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Do Value Investors Add Value?

George Athanassakos

The Journal of Investing Summer 2011, 20 (2) 86 - 100
DOI: 10.3905/joi.2011.20.2.086

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Abstract

The purpose of this article is first to examine whether a value premium exists following a mechanical screening process (i.e., the search process) in the Canadian markets between two distinctly different periods, 1985–1999 and 1999–2007, and second whether value investors add value in the stock selection process by being able to find truly undervalued stocks from the universe of the possibly undervalued stocks identified from the search process. We find that a strong and pervasive value premium exists in Canada over our sample periods that persists in bull and bear markets and during recessions/recoveries. Value stocks, on average, beat growth stocks even when using the very mechanical screening of the search process.

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Furthermore, this article demonstrates that value investors do add value, in the sense that their process of selecting truly undervalued stocks, via in-depth security valuation of the possibly undervalued stocks and arriving at their investment decision using the concept of “margin of safety”, produces positive excess returns over and above the naive approach of simply selecting low P/E–P/BV ratio stocks. The article was extended to the years of the “great recession” (2008–2009) and despite the fact that over this extended period we had a severe recession and bear market, on average, the sophisticated portfolio still beat the naïve value portfolio, consistent with earlier evidence.

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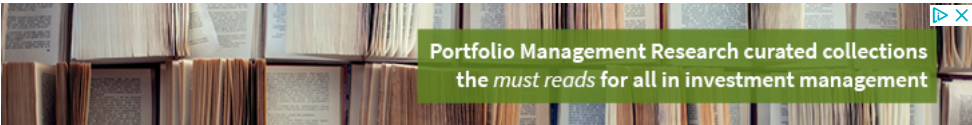
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