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Value investing is the ownership of assets at bargain prices. At the core is the notion that today's price is below the future value. In practice, we are happy to pay a low price for a stock today that we expect is going to be worth more in the future.

Despite sharing the same ultimate target of capital appreciation with Growth investors, Value and Growth investors see the world differently. Growth investors seek out companies that feature growth trajectories above that of the market. Since other market participants have similarly high expectations, Growth valuations (e.g. P/E ratios) tend to be above average, forcing investors to pay "expensive" relative prices for their shares. To see prices rise, Growth stocks must grow their businesses and meet often-lofty targets, leaving little margin for error.

Value investors prefer to pay less than market rates for their shares, enabling shareholders to make money two ways. The first occurs when a stock's multiples rise to the market average, often spurred by improving investor sentiment. For example, a stock might trade at a 'discounted' 10x P/E ratio, while the market (or a peer group) multiple is 15x. Should the stock earn the market multiple, the stock price will rise, even though there was no change to the underlying business. The second is growth in the bottom line, which can be aided by an upswing in cyclical trends, a reduction in headwinds, business restructuring and/or better management execution.

THE LONG RUN

In Figure 1, Professors Eugene F. Fama and Kenneth R. French assign stocks into two buckets, Value and Growth, solely using price-to-book ratio. 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 "price" means the market price of a stock. The nearly century-long performance derby shows that Value stocks trounce Growth stocks, even as figures in subsequent pages show that market performance over the last century has not been exclusively titled in favor of Value stocks.

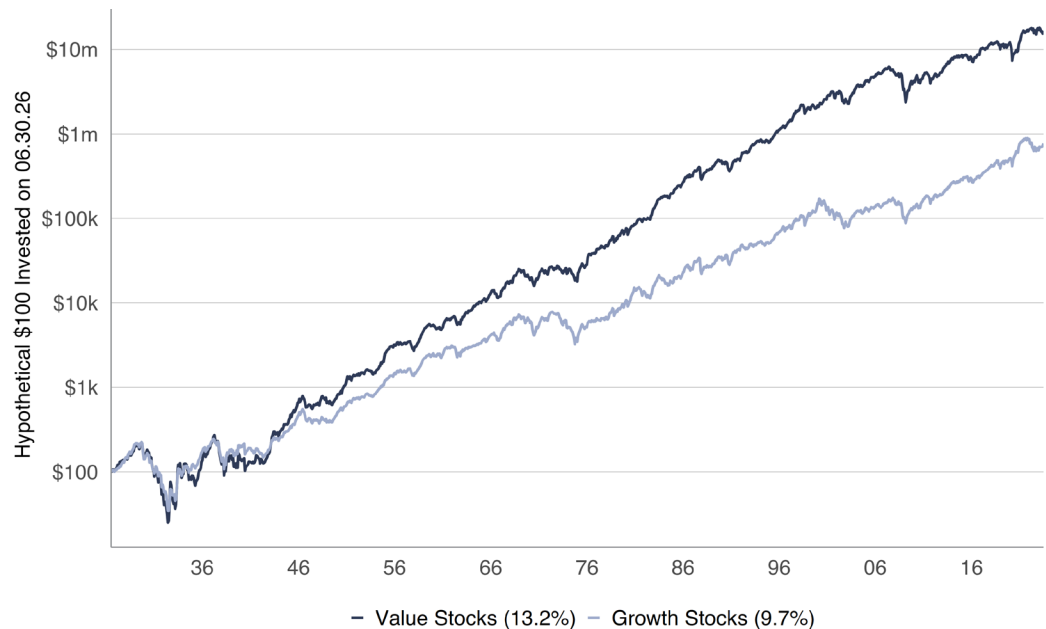


Figure 1: Value Trounces Growth Over the Long Term

From 06.30.1926 through 06.30.2023. 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. 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 12.31.2022. 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.

