.

Why pay attention to the classification? For these two indices as well as any other index we evaluate, we find it beneficial to examine the sector and industry weights in the index. For instance, it probably does not come as a surprise given our discussion that 31% of the R1G is comprised of technology stocks. It contains virtually no utilities (0.1%) or energy (0.7%) or telecommunications (1.3%) stocks. The R1V, on the other hand, has a 27% weighting in financial stocks. It also has 14% of its holdings in energy, 10% in industrials, and only 9% in technology.

In another twist, when most people think “value” they think of “defensive” stocks; healthcare or consumer staples companies with steady, predictable revenue growth. In fact, most of these “defensive” sectors have greater representation in the growth indices while value indices have greater representation in “cyclical” sectors where growth is more variable and valuation multiples tend to be lower on average.

If you believe, as we do, that economic growth is poised to accelerate then you would favor investing in the R1V given its greater cyclical exposure. If you also believe that financial stocks have the potential to perform very well given the benefits of rising interest rates, increased economic and lending activity and potential financial deregulation then you would also favor Value.

New to the Firm |



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Manchester Capital Management is excited to introduce to you Mr. Fred Hinkley, who has joined the New York office in the role of wealth manager.

Prior to joining MCM, Fred provided investment solutions for family groups, individuals, and corporate relationships within a private practice as well as the asset management and investment advisory divisions of Brown Brothers Harriman, UBS A.G. and Citigroup.

Fred has served on the advisory boards for professional publications, academic research programs, and non-profit organizations. He has been a periodic guest speaker on subjects related to investment and wealth management as well as family governance at universities in the Northeast. Fred and his wife live in Connecticut and enjoy their personal time with their three boys.

To express these views, we have used the Vanguard Value Index Fund, which is a low cost way of tracking the value index, to “tilt” portfolios to favor value stocks. While we haven’t given you an easy answer for the head-scratching conundrum of how three household companies (McDonald’s, Proctor & Gamble, and Johnson and Johnson) can be categorized so differently, we hopefully have given you an example of how we can use the classification system to add value to portfolios.

ENDNOTES

1. <http://www.ftserussell.com/>
2. <https://www3.troweprice.com/fb2/fbkweb/objective.do?ticker=PRGFX>
3. <https://www.dodgeandcox.com/stockfund.asp>

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