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Value has always been top of mind for us. Despite the broad U.S. equity indexes posting negative returns in January, there was a renewed enthusiasm for stocks in the Value camp, especially those stocks that were left behind in the post-pandemic surge. The Russell 3000 index, which is comprised of the largest 3000 stocks traded in the U.S., posted a total return of -5.9% in the first month of 2022, compared with the Growth subset's return of -8.9% and the Value subset's return of -2.6%. Russell's index methodology allows companies to be represented in both the Value and Growth indexes based on the index provider's view of a company and the fundamentals. Standard & Poor's reported an even wider gap between its "pure" indexes, which track the extreme ends of the Value and Growth spectrum. The S&P 500 Pure Value index returned 2.0% in January, compared with the S&P 500 Pure Growth index's return of -13.3%.

The price of a stock tells us what we should be able to fetch for our shares if we were to sell them or what it would cost us to buy them, but it tells us little about whether a stock is worth selling or buying in the first place. For this, we lean on nearly a century of historical data, academic work, forward-looking data and our own quantitative analysis of the U.S. equity universe.

#### WHAT IS VALUE?

For their academic research, Professors Eugene F. Fama and Kenneth R. French defined Value stocks as those that have high book-to-market ratios, while Growth stocks have a low book-to-market ratios. By "book" the Professors mean the value of the net assets investors should be left with if the company went out of business today. And "market" means the market price of a stock. Presented as a ratio, a higher figure would indicate that the company's net assets are more valuable relative to the company's stock (a Value stock), while a lower figure would indicate that the company's net assets are less valuable relative to the company's stock (a Growth stock). In Figure 1, we plot the long-term returns for Value and Growth stocks.

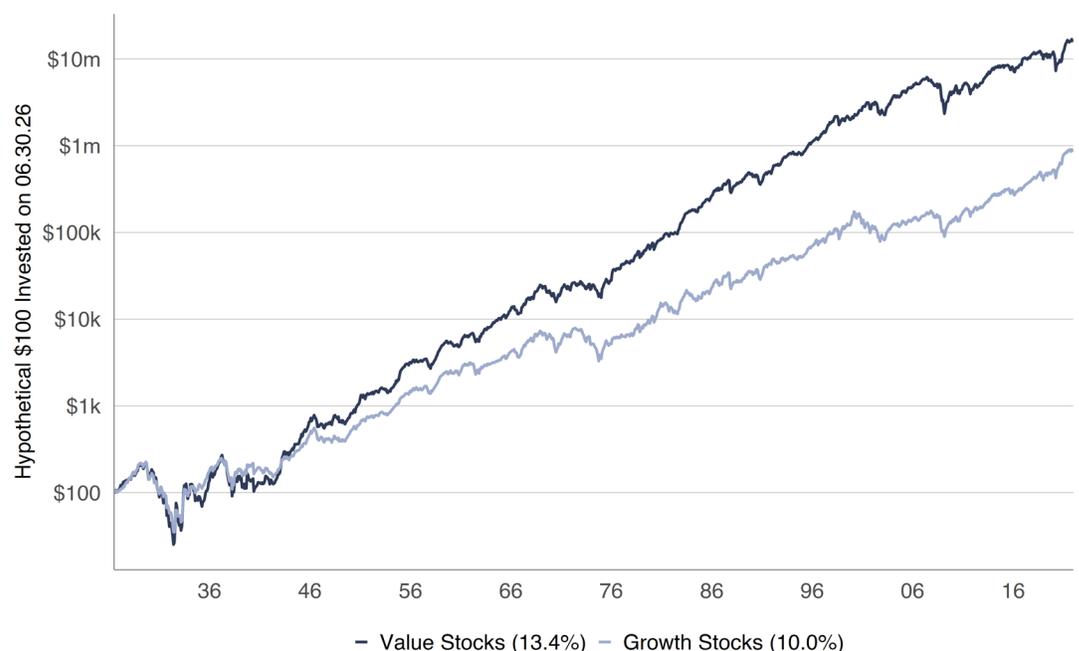


Figure 1: Value Trounces Growth Over the Long Term

From 06.30.1926 through 12.31.2021. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Logarithmic scale. Series definitions can be found at the end of this Insight. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French



