HISTORY *WILL* REPEAT ITSELF

Investment Styles Matter!

We have had some issues that have presented our markets with headwinds this year, but on the whole, the global economy is growing, the U.S. growth is on a positive trajectory as indicated by the announcement in the August edition of the Raymond James Monthly CIO Review that real GDP is expected to grow to 1.8% for 2023, not great, but positive. Also, as of this writing, corporate earnings announcements have been largely positive, albeit down ~6.9% over 2022.

We like to cut through the noise and talk about strategies and metrics that many investors need to know about in order to stay comfortably seated within their stated "risk tolerance bands." The next two paragraphs are primers on two specific styles of investing. It is important to know and understand the differences.

"Value" investing is an investment strategy where stocks are selected that trade for less than their intrinsic values. Value investors actively seek stocks they believe the market has undervalued. These stocks tend to have lower-than-average price-to-book ratios, lower-than-average price-to-earnings ratios and/or higher dividend yields.

"Growth" investing is a style of investment strategy focused on capital appreciation. Those who follow this style, known as growth investors, invest in companies that exhibit signs of above-average growth, even if the share price appears expensive in terms of metrics such as price-to-earnings or price-to-book ratios.

The growth style of investing has been dominant year-to-date in 2023 while value has been a painful laggard. This is historically not unusual. Remember the "tech wreck" of 2001? That rally was fueled by two sectors out of 11 in the S&P 500; Information Technology and Telecommunications. What a ride, but one that left purely growth investors limping for a long while. The pendulum swung back to value in that mash-up and needless to say, it will again. Unfortunately, there is not a definitive way to know when one style will dominate over the other. We can measure certain factors, but we cannot see the actual crest of the style that dominates. We can be vigilant and help make sure that our clients are appropriately allocated to help alleviate the potential pain of an eventual shift from one style to another.

What many investors do not know is that the two styles rarely perform in concert. This certainly has been true as you will see from the following chart. That is why it is prudent to include both styles in an asset allocation model. Turning a blind eye to the eventual brick wall ahead would *not* be a prudent thing to do. This following illustrates the extreme dominance of growth investing over value in the last eight months.

Calendar Year 2022

Russell 1000 Value **-7.54%**

Russell 1000 Growth **-28.97%**

YTD through July 31, 2023:

Russell 1000 Value **-5.12%**

Russell 1000 Growth **+28.05%**

Source: FactSet Data and First Call

What a capitulation in the growth sector!

So far this year, momentum investing in certain companies have moved stock prices higher; the more buyers, the higher the stock price climbs. What is most interesting, but historically not unusual, is when momentum buyers invest in a small number of stocks that can move a particular style of investing to lofty heights. According to S&P Global Market Intelligence data, so far in 2023, the momentum stocks in the growth investing space are META, Amazon, Apple, Nvidia, Google (Alphabet is Google's parent company) Microsoft and Tesla. These seven stocks accounted for 26% of the S&P 500 performance through May 2023.

In summary, this missive is to remind us all that soaring to great heights feels really good, but the downdraft, when not prepared can be rough sledding. I have been reviewing our account portfolios to be sure I have current allocations in line with client goals and risk tolerances. Many of you have received calls, emails, or letters from me over the past few months letting you know that I have been proposing changes, some having to do with style allocations as well as other change recommendations and my reasons for them. My goal is to be as proactive as I can by communicating my concerns. You can be sure that I am watching out for your financial health. My goal is to help simplify, organize, and coordinate all aspects of your wealth management.

I appreciate your trust in me and as always, I will continue to work hard to earn your business.

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