



# Two Schools of Investing: Growth Vs. Value

FIDELITY WEBINAR





# What is on our agenda today?

## What is Fundamental Research and styles

Fundamental Research is one of the most popular research methods, but what is it?

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## What is the Growth style of Investing

We will discuss what it is that makes a particular investment a "growth" style investment.

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## What is the Value style of Investing

We will delve into what makes a particular investment a "value" style investment.

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## Growth Vs. Value


We look at how the growth and value styles have performed over different time periods.





# Fundamentals & Style

# Growth vs. Value




	12/31/2006	12/31/2007
<b>ASSETS</b>		
<i>Current Assets</i>		
Cash	\$45,000	\$40,000
Marketable Securities	\$65,000	\$80,000
Accounts Receivable	\$85,000	\$70,000
Notes Receivable	\$45,000	\$40,000
Inventories	\$85,000	\$80,000
<b>Total Current Assets</b>	<b>\$325,000</b>	<b>\$290,000</b>
<i>Long-Term Assets</i>		
Land	\$85,000	\$80,000
Buildings	\$100,000	\$90,000
Machinery	\$30,000	\$25,000
—Accumulated Depreciation	(\$4,000)	(\$3,500)
<b>Net Tangible Assets</b>	<b>\$211,000</b>	<b>\$191,500</b>
<i>Intangible Assets</i>		
Goodwill	\$15,000	\$5,000
Patents	\$20,000	\$19,000
Trademarks	\$15,500	\$13,400
Organizational Costs	\$24,000	\$22,900
<b>Total Intangibles</b>	<b>\$74,500</b>	<b>\$60,300</b>
<i>Other Assets</i>		
Investments	\$25,000	\$23,000
Deferred Charges	\$50,000	\$45,000
<b>Total Other Assets</b>	<b>\$75,000</b>	<b>\$68,000</b>
<b>Total Long-Term Assets</b>	<b>\$360,500</b>	<b>\$319,800</b>
<b>Total Assets</b>	<b>\$685,500</b>	<b>\$609,800</b>
<b>LIABILITIES and OWNERS' EQUITY</b>		
<i>Current Liabilities</i>		
Long-Term Debt — 1 Yr.	\$12,000	\$11,000
Notes Payable	\$15,000	\$14,000
Accounts Payable	\$13,000	\$12,000
Taxes Payable	\$11,000	\$10,000
Accrued Expenses	\$21,000	\$20,000
<b>Total Current Liabilities</b>	<b>\$82,000</b>	<b>\$76,000</b>
<i>Long-Term Liabilities</i>		
Notes Payable	\$30,000	\$27,000
Bonds Payable	\$60,000	\$52,000
<b>Total Long-Term Liabilities</b>	<b>\$90,000</b>	<b>\$79,000</b>
<i>Other Liabilities</i>		
Pension Obligations	\$90,000	\$82,000
Deferred Taxes	\$70,000	\$62,000
Minority Interest	\$15,000	\$12,000
<b>Total Other Liabilities</b>	<b>\$175,000</b>	<b>\$156,000</b>
<b>Total Liabilities</b>	<b>\$347,000</b>	<b>\$311,000</b>
<b>OWNERS' EQUITY</b>		
Preferred Stock	\$60,000	\$50,000
<i>Common Equity</i>		
Common Stock	\$97,500	\$89,000
Capital Surplus	\$111,000	\$99,000
Retained Earnings	\$120,000	\$105,800
—Treasury Stock	(\$50,000)	(\$45,000)
<b>Total Common Equity</b>	<b>\$278,500</b>	<b>\$248,800</b>
<b>Total Owners' Equity</b>	<b>\$338,500</b>	<b>\$298,800</b>
<b>Total Liabilities and Owners' Equity</b>	<b>\$685,500</b>	<b>\$609,800</b>

## Overview of Fundamentals

### The study of a firm's balance sheet

- Fundamental Analysts study the balance sheet to value a company
- Relevant info about the company value is found in their balance sheets and earning reports
- Not all Analysts agree on a particular company's value
- Intangible assets can be particularly difficult to value