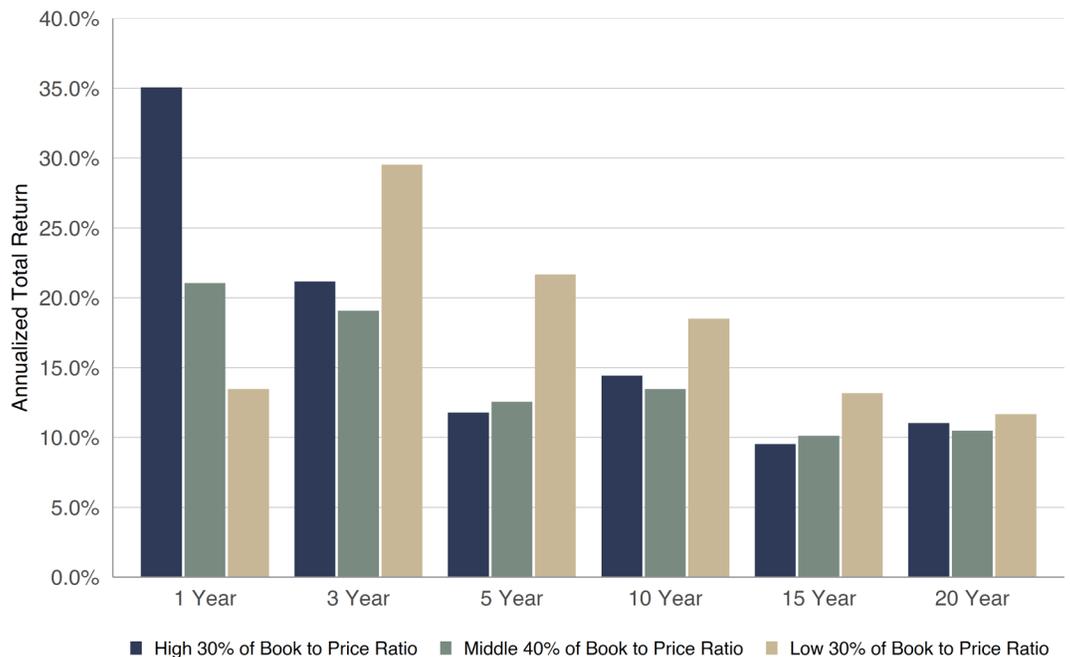
## VALUE, BUT EXPANDED

We think it's too simplistic to differentiate between Value and Growth by just one measure. Therefore, we incorporate multiple valuation measures into the quantitative framework that underpins our ValuePlus, Dividend Income and Small-Mid Dividend Value strategies. On a daily basis, the framework scores more than 3,000 securities across a wide swath of metrics, including measurements of valuation (i.e. Price to Book Ratio or Free Cash Flow Yield) and financial performance (Return on Equity).

We regularly evaluate our work using data from Bloomberg (historical sources include Thomson Reuters, FactSet and ClariFI) to ensure the existing framework remains useful and to improve it. Select outputs of that work are charted below. Figure 2 shows near-term and long-term performance of companies grouped by the Book to Price ratio (inverse of the frequently cited P/B ratio or analogous to the Book to Market ratio), which we'd consider a classic valuation measure. Figure 3 evaluates the data over the same time period as the preceding figure, but the metric evaluated is Free Cash Flow Yield (FCFY).

