INVESTMENT COMMENTARY: Q2 2019

July | 2019

But It's Different This Time!

This is an explanation we often hear when something deviates significantly from a long-term historical pattern. Back in the late 1990s, people often justified the tech bubble by saying the internet had changed the landscape to such an extent that historical norms no longer applied. Fed Chairman Alan Greenspan offered a rare (and candid) voice of reason when he referred to the market as "irrationally" exuberant in 1996. Investors shook this statement off, and tech shares continued for another 3 years before collapsing in monumental fashion.

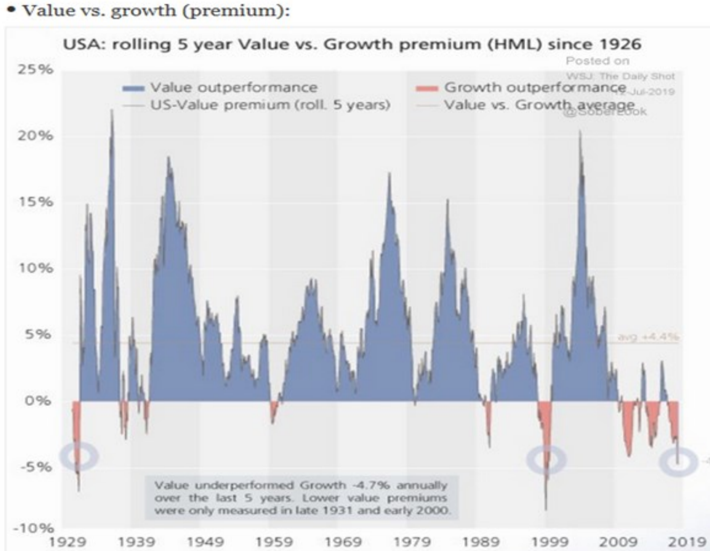
Today's out-performance by Big Tech is quite different, of course. There are real earnings and cash flows supporting the highest-flying shares, not just speculation of future earnings. But that doesn't change the fact that markets move in cycles that tend to revert back to long term trends.

We have often highlighted the spread between Value and Growth and commented on the unprecedented out-performance of growth stocks over the past decade. But this month, we wanted to look at this most recent period using more of a long-term perspective.

Value Has Dominated Growth Over the Long Term

Value investors look for companies whose share price do not reflect their underlying business fundamentals or prospects, allowing for considerable upside in the stock. This discipline has out-performed its "growth" counterpart over the very long term. See chart below.

• Value vs. growth (premium):



Source: StarCapital, @CAPE_invest
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However, growth stocks have out-performed value stocks since 2007 (see most recent orange periods above). And while this out-performance has not been as steep as it was in the late 1990s, it has been longer and more persistent.

The following chart (from a different source) tells a similar story, with value out-performing over the long run but growth dominating over the past decade.

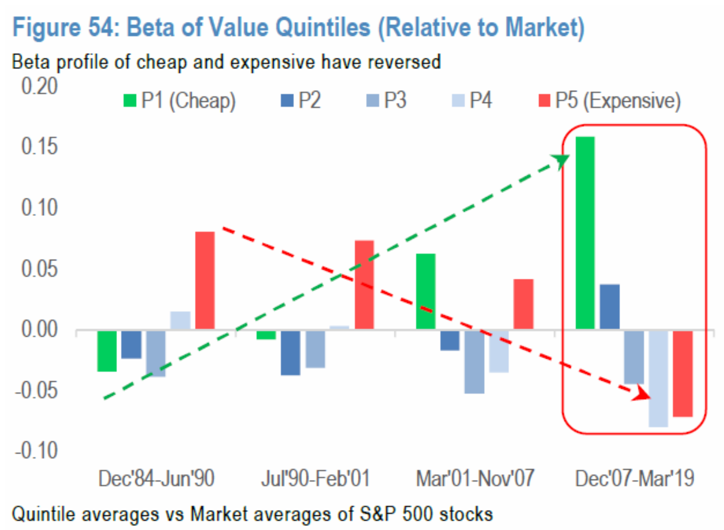
Source: Robeco

Growth and Stability?

