

Value Investing: International Comparison

Anna Beukes

Northern Alberta Institute of Technology

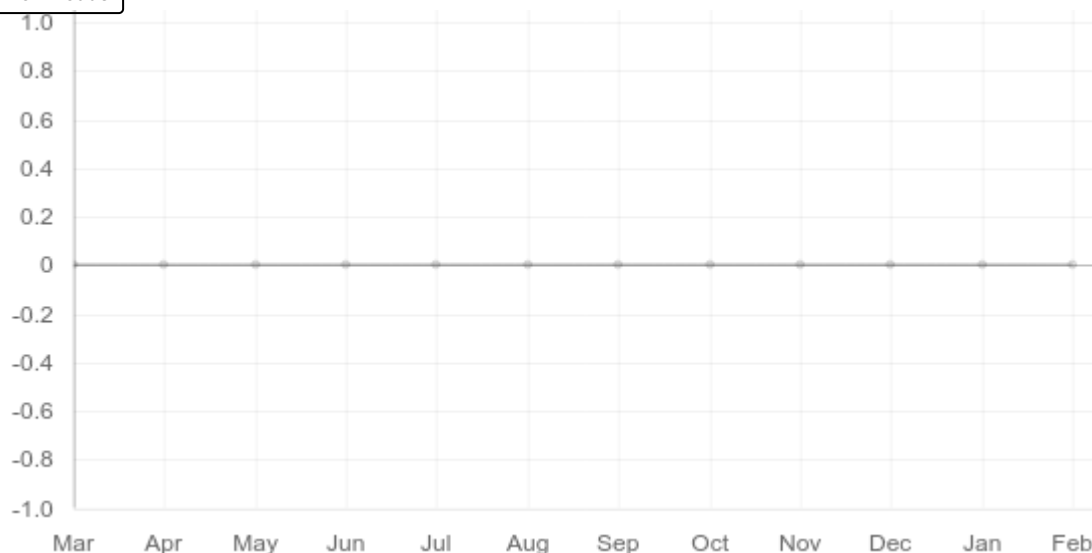
Keywords

value premium, value versus growth investment strategy, value premium international comparison, investment strategies, value premium South Africa, investment returns

Abstract

Based on accumulated empirical evidence, the academic community has generally come to agree that value investment strategies, on average, outperform growth investment strategies (Chan and Lakonishok, 2004:71). An influential article by Fama and French (1992) tested the notion that United States stock prices might be related to the ratio of a firm's book value of common equity (BV) to its market value of common equity (MV). It found that companies with high book value relative to market value of equity (BV/MV) outperform the market. This finding led to extensive testing for the value premium in developed countries around the world. Fama and French (1998a) tested it with data from twelve major European countries, as well as from Australia and the Far East. They found that between 1975 and 1995 in almost every country, value stocks delivered a higher return than growth stocks. The value premium has not been tested with the same vigor in third world or developing countries, which raises the question whether the value premium is only a first world phenomena and, if not, how third world value premiums compare to those found in developed countries. This paper compares the size of the value premium in the USA, UK, and some continental European countries with South African data.

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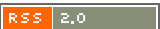
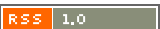
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