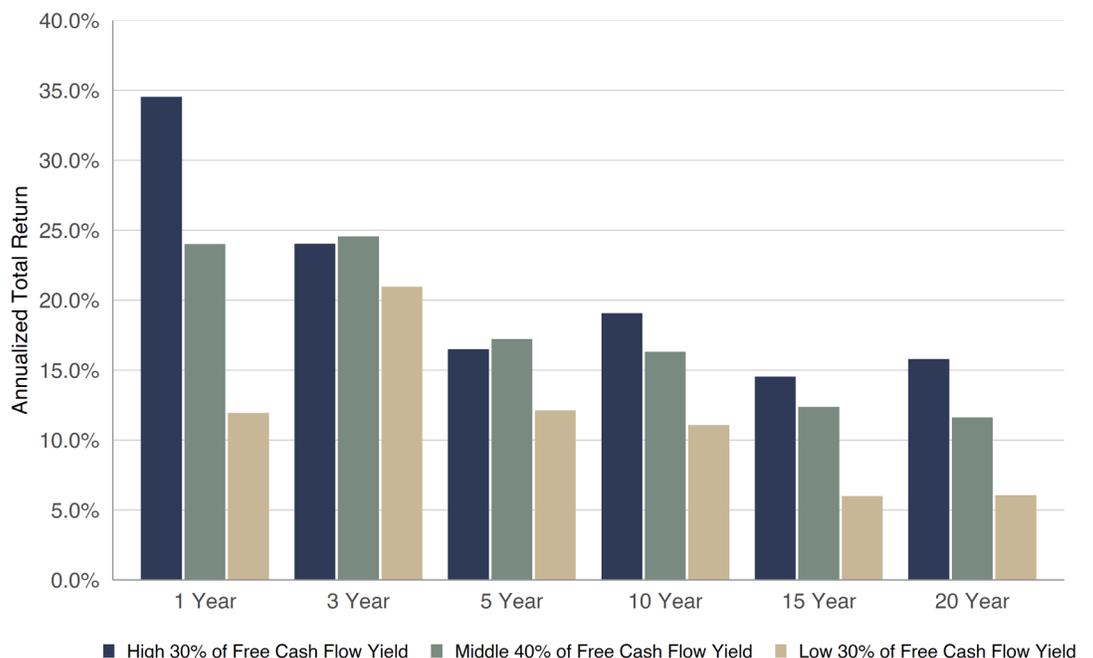
**Figure 2:**  
Measured by Book to Price,  
Value Has Fared OK

As of 12.31.2021. Portfolios are formed using the Russell 1000 ranked by decile on the Book to Price Ratio at the end of each month. SOURCE: Kovitz using data from Bloomberg Finance L.P.



**Figure 3:**  
Measured by FCFY,  
Value Looks Brilliant

As of 12.31.2021. Portfolios are formed using the Russell 1000 ranked by decile on the Free Cash Flow Yield at the end of each month. SOURCE: Kovitz using data from Bloomberg Finance L.P.





## VALUE STOCK INDEXES ARE COMPARABLY CHEAP

The Russell 3000 (R3000) index is comprised of the 3,000 largest U.S. companies by market capitalization and represents approximately 98% of the investable U.S. equity market. Sub-indexes include the Russell 1000 (largest 1,000 stocks in the R3000 index) and the Russell 2000 (smallest 2,000 in the R3000 index). Each index has a Value subset (companies with higher book-to-price ratios and lower growth values) and a Growth subset (companies with lower book-to-price ratios and higher growth values). In Figure 4, we offer the latest trailing price-to-earnings (P/E) figure and the corresponding 20-year average. The same goes for Figure 5, but instead it uses the forward P/E ratio, which takes into account analyst earnings estimates for the upcoming year. As a group, Value stocks remain near their long-term average valuations, while Growth stocks are planted significantly above their long-term valuation averages. We hear the stock market is very expensive. Fortunately for Value fans, the metrics are much closer to their historical norms and our focus is on stocks that look even less expensive than the indexes.

**Figure 4:**  
Small Cap Value Stocks  
Trade at a Discount

From 01.31.2002 through 01.31.2022. Russell indexes. The intersection indicates the index. For example, the first cell is the intersection of row 1000 and column Value, indicating the metrics are for the Russell 1000 Value index. SOURCE: Kovitz using data from Bloomberg Finance L.P.

Trailing 12-Month P/E Ratios vs. 20-Year Mean			
	Value Stocks (Value)	All Stocks (Index)	Growth Stocks (Growth)
Large Capitalization (1000)	Latest: 18.8x Mean: 17.2x	Latest: 24.7x Mean: 19.5x	Latest: 35.1x Mean: 22.7x
All Capitalization (3000)	Latest: 20.5x Mean: 18.0x	Latest: 26.8x Mean: 20.4x	Latest: 38.0x Mean: 24.1x
Small Capitalization (2000)	Latest: 44.2x Mean: 49.5x	Latest: 107.4x Mean: 65.0x	Latest: N/A Mean: 115.8x

**Figure 5:**  
Looking Ahead,  
Small Caps are Attractive

From 01.31.2002 through 01.31.2022. Russell indexes. The intersection indicates the index. For example, the first cell is the intersection of row 1000 and column Value, indicating the metrics are for the Russell 1000 Value index. SOURCE: Kovitz using data from Bloomberg Finance L.P.

