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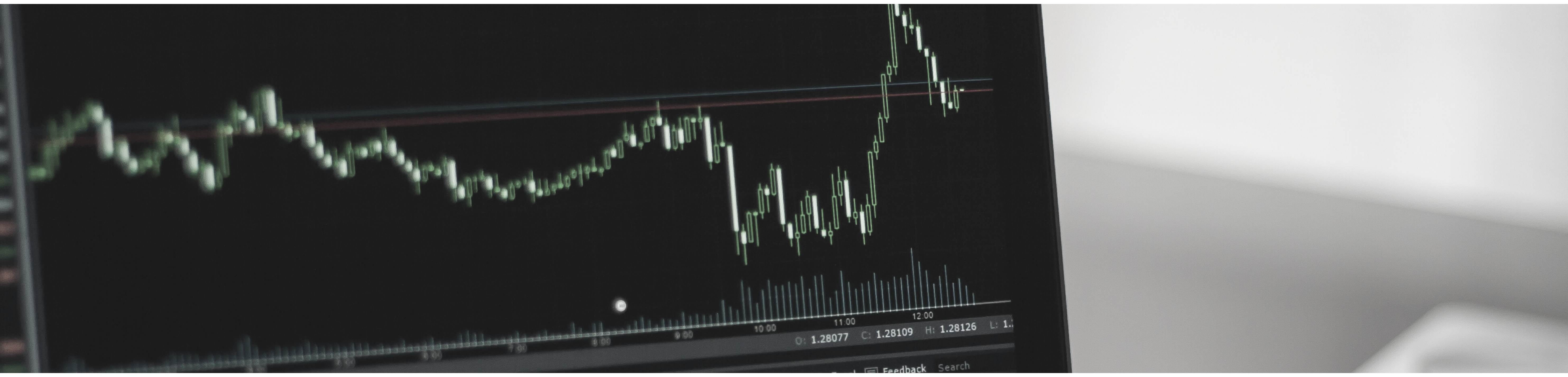
TRADING GROUP UBC

Market Concepts



Growth v. Value stocks

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The choice between value and growth stocks has been interesting recently because of different shifts in portfolio weightings due to Covid-19. When Pfizer announced a vaccine that was 90% effective, there was a huge shift towards value stocks such as cruises, energy, airlines, hospitality, etc. and generally hard-hit industries. This shift occurred because there finally appeared to be an end in sight for the pandemic and a rejuvenation in these industries that may see sooner-than-expected recoveries. This led to a perception of fundamental mispricing which quickly was corrected after vaccine hopes.

Growth – stocks anticipated to significantly outgrow the market average with rapid expansion (e.g. tech stocks)

- Typically tend to trade at a higher P/E (price-to-earnings) ratios (expensive) due to high expected potential and earnings in the future.
- Tend to not distribute dividends and reinvest retained earnings in R&D and growth
- Risk derives from earnings, as some companies may have very little or none, while valuation is based off of expectations

Value – relatively cheap or undervalued securities that are trading at a price lower than what their fundamentals, or intrinsic value, may indicate.

- Think of it as a stock being sold at a discount
- Tend to have high dividend yield and low P/E ratio (less expensive)
- Traditionally larger and well-established companies
- They can be undervalued for a variety of reasons including negative market perception, public perception, macroeconomic or societal trends, and more

Though growth stocks have been very dominant in recent memory thanks to large technological disruption, there is not a clear winner on which type of stock is better to invest in. They both possess very different philosophies which is completely contingent and dependent on the investor's expectations, risk tolerance, time horizon, and thoughts on the market to determine which is right for them. Many portfolios will maintain a blend of the two categories to provide diversification.

"It's far better to buy a wonderful company at a fair price, than a fair company at a wonderful price" – Warren Buffett. This appears straight-forward, but it is up to each investor to determine what defines "fair" and "wonderful" to them.

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