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focus

# Growth vs. Value Investing: It's Not One or the Other


**Different investors take different approaches. The two most widely recognised styles in equity markets are growth and value. Sometimes the debate around which approach works best can feel like a religious war, with both sides dogmatically arguing their case.** In our view, however, all investments need consideration of both a company's growth prospects and its valuation—the two are intrinsically linked. More broadly, maintaining exposure to both styles in a portfolio can be beneficial. Different strategies perform better under different market conditions. A well-diversified mix can enhance a portfolio's resilience over the long term.

FORSYTH BARR

**...Growth investing aims to identify companies poised for meaningful future earnings growth...**


### Growth investing: Backing the future

Growth and value are used to both describe investment styles and categorise stocks.

Growth investing aims to identify companies poised for meaningful future earnings growth, with the expectation that this growth will drive their share prices higher.

Growth investing is typically a buy-and-hold strategy. Investors seek to buy companies whose earnings and shareholder value will compound over time.

Growth stocks are companies which are expected to grow their revenue and earnings at a higher rate than the broader market. These businesses typically reinvest a high proportion of profits into innovation, market expansion, or acquisitions. Growth investing is often associated with companies in high growth industries like technology and healthcare innovation.

### Characteristics of growth stocks

**Higher revenue and earnings growth:** Often linked to technological advancement and industry disruption.

**Premium valuations:** Growth stocks typically trade at higher valuations, with investors willing to pay a premium in anticipation of strong future earnings growth.

**Risk of overoptimism:** While growth stocks can potentially deliver impressive gains, they also come with risks. High valuations can make them particularly vulnerable to market downturns, earnings disappointments, intensifying competition, or investor overexuberance.


**...Value investing is about looking for bargains...**

### Value investing: Hunting for bargains

Value investing is about looking for bargains—finding stocks that are trading on undeservedly low valuations. These companies may be out of favour due to temporary challenges or broader economic conditions. Value investors believe that once the market recognises a stock's true worth, its price will rise accordingly.

Value investing is rooted in people's tendency to overreact to negative news. An example is the standout performance of oil stocks in 2022. During the COVID pandemic, with lockdowns in place and businesses shuttered, oil demand plummeted. Investors over-extrapolated the bad news. When economies reopened, demand for oil from airlines, transportation, and industrial companies surged. While the global market, as measured by the MSCI All Country World Index, declined around -20% in 2022, and the tech-heavy NASDAQ fell -33%, the energy sector soared +59%, making it the year's strongest-performing sector by a distance.

Value investing is more active than growth investing. Value investing seeks to buy stocks that are temporarily mispriced—as was the case with oil stocks in 2022—and sell them once the market corrects.

More generally, value stocks are defined by lower expected earnings growth and typically sit within more mature industries such as financials, industrials, energy, utilities, or consumer goods.

### Characteristics of value stocks

**Lower earnings growth:** Companies are typically in more mature industries, or industries in structural decline such as traditional media. Lower growth prospects can mean less capital appreciation.

**Lower valuations:** Lower traditional valuation metrics such as price-to-earnings (P/E) and price-to-book (P/B).

**Higher dividends:** Companies have less reinvestment opportunities and tend to pay out more profits to shareholders in the form of dividends.

**Risk of value traps:** Value investing requires patience. Often it can take time for the market to recognise a company's true worth. Additionally, some stocks that appear cheap are cheap for a reason—known as 'value traps'—where deteriorating fundamentals justify their low valuation.

## ...All investing involves considering the relationship between growth prospects and valuation...

### Growth can become value (and vice versa)

Markets are always evolving, and a stock can shift from a growth stock to a value stock. A high-growth company whose earnings growth slows may see its valuation multiples fall, making it look more like a value stock. In New Zealand, The Warehouse and Sky TV are two examples of once high-growth companies whose valuations were slashed when their growth prospects dimmed. Equally, a value stock might undergo a rerating if its growth accelerates.

