Factors

Cycles for Value and Growth

December 13, 2015

The investing literature generally contends that value stocks outperform over time. Secondly, there is literature[1] documenting that factors such as market cap, value/growth, momentum, quality and liquidity oscillate and revert to the mean over time. I am curious as to the extent of possible advantage to investing according to these factors, and how one might do so.

The longest duration indexes I could find for value and growth were iShares S&P 500/Barra Value Index Fund ETF and iShares S&P 500/Barra Growth Index Fund ETF (IVW). Weekly and then daily prices since 5/31/2000 were downloaded from Yahoo Finance. The weekly percent change in their respective adjusted closing prices was calculated and a rolling twenty-five week simple moving average (SMA) was then calculated for each. On this weekly result, growth (IVW) was subtracted from value (IVE). The result is charted on the following page with growth having bars pointing down and value have bars pointing up. Similar charts with daily data are shown on the third page.

The extreme differences of the first thirteen months of the available data dwarf the scale of differences since then, which are shown more clearly in the middle chart that excludes the early period. The merit of the third chart with the ten-week EMA is that it shows variations within the broader cycles portrayed in the middle chart.

The reversion to the mean is obvious on these charts. Even if the time frames do not have a consistent rhythm, each move away from equilibrium can be assumed to eventually be answered by a move in the opposite direction. I would also assume that the longer and more extreme that value or growth is in excess, the longer and more extreme will be the opposing response. Given the length of the cycles, it would be meaningless to calculate for this limited time period whether value or growth is the best long-term strategy.

Value had the ascendency for four years between 2003 and 2007. Since 2009 the cycle has been roughly six months for value followed by six months for growth up until the last year and a half or so in which growth has predominated. When will it be value's turn?

[1] Jason Hsu, Ph.D., "If Factor Returns Are Predictable, Why Is There an Investor Return Gap?", Fundamentals, Research Affiliates, November 2015.

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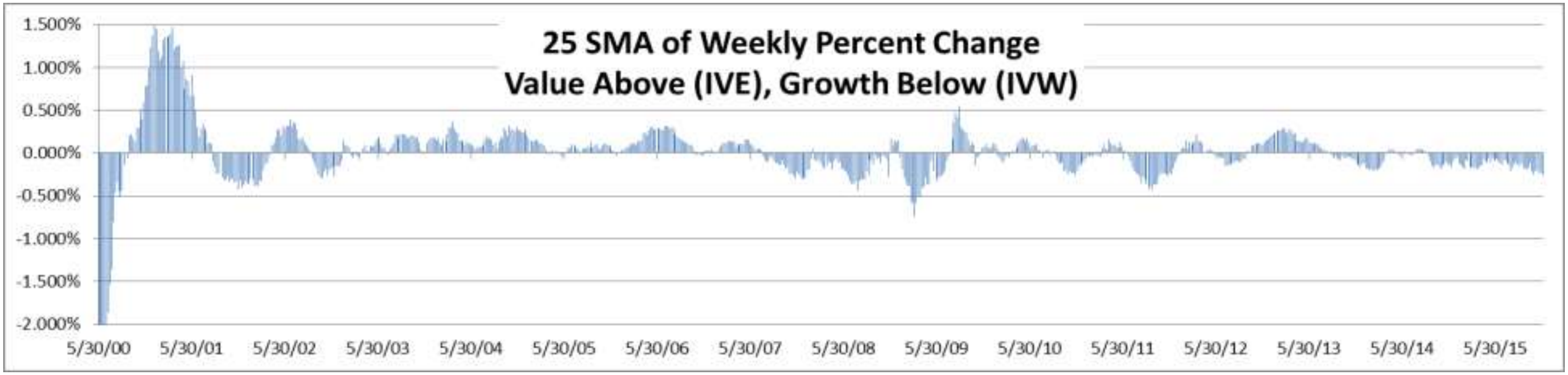
25 SMA of Weekly Percent Change
Value Above (IVE), Growth Below (IVW)
1.500%
1.000%
0.500%
0.000%
-0.500%
-1.000%
-1.500%
-2.000%
5/30/00
5/30/01
5/30/02
5/30/03
5/30/04
5/30/05
5/30/06
5/30/07
5/30/08
5/30/09
5/30/10
5/30/11
5/30/12
5/30/13
5/30/14
5/30/15


