Value

Fact, Fiction and Value Investing

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Value investing strategies have had a long and storied history in financial markets. They are often dated back to the late 1920s and credited to Benjamin Graham and David Dodd, who advocated a form of value investing by buying profitable but undervalued assets. Indeed, value investing has been considered an important part of the equity investment landscape for the better part of the last century.

Despite all of this, there still remains much confusion about value investing. Some of this confusion is propagated by value's opponents in an attempt to disparage the strategy, but others are often, intended or not, also perpetuated by those explicitly or implicitly advocating it.

The authors address a number of the more common notions, such as that value investing is only effective in concentrated portfolios, that it is a "passive" strategy, that it involves buying bad companies, implying it is a poor investment strategy, that it is a redundant factor in the face of newly emergent academic factors, and that it is best used — and in fact some claim only useful — in a long-only equity context. The authors also take on the commonly held belief that value is solely compensation for risk.

They conclude that the jury is still out as to whether the value premium exists because of risk or behavioral based explanations, and we believe the truth is likely a combination of the two. Further, they do not believe that the long term persistence of value, or any factor for that matter, is stronger if it is, in fact, due to risk-based explanations.

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