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MARKET ANOMALIES

Growth versus Value and Large-Cap versus Small-Cap Stocks in International Markets

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Abstract

Many studies have shown that value-stock strategies outperform growth-stock strategies in U.S. markets. For international stock markets, however, little published research exists on this subject. Using four valuation ratios to define value stocks and growth stocks for more than 28,000 return observations in 21 countries for a 10-year period, we found that value stocks generally outperformed growth stocks on a total-return basis and on a risk-adjusted basis for the period and in a majority of individual years as well as in a majority of the national markets. When the growth stocks outperformed, the margin of difference was small. We also found a strong firm-size effect. In addition, value stocks outperformed growth stocks in all firm capitalization-size categories except the smallest.

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