



Value Investing versus Factor Investing

Value Investing:

- Target stocks that appear to be trading for less than their intrinsic value
 - Intrinsic value: the perceived or calculated value
- The market is very susceptible to the ups and downs of the news cycle and can overreact to news
- One way traders value invest is by trading through the news cycles
- Traders also read through financial statements to find discrepancies in the value of the company
- These are some of the indicators investors start with
 - Below average price-to-book ratios
 - Lower than average price-to-earnings (P/E) ratios
 - Higher than average dividend yields
- There is no set way to truly value invest, each investor has their own strategy
- Value investing came from a concept by Columbia Business School professors Benjamin Graham and David Dodd in 1934.
- Warren Buffet is a value investor.
- Studies have consistently found that value stocks outperform growth stocks and the market as a whole, over long time horizons

Factor Investing:

- Factor Investors look for macroeconomic and style factors to invest in securities that are associated with higher returns.
- Macroeconomic factors include credit, inflation, liquidity, and global trade
- Style factors include more vague attributes like style, value, and momentum
- Here is the argument for some of the style factors:
 - Value is a factor we talked about above
 - Size: stocks that are smaller in size have the ability to return a much greater return
 - Momentum: Stocks that have outperformed analysts expectations in the past, tend to do so in the future
 - Quality: low debt with stable earnings, consistent asset growth,
 - Volatility: stocks that are less volatile have greater risk-adjusted returns

ALCHANATI CAMPBELL & ASSOCIATES LLC



Value Investing versus Factor Investing

Comparison:

- Finding an undervalued company plays a large role in either method
- Value investing has stood the test of time with an outstanding track record
- Factor investing uses methods that are slightly more speculative
- Recently value investing has taken a hit and underperformed factor investing but its history suggests this trend won't last

ALCHANATI CAMPBELL & ASSOCIATES LLC

The text above has been gathered or is based on text from multiple sources and Alchanati Campbell & Associates LLC makes no claim to this text. It is strictly for educational purposes.