The next graphic, prepared by JP Morgan, also tells an interesting story. It shows the most expensive stocks (typically growth stocks) actually being the least volatile category over the past 12 years. This is in stark contrast to all prior periods, when the most expensive stocks were also the most volatile.

No doubt indexing and record quantitative easing have helped fuel these relationships over the past 12 years.

But can this kind of anomaly persist in the long run? We don't think so.



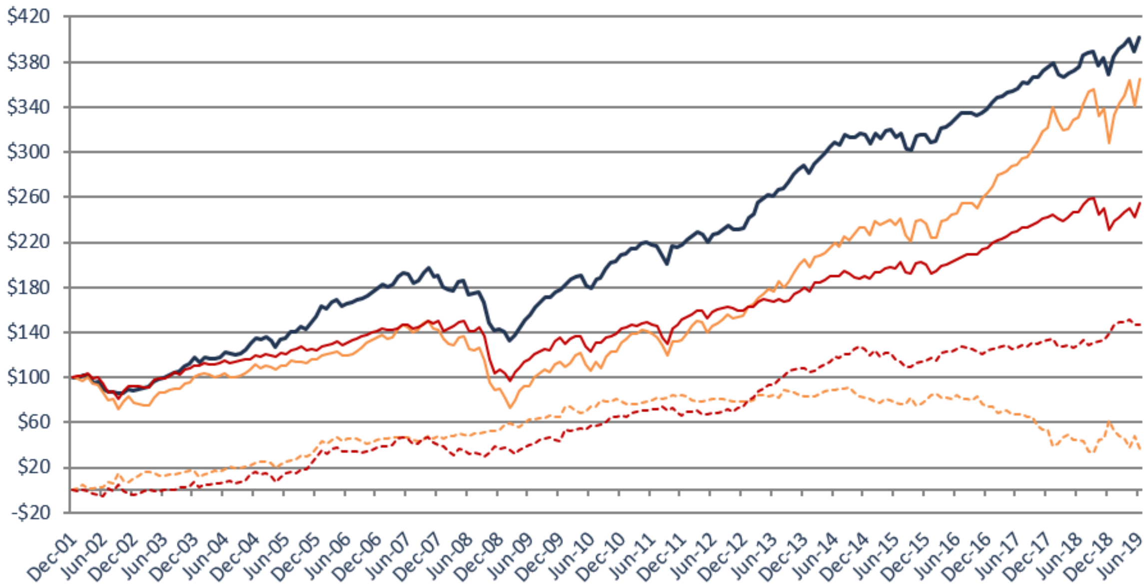
Source: JP Morgan US Equity Strategy and Quantitative Research

What to Expect Going Forward

Greenspan made his famous statement about irrational exuberance in 1996. He was early, but he wasn't wrong. Growth stocks continued to dominate the market for the next three years but then significantly under-performed for the next seven!

So what now? This is a good question. We know that value stocks tend to win over the long term. And we expect a reversion to that trend at some point. But picking the inflection point is near impossible. We prefer to stay balanced between value and growth (with a slight value bias) and lock in as much of our returns as possible through income (covered calls).

Covered Call Strategy Performance (gross as of 06/30/2019)



Returns (annualized)*	Jun 2019	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	3.3%	1.7%	8.8%	8.8%	7.0%	6.8%	5.4%	8.5%	9.9%	8.3%
Van Hulzen (Net)	3.3%	1.6%	8.5%	8.5%	6.4%	6.2%	4.8%	7.8%	9.1%	7.3%
BXM	5.1%	3.3%	10.3%	10.3%	3.2%	7.4%	6.0%	7.0%	8.2%	5.5%
Difference (Gross-BXM)	-1.8%	-1.6%	-1.5%	-1.5%	3.8%	-0.7%	-0.5%	1.5%	1.7%	2.8%

*Inception date : 12/31/2001. Figures greater than one year are annualized. Van Hulzen returns represent actual returns from composite of accounts

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