25 SMA of Weekly Percent Change;
Value Above (IVE), Growth Below (IVW)
Shorter Time Period, Different Scale
0.60%
0.40%
0.20%
0.00%
-0.20%
-0.40%
-0.60%
8/20/01
8/20/02
8/20/03
8/20/04
8/20/05
8/20/06
8/20/07
8/20/08
8/20/09
8/20/10
8/20/11
8/20/12
8/20/13
8/20/14
8/20/15


10 EMA of Weekly Percent Change
Value Above (IVE), Growth Below (IVW)
1.00%
0.50%
0.00%
-0.50%
-1.00%
-1.50%
8/20/01
8/20/02
8/20/03
8/20/04
8/20/05
8/20/06
8/20/07
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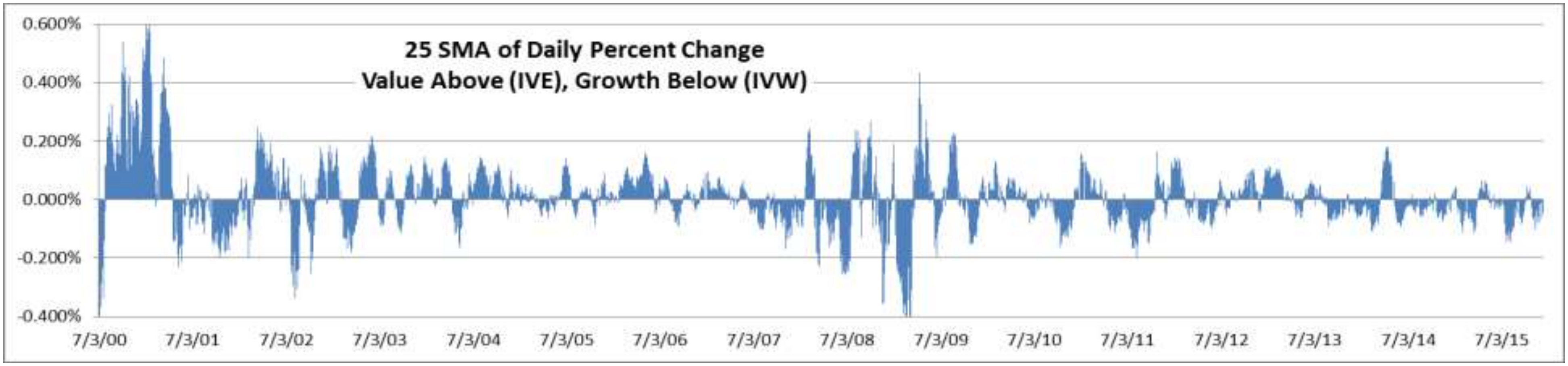
8/20/14
8/20/15


25 SMA of Daily Percent Change
Value Above (IVE), Growth Below (IVW)
0.600%
0.400%
0.200%
0.000%
-0.200%
-0.400%
7/3/00
7/3/01
7/3/02
7/3/03
7/3/04
7/3/05
7/3/06
7/3/07
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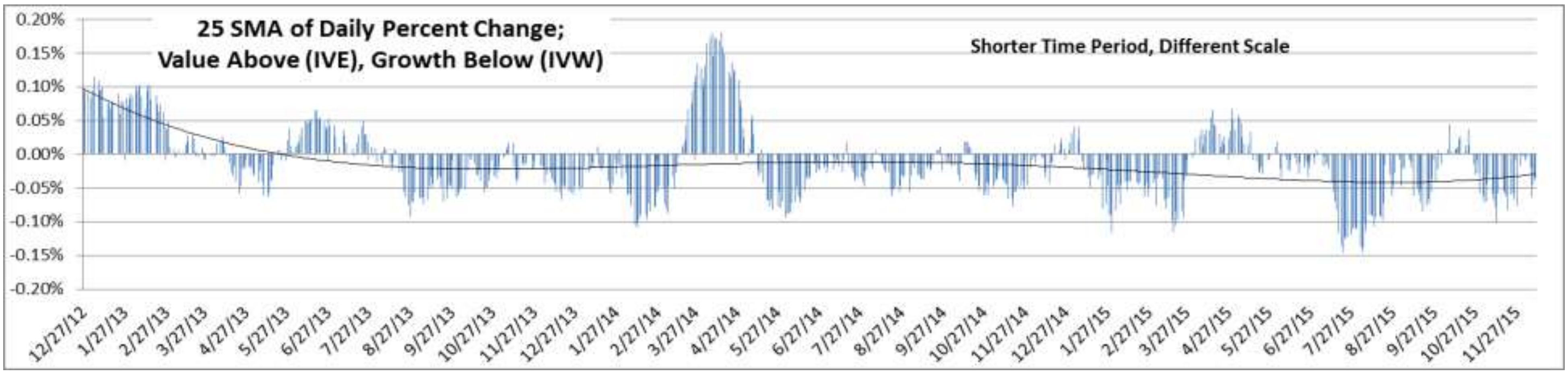
7/3/14
7/3/15