### Not one or the other

> *"No asset is so good that it can't become a bad investment if bought at too high a price. And there are few assets so bad they can't be a good investment when bought cheap enough."*

Howard Marks, founder and co-Chairman
Oaktree Capital Management, investing great

While value and growth investing are often described as opposite ends of a spectrum, in our view, there is no such thing as pure growth investing or pure value investing. **All investing involves considering the relationship between growth prospects and valuation.**

If you don't consider valuation, how do you know you're not overpaying for a stock? Even the fastest-growing company must eventually justify its price through earnings and cash flows—otherwise, it becomes an overpriced speculative bet.

Equally, if you don't consider a company's growth prospects, how do you know you're not overpaying? A stock trading on a depressed valuation multiple may more than live up to that valuation if its earnings decline more quickly than expected.

### A diversified approach

When assessing individual investments, it's not a matter of choosing one approach over another—similarly, constructing a well-rounded portfolio isn't about picking between growth and value stocks. A diversified portfolio should have exposure to both.

The relative performance of growth and value has fluctuated over time. Over the long run (since the 1920s), value investing has delivered superior returns. More recently, however, over the 2010s and 2020s, the dominance of tech giants such as Alphabet, Amazon, Apple, Meta, Microsoft, and, more recently, Nvidia, has propelled growth stocks to the fore.

Investors can benefit from the upside potential of growth stocks while also having the stability, income, and valuation support that value stocks provide. Incorporating an active value investment strategy adds another dimension, capitalising on the market's tendency to overreact to temporary bad news. Diversification across investing styles helps mitigate risks—no single strategy consistently outperforms. The key to long-term investment success lies in patience and maintaining a well-balanced portfolio, rather than chasing what has done well in recent times.

# Pzena Investment Management: Deep Value Diversifier

Founded in 1995 by Richard Pzena, Pzena Investment Management is a specialist value investor headquartered in New York. The firm has built a reputation for its deep-value investment philosophy, seeking to identify fundamentally sound but out-of-favour businesses trading at significant discounts to their intrinsic value. With a disciplined, research-driven approach, Pzena manages assets across a range of global, regional, and sector-focused strategies for investors worldwide.

Pzena's investment philosophy is rooted in the belief that markets tend to overreact to short-term setbacks, creating opportunities for investors willing to take a contrarian stance. Pzena focuses on companies with strong underlying fundamentals that are temporarily mispriced due to cyclical downturns or operational challenges.

### Pzena Global Focused Value Fund

The Pzena Global Focused Value Fund is a high-conviction, concentrated portfolio that reflects the firm's disciplined approach to value investing. The fund invests in a select group of global companies that meet Pzena's thorough valuation and fundamental research criteria.

### Investment process

Pzena's research process begins by identifying companies trading at the lowest valuation multiples relative to their historical earnings power. The investment team then undertakes extensive analysis, assessing the financial strength of the company, the resilience of its business model, management quality, and long-term growth potential.

The Fund typically maintains a concentrated portfolio of 40 to 60 stocks, allowing for meaningful exposure to the highest-conviction ideas. The Fund takes a long-term view, with an average holding period of five years, ensuring investors benefit from the full value realisation as company fundamentals recover.

### Key portfolio characteristics

**Contrarian approach:** Willingness to invest in sectors and companies temporarily out of favour with the market.

**High conviction:** A focused selection of undervalued companies with strong recovery potential.

**Long-term orientation:** Investments held for extended periods to capture full value realisation.

**Global Diversification:** Exposure to developed and emerging markets, benefitting from broad geographical opportunities.

The Pzena Global Focused Value Fund provides investors with access to a high-conviction, actively managed value strategy. It offers diversification benefits by maintaining a distinct portfolio that differs significantly from major market indices. As a result, the Fund exhibits lower correlation with the broader market compared to most core and growth equity funds.

**If at any time you want to discuss investment options and opportunities, your Forsyth Barr Investment Adviser is available to provide you advice and assistance.**

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