# Growth vs. Value



**Balance Sheet - Sample**

12/31/2008 12/31/2007

ASSETS		LIABILITIES and OWNERS' EQUITY	
<b>Current Assets</b>		<b>Current Liabilities</b>	
Cash	\$45,000	Long-Term Debt - 1 Yr.	\$12,000
Marketable Securities	\$65,000	Notes Payable	\$15,000
Accounts Receivable	\$85,000	Accounts Payable	\$13,000
Notes Receivable	\$45,000	Taxes Payable	\$11,000
Inventories	\$85,000	Accrued Expenses	\$21,000
<b>Total Current Assets</b>	<b>\$325,000</b>	<b>Total Current Liabilities</b>	<b>\$82,000</b>
<b>Long-Term Assets</b>		<b>Long-Term Liabilities</b>	
Land	\$85,000	Notes Payable	\$30,000
Buildings	\$100,000	Bonds Payable	\$60,000
Machinery	\$30,000		
—Accumulated Depreciation	(\$4,000)	<b>Total Long-Term Liabilities</b>	<b>\$90,000</b>
<b>Net Tangible Assets</b>	<b>\$211,000</b>	<b>Other Liabilities</b>	
<b>Intangible Assets</b>		Pension Obligations	\$80,000
Goodwill	\$15,000	Deferred Taxes	\$70,000
Patents	\$20,000	Minority Interest	\$15,000
Trademarks	\$15,500	<b>Total Other Liabilities</b>	<b>\$175,000</b>
Organizational Costs	\$24,000	<b>Total Liabilities</b>	<b>\$347,000</b>
<b>Total Intangibles</b>	<b>\$74,500</b>	<b>OWNERS' EQUITY</b>	
<b>Other Assets</b>		Preferred Stock	\$60,000
Investments	\$25,000	Common Equity	
Deferred Charges	\$50,000	Common Stock	\$97,500
<b>Total Other Assets</b>	<b>\$75,000</b>	Capital Surplus	\$111,000
<b>Total Long-Term Assets</b>	<b>\$360,500</b>	Retained Earnings	\$120,000
		—Treasury Stock	(\$50,000)
		<b>Total Common Equity</b>	<b>\$278,500</b>
		<b>Total Owners' Equity</b>	<b>\$338,500</b>
		<b>Total Liabilities and Owners' Equity</b>	
<b>Total Assets</b>	<b>\$685,500</b>		<b>\$685,500</b>

## Overview of Factors and styles

Various factors effect performance of a particular investment

- 1992 Study by French and Fama found that various factors tended to outperform in 1963-1990
- Value and smaller companies tended to outperform in their study
- Markets are constantly changing and evolving
- Subsequent research including another French and Fama study published in January of 2020 suggests the value advantage has declined.



# Growth Style

# Growth vs. Value



## Growth Style

### Future potential

- Look for companies with a competitive advantage
- Typically the companies invest most or all their earning back into the company to further growth
- Typically more expensive than peers
- Often considered riskier due to their high multiple to earnings and potential volatility when expectation are not met.





# Value Style

# Growth vs. Value



## Value Style

### Diamonds in the rough

Seeks to find securities that the market is undervaluing based on fundamental analysis

- Fundamental values used often include low price to book ratios, high dividend yields, low price to earnings multiples
- "finding an outstanding company at a sensible price". Warren Buffet
- Can also be the result of public reactions to news events



# Growth vs. Value

# Growth vs. Value



## So which is better?

### Depends

- As always, your timeframe, investment goals, and risk tolerance are factors to consider
- Historically value stocks tend to outperform during times of economic uncertainty
- Growth stocks have tended to perform better during periods of economic expansion
- Which will perform better over time will also be effected by where we are in the economic cycle



# Key Takeaways

## Growth Style Investing

Seeks to maximize returns using fast growing companies

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## Value Style Investing

Seeks to find companies priced below their “intrinsic” value

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## Growth vs. Value

Two styles that may help you achieve your investing goals depending on your risk tolerance, timeframe, and investing goals.

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## Neither style is inherently better

Returns have historically differed depending on the timeframe and where within the business cycle the economy was.

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# Disclosures



Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

Growth stocks can perform differently from the market as a whole and other types of stocks, and can be more volatile than other types of stocks.

Value stocks can perform differently from other types of stocks, and can continue to be undervalued by the market for long periods of time.

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