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Value and Growth Investing: Review and **Update**

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research on value versus growth generally agrees that value investment strategies, on

average, outperform growth investment strategies. The reward to value investing is more pronounced for small-capitalization stocks and is present in equity markets outside the United States as well.

The reasons for the superior performance of value investing, however, are controversial. Some researchers attribute the higher returns to the higher risk of value stocks; other researchers contend that the rewards to value investing stem from cognitive biases underlying investor behavior and the agency costs of delegated investment management.

We summarize and bring up to date the academic empirical research on value and growth investing. The bulk of current research stopped short of the late 1990s, a period that was not kind to value stocks. When the data through 2001 are considered, however, value investing still outperforms growth investing. During the 1990s, the performance of growth stocks rocketed, prompting speculation that value investors were an endangered species. The careful examination of the data that we present suggests that the differences among equity asset classes with respect to their performance in the late 1990s were not grounded in fundamental patterns of profitability growth. A more plausible interpretation is that investor sentiment reached exaggerated levels of optimism about the prospects for such "growth" opportunities as telecommunications, media, and technology stocks. This interpretation is consistent

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oo far into growthless risky iod were not

efining value value to price, and hmark by 5 esults were cap stocks Han Qu and Simon Zhang provided research assistance. We thank Clifford Asness and Jason Karceski for their comments. Given the unavoidable limits on time and space, this article is not meant to be an exhaustive review of existing research; we apologize in advance to authors of related works who have been overlooked in this discussion.

Related Research Data

Evaluating the performance of value versus glamour stocks The impact of selection

bias

The C

Source: The Journal of Finance

Source: Journal of Financial Economics

INVESTMENT PERFORMANCE OF COMMON STOCKS IN RELATION TO THEIR PRICE-

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Source: SSRN Electronic Journal

The Interaction of Value and Momentum Strategies

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