Forward 12-Month P/E Ratios vs. 20-Year Mean			
	Value Stocks (Russell Value)	All Stocks (Russell Index)	Growth Stocks (Russell Growth)
Large Capitalization (1000)	Latest: 16.1x Mean: 15.1x	Latest: 20.6x Mean: 17.1x	Latest: 28.1x Mean: 19.6x
All Capitalization (3000)	Latest: 16.1x Mean: 15.5x	Latest: 20.7x Mean: 17.5x	Latest: 28.5x Mean: 20.4x
Small Capitalization (2000)	Latest: 16.3x Mean: 23.2x	Latest: 22.6x Mean: 30.9x	Latest: 38.4x Mean: 70.1x

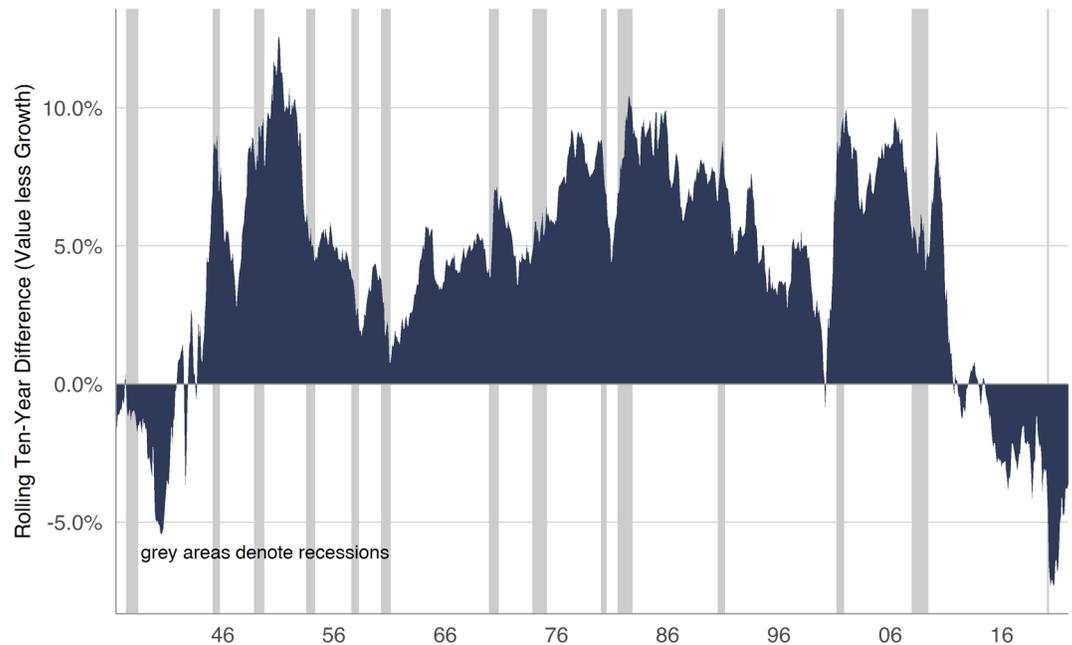


## VALUE STOCKS HAVE LONG ENJOYED PLENTY OF SUNSHINE

The performance difference between Value stocks and Growth stocks for any rolling ten-year period had never been as wide as it was at the beginning of the pandemic. The chart in Figure 6 shows Value underperformance has been a rare phenomenon over the last nine decades, at least on a market-capitalization-weighted basis, where large stocks have outsized impacts on performance.

**Figure 6:**  
**Cap-Weighted Series:**  
**Value's Coming Back**

From 06.30.1926 through 12.31.2021. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Market-capitalization weighted. Series definitions can be found at the end of this Insight. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

