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Which pays more on the stock exchange, a “value” strategy or a “growth” strategy? Banor SIM’s advice to investors

Value requires patience

Energy, auto, steel, shipping and banks are the most promising sectors

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A wider range of investment styles and strategies than ever before is now available to investors, and returns can vary dramatically depending on which philosophy you choose. Traditionally, one way to view equities is based on company positioning – based, in turn, on market multiples. From this point of view, equities can be classified as “value stocks” if, at the time of analysis, they are priced very low in terms of fundamentals.



On the other hand, equities that viewed as “growth stocks” tend to have high multiples, justified by a very aggressive business model with high growth rates. Historically, looking at the last twenty years on the US equity market, a value strategy has clearly won over a growth strategy, with an annual return of around 9% (half of which from dividend payouts) compared with 3.8% yearly for growth stocks. In the last two years, however, the opposite has been happening. Luca Riboldi, Chief

Investment Officer at Banor SIM, helps us to understand the value approach and the present investment context.

He begins by explaining that “value investing involves buying stocks with a safety margin: a manager who follows this approach chooses stocks that fundamental analysis classifies as cheap, that is, historically undervalued and below the company’s intrinsic value. From a long-term perspective, this offers considerable scope for growth regardless of the market phase, and gives the investor greater tranquillity whatever the market trend.

In fact, even in a bear market, when stocks can fall by as much as 20-30% from their purchase price, investors can rely on the fact that they have stocks in their portfolio that are worth more than their market price (and that in the medium-to-long term will not produce losses that can’t be recouped). Investing in a benchmark, on the other hand, means that it’s impossible to avoid individual stocks that are obviously overvalued in that market phase”.

As for the best time to adopt this style, Riboldi points out that "a value approach is best at times of high inflation, high interest rates and strong economic growth. Growth stocks are in fact priced very high when economic growth is slack, inflation is low and interest rates are low (especially real interest rates). That's because the market is willing to pay a substantial premium for companies that manage to grow in such a context, which is exactly the one we have experienced for the last ten years.

Generally speaking, a value approach offers better opportunities when there are extensive areas of the market that are relatively undervalued, as is the case at present; it's then possible to avoid buying everything and to buy selectively only stocks that appear to be undervalued". Although in recent months a growth strategy has been more profitable, in the second half of the year Riboldi expects "inflation to increase, especially in the US, because of the higher deficit, a scenario in which a value approach once again becomes a winner. Moreover, we always take a sectoral view unless, of course, enormous protectionist barriers are introduced.

After that, the emphasis will be on certain countries/areas, like the US for tech stock or Germany and Japan for industrial stock, Italy for banks or Switzerland, the UK and Denmark for pharmaceuticals. At the moment, we think the most promising sectors, taking a value approach, are energy, auto, steel, shipping and banks. These are cyclical sectors, but they are currently trading at attractive prices compared with the past. Even the building industry is worth keeping an eye on". (Not for reproduction)