25 SMA of Daily Percent Change;
Value Above (IVE), Growth Below (IVW)
Shorter Time Period, Different Scale
0.20%
0.15%
0.10%
0.05%
0.00%
-0.05%
-0.10%
-0.15%
-0.20%
12/27/12
1/27/13
2/27/13
3/27/13
4/27/13
5/27/13
6/27/13
7/27/13
8/27/13
9/27/13
10/27/13
11/27/13
12/27/13
1/27/14
2/27/14
3/27/14
4/27/14
5/27/14
6/27/14
7/27/14
8/27/14
9/27/14
10/27/14
11/27/14
12/27/14
1/27/15
2/27/15
3/27/15
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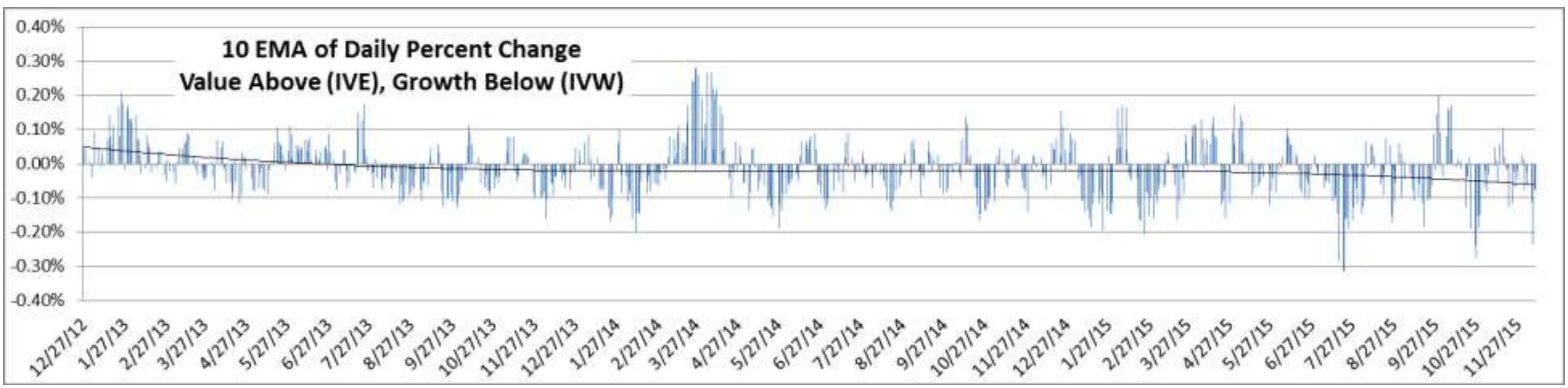
10/27/15
11/27/15


10 EMA of Daily Percent Change
Value Above (IVE), Growth Below (IVW)
0.40%
0.30%
0.20%
0.10%
0.00%
-0.10%
-0.20%
-0.30%
-0.40%
12/27/12
1/27/13
2/27/13
3/27/13
4/27/13
5/27/13
6/27/13
7/27/13
8/27/13
9/27/13
10/27/13
11/27/13
12/27/13
1/27/14
2/27/14
3/27/14
4/27/14
5/27/14
6/27/14
7/27/14
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12/27/14
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10/27/15
11/27/15