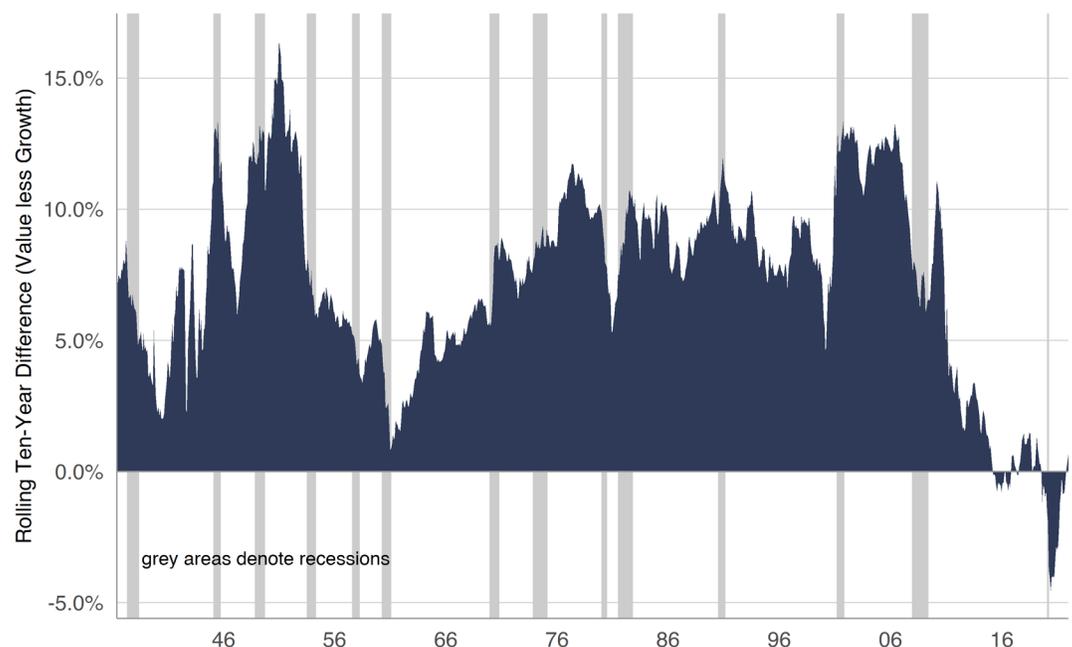


## TREAT ALL OF THE KIDS EQUALLY

To solve the issue where big companies with big weights skew returns, the good Professors Fama and French crunched their Value/Growth numbers on equal-weighted portfolios. We argue equal-weighted series are better representations of average Value and Growth stock returns, compared with the capitalization-weighted counterparts. The equal-weighted series in Figure 7 shows Value stocks have recently reclaimed their lead on Growth stocks.

**Figure 7:**  
**Equal-Weighted Series:**  
**Value Took the Lead Again**

From 06.30.1926 through 12.31.2021. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Equal weighted. Series definitions can be found at the end of this Insight. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French





## IN SEARCH OF VALUE STOCKS

Broad market valuation measures are always of interest to us, but we do not rely on them. Instead, our in-house quantitative algorithms sort through time series data for thousands of stocks each day to form the foundation for our ValuePlus, Dividend Income and Small-Mid Dividend Value strategies. We believe distillation of a broad opportunity set into a consolidated list of Value stocks is analogous to “fishing in the appropriate pond.”

And once the appropriate short-list is determined, we scrutinize individual equities on a multitude of company-specific factors the algorithms don’t assess. The result aligns with our view that there’s a pocket of Value in any market environment and we remain focused on uncovering bargain-priced stocks with significant appreciation potential.

Of course, we sleep better at night with the knowledge that the metrics on our portfolios generally are far less expensive than those of the major market averages and are even priced more favorably than nearly all the Value indexes. What’s more, our dividend payouts are at the top of the charts in the yield derby.

Figure 8:  
Portfolio & Index  
Valuation Metrics

As of 01.31.2022. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

Kovitz Value Strategy Metrics & Index Comparisons					
Series	Price to Earnings Ratio	Price to Est. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
<b>TPS Portfolio</b>	<b>14.8</b>	<b>13.2</b>	<b>1.2</b>	<b>2.5</b>	<b>2.2</b>
<b>ValuePlus</b>	<b>15.4</b>	<b>13.1</b>	<b>1.5</b>	<b>2.5</b>	<b>2.0</b>
<b>Dividend Income</b>	<b>13.9</b>	<b>12.8</b>	<b>1.0</b>	<b>2.3</b>	<b>2.7</b>
<b>Focused Dividend Income</b>	<b>15.1</b>	<b>13.9</b>	<b>1.3</b>	<b>2.6</b>	<b>2.4</b>
<b>Focused ValuePlus</b>	<b>14.8</b>	<b>14.1</b>	<b>1.5</b>	<b>2.7</b>	<b>2.1</b>
<b>Small-Mid Dividend Value</b>	<b>12.1</b>	<b>10.9</b>	<b>0.7</b>	<b>1.7</b>	<b>2.4</b>
Russell 3000	26.8	20.7	2.6	4.2	1.4
Russell 3000 Growth	38.0	28.5	4.4	11.4	0.7
Russell 3000 Value	20.5	16.1	1.8	2.5	2.0
Russell 2000	107.4	22.6	1.2	2.4	1.3
Russell 2000 Growth	NA	38.4	1.6	4.5	0.6
Russell 2000 Value	44.2	16.3	1.0	1.7	2.0
Russell MidCap	24.9	18.8	1.8	3.2	1.4
Russell MidCap Growth	51.5	29.1	3.2	9.1	0.6
Russell MidCap Value	19.8	15.9	1.5	2.4	1.8
S&P 500 Index	23.7	20.1	2.9	4.5	1.4
S&P 500 Growth Index	28.5	24.7	5.4	8.9	0.7
S&P 500 Value Index	20.1	16.8	2.0	3.0	2.0
S&P 500 Pure Value Index	12.2	10.8	0.7	1.4	2.4