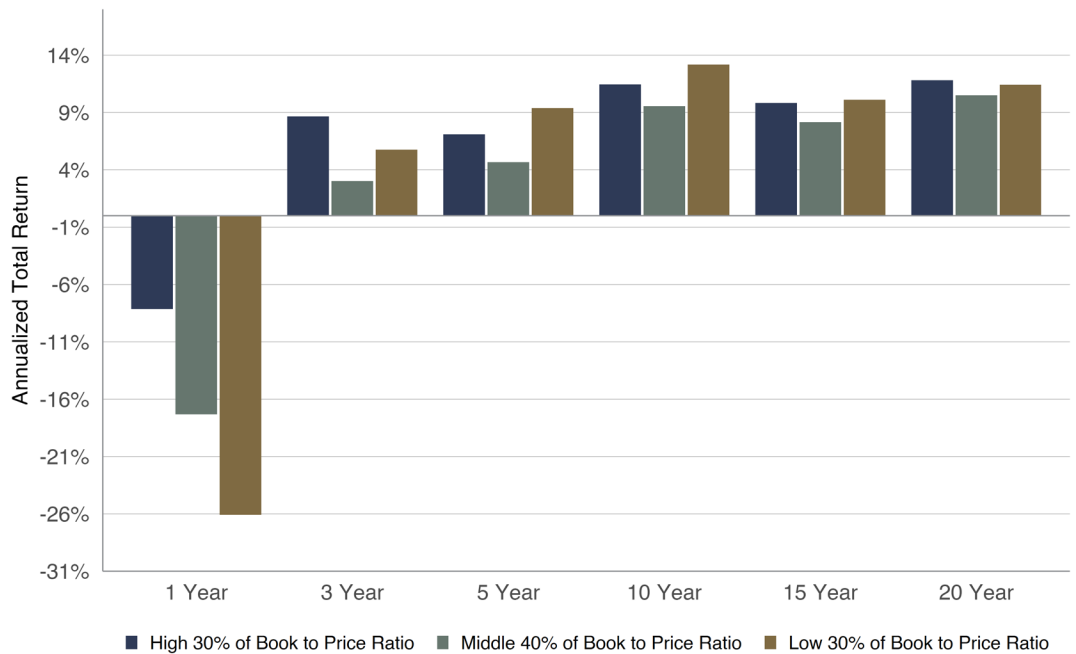
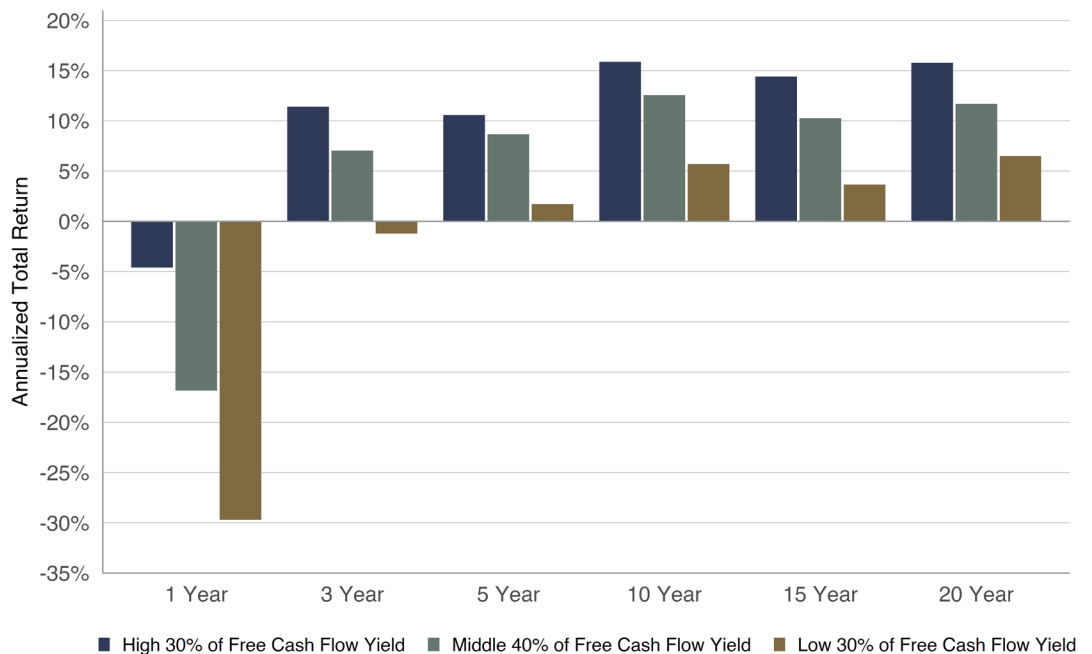


Figure 3:
Measured by FCFY,
Value Looks Brilliant

As of 12.31.2022. 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 Stocks
Trade at a Discount

From 07.31.2003 through 07.31.2023. 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)	Current: 15.2x Mean: 15.4x	Current: 20.8x Mean: 17.9x	Current: 30.7x Mean: 21.6x
All Capitalization (3000)	Current: 15.5x Mean: 15.7x	Current: 21.3x Mean: 18.4x	Current: 31.4x Mean: 22.3x
Small Capitalization (2000)	Current: 23.6x Mean: 28.3x	Current: 33.3x Mean: 30.6x	Current: 52.8x Mean: 44.4x

Figure 5:
Looking Ahead,
Small Caps are Attractive

From 07.31.2003 through 07.31.2023. 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)	Current: 16.3x Mean: 15.2x	Current: 21.4x Mean: 17.4x	Current: 29.7x Mean: 20.6x
All Capitalization (3000)	Current: 16.5x Mean: 15.4x	Current: 21.7x Mean: 17.8x	Current: 30.2x Mean: 21.3x
Small Capitalization (2000)	Current: 20.7x Mean: 30.8x	Current: 28.3x Mean: 35.3x	Current: 45.5x Mean: 72.8x

