



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?

What is the Growth style of Investing

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

What is the Value style of Investing

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

Growth Vs. Value

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





Fundamentals & Style

Growth vs. Value



Balance Sheet - Sample 12/31/2001



12/31/2008 12/31/2007

| ASSETS | | LIABILITIES AND OWNERS' EQUITY | |
|-------------------------------|------------------|---|----------------------------|
| <i>Current Assets</i> | | <i>Current Liabilities</i> | |
| Cash | \$45,000 | Long-Term Debt – 1 Yr. | \$12,000 \$11,000 |
| Marketable Securities | \$65,000 | Notes Payable | \$15,000 \$14,000 |
| Accounts Receivable | \$85,000 | Accounts Payable | \$13,000 \$12,000 |
| Notes Receivable | \$45,000 | Taxes Payable | \$11,000 \$10,000 |
| Inventories | \$85,000 | Accrued Expenses | \$21,000 \$20,000 |
| Total Current Assets | \$325,000 | Other Current Liabilities | \$10,000 \$9,000 |
| <i>Long-Term Assets</i> | | Total Current Liabilities | \$82,000 \$76,000 |
| Land | \$85,000 | <i>Long-Term Liabilities</i> | |
| Buildings | \$100,000 | Notes Payable | \$30,000 \$27,000 |
| Machinery | \$30,000 | Bonds Payable | \$60,000 \$52,000 |
| Accumulated Depreciation | (\$4,000) | Total Long-Term Liabilities | \$90,000 \$79,000 |
| Net Tangible Assets | \$211,000 | <i>Other Liabilities</i> | |
| <i>Intangible Assets</i> | | Pension Obligations | \$90,000 \$82,000 |
| Goodwill | \$15,000 | Deferred Taxes | \$70,000 \$62,000 |
| Patents | \$20,000 | Minority Interest | \$15,000 \$12,000 |
| Trademarks | \$15,500 | Total Other Liabilities | \$175,000 \$156,000 |
| Organizational Costs | \$24,000 | | |
| Total Intangibles | \$74,500 | Total Liabilities | \$347,000 \$311,000 |
| <i>Other Assets</i> | | <i>OWNERS' EQUITY</i> | |
| Investments | \$25,000 | Preferred Stock | \$60,000 \$60,000 |
| Deferred Charges | \$50,000 | <i>Common Equity</i> | |
| Total Other Assets | \$75,000 | Common Stock | \$97,500 \$89,000 |
| Total Long-Term Assets | \$360,500 | Capital Surplus | \$111,000 \$99,000 |
| | | Retained Earnings | \$120,000 \$105,800 |
| | | –Treasury Stock | ((\$50,000) (\$45,000)) |
| | | Total Common Equity | \$276,500 \$248,800 |
| | | Total Owners' Equity | \$336,500 \$298,800 |
| Total Assets | \$665,500 | Total Liabilities and Owners' Equity | \$665,500 \$609,800 |

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 12/31/2001



12/31/2008 12/31/2007

| ASSETS | | LIABILITIES AND OWNERS' EQUITY | | | |
|-------------------------------|------------------|----------------------------------|---|----------------------------------|-------------------|
| <i>Current Assets</i> | | <i>Current Liabilities</i> | | | |
| Cash | \$45,000 | \$40,000 | Long-Term Debt - 1 Yr. | \$12,000 | \$11,000 |
| Marketable Securities | \$65,000 | \$60,000 | Notes Payable | \$15,000 | \$14,000 |
| Accounts Receivable | \$85,000 | \$70,000 | Accounts Payable | \$13,000 | \$12,000 |
| Notes Receivable | \$45,000 | \$40,000 | Taxes Payable | \$11,000 | \$10,000 |
| Inventories | \$85,000 | \$80,000 | Accrued Expenses | \$21,000 | \$20,000 |
| Total Current Assets | \$325,000 | \$290,000 | Other Current Liabilities | \$10,000 | \$9,000 |
| <i>Long-Term Assets</i> | | <i>Total Current Liabilities</i> | | <i>Total Current Liabilities</i> | |
| Land | \$85,000 | \$80,000 | | \$82,000 | \$76,000 |
| Buildings | \$100,000 | \$90,000 | <i>Long-Term Liabilities</i> | | |
| Machinery | \$30,000 | \$25,000 | Notes Payable | \$30,000 | \$27,000 |
| Accumulated Depreciation | (\$4,000) | (\$3,500) | Bonds Payable | \$60,000 | \$52,000 |
| Net Tangible Assets | \$211,000 | \$191,500 | Total Long-Term Liabilities | \$90,000 | \$79,000 |
| <i>Intangible Assets</i> | | <i>Other Liabilities</i> | | | |
| Goodwill | \$15,000 | \$5,000 | Pension Obligations | \$90,000 | \$82,000 |
| Patents | \$20,000 | \$19,000 | Deferred Taxes | \$70,000 | \$62,000 |
| Trademarks | \$15,500 | \$13,400 | Minority Interest | \$15,000 | \$12,000 |
| Organizational Costs | \$24,000 | \$22,900 | Total Other Liabilities | \$175,000 | \$156,000 |
| Total Intangibles | \$74,500 | \$60,300 | Total Liabilities | \$347,000 | \$311,000 |
| <i>Other Assets</i> | | <i>OWNERS' EQUITY</i> | | | |
| Investments | \$25,000 | \$23,000 | Preferred Stock | \$60,000 | \$50,000 |
| Deferred Charges | \$50,000 | \$45,000 | <i>Common Equity</i> | | |
| Total Other Assets | \$75,000 | \$68,000 | Common Stock | \$97,500 | \$89,000 |
| Total Long-Term Assets | \$360,500 | \$319,800 | Capital Surplus | \$111,000 | \$99,000 |
| | | | Retained Earnings | \$120,000 | \$105,800 |
| | | | —Treasury Stock | (\$50,000) | (\$45,000) |
| | | | Total Common Equity | \$276,500 | \$248,800 |
| | | | Total Owners' Equity | \$336,500 | \$298,800 |
| | | | Total Liabilities and Owners' Equity | \$685,500 | \$609,800 |

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 earnings 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 expectations 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

Value Style Investing

Seeks to find companies priced below their "intrinsic" value

Growth vs. Value

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

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.

Any screenshots, charts, or company trading symbols mentioned, are provided for illustrative purposes only and should not be considered an offer to sell, a solicitation of an offer to buy, or a recommendation for the security.

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