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All returns are geometric average unless otherwise stated. The geometric average is calculated using the mean of a set of products that takes into account the effects of compounding.

The federal funds rate is the rate banks charge on loans to each other.

The quoted forward yield for the S&P 500 uses the iShares S&P 500 ETF (ticker: SPY) as a proxy. The quoted forward yield for the S&P Core Value uses iShares Core S&P U.S. Value ETF (ticker: IUSV) as a proxy. The quoted forward yield for the S&P Core Growth uses iShares Core S&P U.S. Growth ETF (ticker: IUSG) as a proxy.

The factor-based (book value-to-price) portfolio data is from Eugene F. Fama and Kenneth R. French. The dataset is broken into four groups: large value, large growth, small value and small growth. The aggregate Value and Growth portfolios are monthly averages of the two returns.

The Standard & Poors 500 index (S&P 500) is a broad stock market index based on the market capitalizations of the largest 500 companies listed in the U.S. Small company stocks, via Ibbotson Associates, are the bottom twenty percent of the New York Stock Exchange. Large company stocks, via Ibbotson Associates, are represented by the S&P 500 index. The S&P 500 Growth Index is a market capitalization weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices. Prior to 12/19/2005 this index represented the S&P 500/Barra Growth Index. The S&P 500 Value Index is a market capitalization weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices. Prior to 12/19/2005 this index represented the S&P 500/Barra Value Index.

Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBILL Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index.

The Russell 3000 Index is composed of 3000 large U.S. companies, as determined by market capitalization. This portfolio of Securities represents approximately 98% of the investable U.S. equity market. The Russell 3000 Index is comprised of stocks within the Russell 1000 and the Russell 2000 Indices. Russell 3000 Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values.

Russell's methodology for their Value and Growth indexes is the following: For each base index (the Russell 1000 and Russell 2000, and the smallest 1,000 in Russell Microcap), stocks are ranked by their book-to-price ratio (B/P), their I/B/E/S forecast medium-term growth (2 year) and sales per share historical growth (5 year). These rankings are converted to standardized units, where the value variable represents 50% of the score and the two growth variables represent the remaining 50%. They are then combined to produce a composite value score (CVS). Stocks are then ranked by their CVS, and a probability algorithm is applied to the CVS distribution to assign growth and value weights to each stock. In general, a stock with a lower CVS is considered growth, a stock with a higher CVS is considered value and a stock with a CVS in the middle range is considered to have both growth and value characteristics, and is weighted proportionately in the growth and value index. Stocks are always fully represented by the combination of their growth and value weights.

The MSCI ACWI Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31 1987. It includes both emerging and developed world markets. The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. The DJ US Real Estate Index represents REITs & other companies that invest directly or indirectly in real estate through development, management or ownership, including property agencies. The index is a subset of the Dow Jones U.S. Index, which covers 95% of U.S. securities based on float-adjusted market capitalization. The S&P GSCI Total Return Index in USD is widely recognized as the leading measure of general commodity price movements and inflation in the world economy. Index is calculated primarily on a world production weighted basis, comprised of the principal physical commodities futures contracts.

From 1927 to present, we utilized the dividend-weighted portfolio data from Eugene F. Fama and Kenneth R. French. The dataset is broken into five groups: non-dividend paying, top 30% of dividend payers, middle 40% of dividend payers, bottom 30% of dividend payers and all dividend payers (weighted 30% of top dividend payers, 40% of middle dividend payers and 30% of low dividend payers).

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