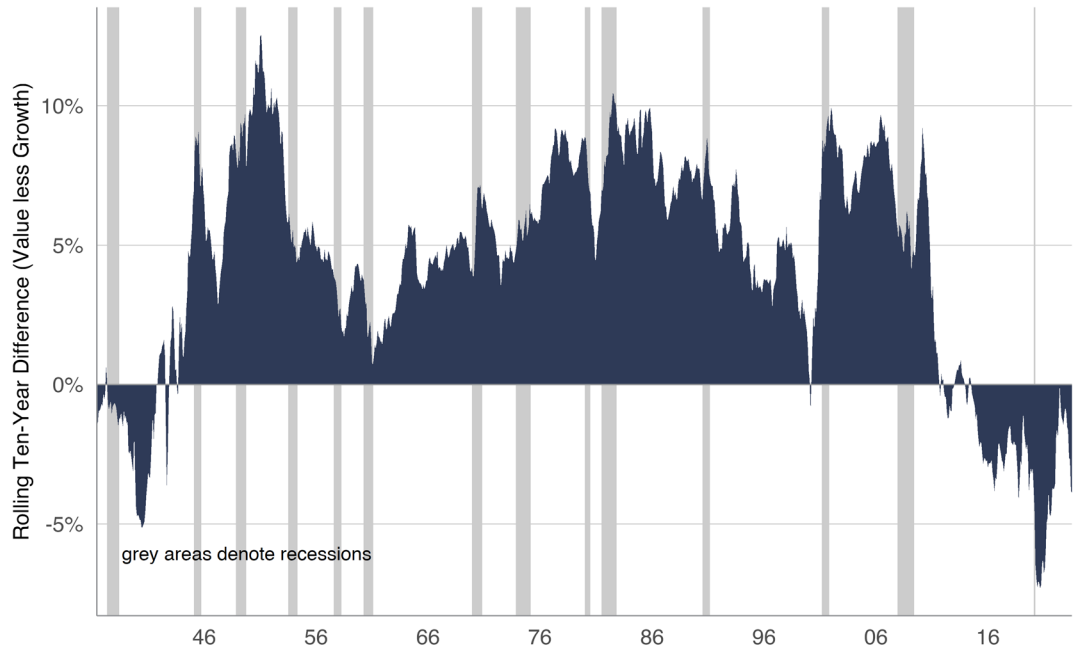


VALUE STOCKS HAVE LONG ENJOYED PLENTY OF SUNSHINE

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 Makes Up Ground

From 06.30.1926 through 06.30.2023. 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

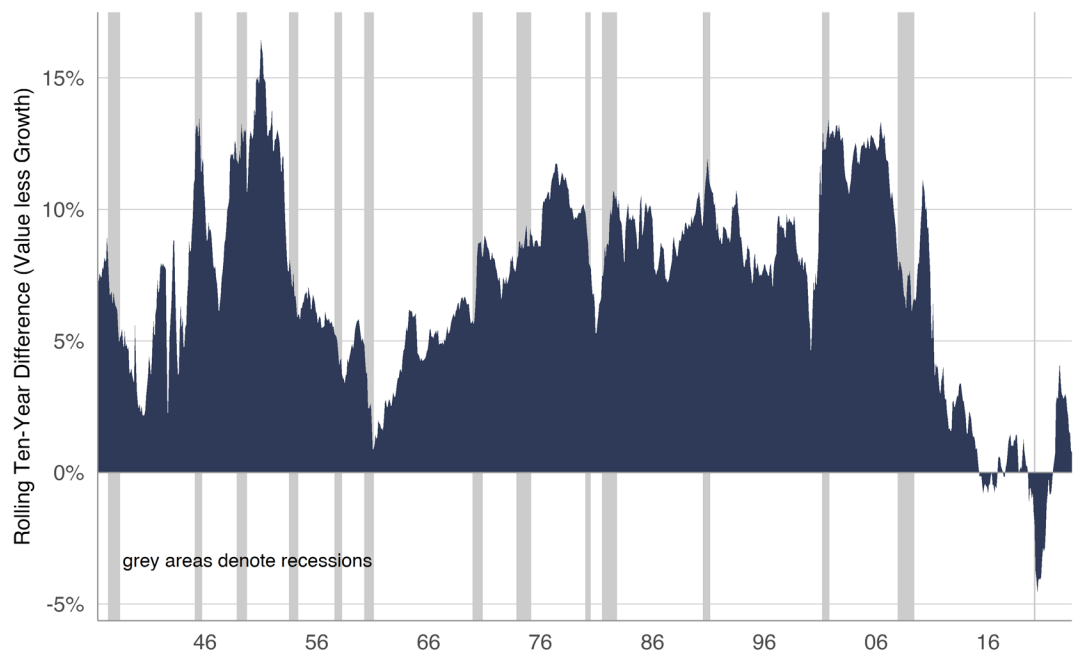


TREAT ALL OF THE KIDS EQUALLY

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 had reclaimed their lead on Growth stocks but it is now a dead-heat.

Figure 7:
Equal-Weighted Series:
Value Retakes the Lead

From 06.30.1926 through 06.30.2023. 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

In our view, Value investors endeavor to buy a dollar bill for \$0.50, and if we're lucky some will grow to be worth more dollars in the future. For Growth investors, the current price one pays today tends to take a back seat to whether metrics like revenue, earnings, customers, et cetera are expected to grow at a satisfactory rate.

Should things go better than initially planned, it is certainly possible that we might continue to hold some investments as they periodically extend into the Growth end of the spectrum. Nevertheless, we appreciate the additional margin of safety that comes from buying stocks that are discounted and have great potential to grow, rather than depending on growth alone.

If only the dividing line between Value and Growth was as simple as Professors Fama and French offer in their seminal work. Because the effort to uncover Value stocks is not clean-cut, we utilize a diversified set of metrics (covering factors like income, cash flow and financial health) and in-house quantitative algorithms to 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.

Figure 8:
Portfolio & Index
Valuation Metrics

As of 07.31.2023. 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
TPS Portfolio	13.4	13.4	0.8	2.2	2.8
ValuePlus	14.3	13.9	1.1	2.3	2.4
Dividend Income	13.5	13.6	0.8	2.2	3.2
Focused Dividend Income	15.4	14.7	1.0	2.5	2.8
Focused ValuePlus	15.3	14.5	1.2	2.5	2.6
Small-Mid Dividend Value	11.6	11.5	0.5	1.6	3.0
Russell 3000	21.3	21.7	2.3	4.0	1.5
Russell 3000 Growth	31.4	30.2	3.8	10.2	0.7
Russell 3000 Value	15.5	16.5	1.6	2.4	2.3
Russell 2000	33.3	28.3	1.2	2.2	1.6
Russell 2000 Growth	52.8	45.5	1.6	4.1	0.7
Russell 2000 Value	23.6	20.7	0.9	1.4	2.4
Russell MidCap	21.7	19.1	1.7	3.1	1.7
Russell MidCap Growth	34.4	28.8	2.5	7.7	0.7
Russell MidCap Value	17.8	16.8	1.4	2.3	2.1
S&P 500 Index	22.0	21.3	2.5	4.4	1.5
S&P 500 Growth Index	23.5	24.0	3.6	7.7	1.2
S&P 500 Value Index	20.5	18.7	1.9	2.9	1.9
S&P 500 Pure Value Index	10.2	11.0	0.5	1.2	2.7



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The description of products, services, and performance results contained herein is not an offering or a solicitation of any kind. Past performance is not an indication of future results. Securities investments are subject to risk and may lose value.

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.

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).

Figure 1 and Figure 2 definitions are as follows: Commodities: S&P GSCI TR Index. REIT: MSCI U.S. REIT NR Index. Long-Term Bonds: Bloomberg US Treasury; 20+ Year Index. Short-Term Bonds: Bloomberg Barclays U.S. Treasury; 1-3 Year TR Value Unhedged USD Index. Cash: Bloomberg Barclays U.S. Tr Bills; 1-3 Months TR Value Unhedged USD Index. High Yield Bonds: Barclays VLI High Yield TR Value Unhedged USD Index. Domestic Small Cap Equity: Russell 2000 TR Index. Domestic Large Cap Equity: S&P 500 TR Index. Emerging Markets: MSCI Emerging Markets NR USD Index. Developed Markets: MSCI EAFE NR USD Index. Aggregate Bond: Barclays U.S. Agg TR Value Unhedged USD Index. Generic 70/30 blend: 70% S&P 500 Index, 30% Barclays U.S. Aggregate Bond Index. Expanded Blend: 60% S&P 500 Index, 25% Bloomberg Barclays U.S. Aggregate Bond Index, 10% HFRX Equity Hedge Index and 5% Dow Jones U.S. Real Estate Capped Index (USD) TR.

Figure 3 definitions are as follows: Value Factor: MSCI USA Value Net Total Return USD Index. Growth Factor: MSCI USA Growth Net Total Return USD Index. Minimum Volatility: MSCI USA Minimum Volatility Net Total Return Index. High Dividend Yield: MSCI USA High Dividend Yield Net Total Return Risk Premia Index. Quality: MSCI USA Quality Net Total Return USD Index. Momentum: MSCI USA Momentum USD Net Total Return Total Return Index. Size: MSCI USA Size Tilt USD Net Total Return Index.

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