PARAGON CAPITAL MANAGEMENT, LLC

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Nothing Lasts Forever

In last quarter's newsletter we examined the growth component of the "stock market" versus the value component. The discussion was timely as growth stocks had outperformed value stocks over the first three months of the year. We pointed out that no trend continues indefinitely, and showed the price charts for the calendar year 2016 was almost the reverse image of the 1st Quarter 2017, with value stocks materially outperforming growth stocks for that period.

Now, halfway through the year, growth stocks continue their outperformance of value stocks with, seemingly, no end in sight. We thought it a good time to look even farther back in history to what we might expect over longer periods of time going forward.

First of all, here is the performance of the growth and value components for the first 6 months of the year; using the Russell 1000 Growth (IWF in Black) and the Russell 1000 Value (IWD in Gold).
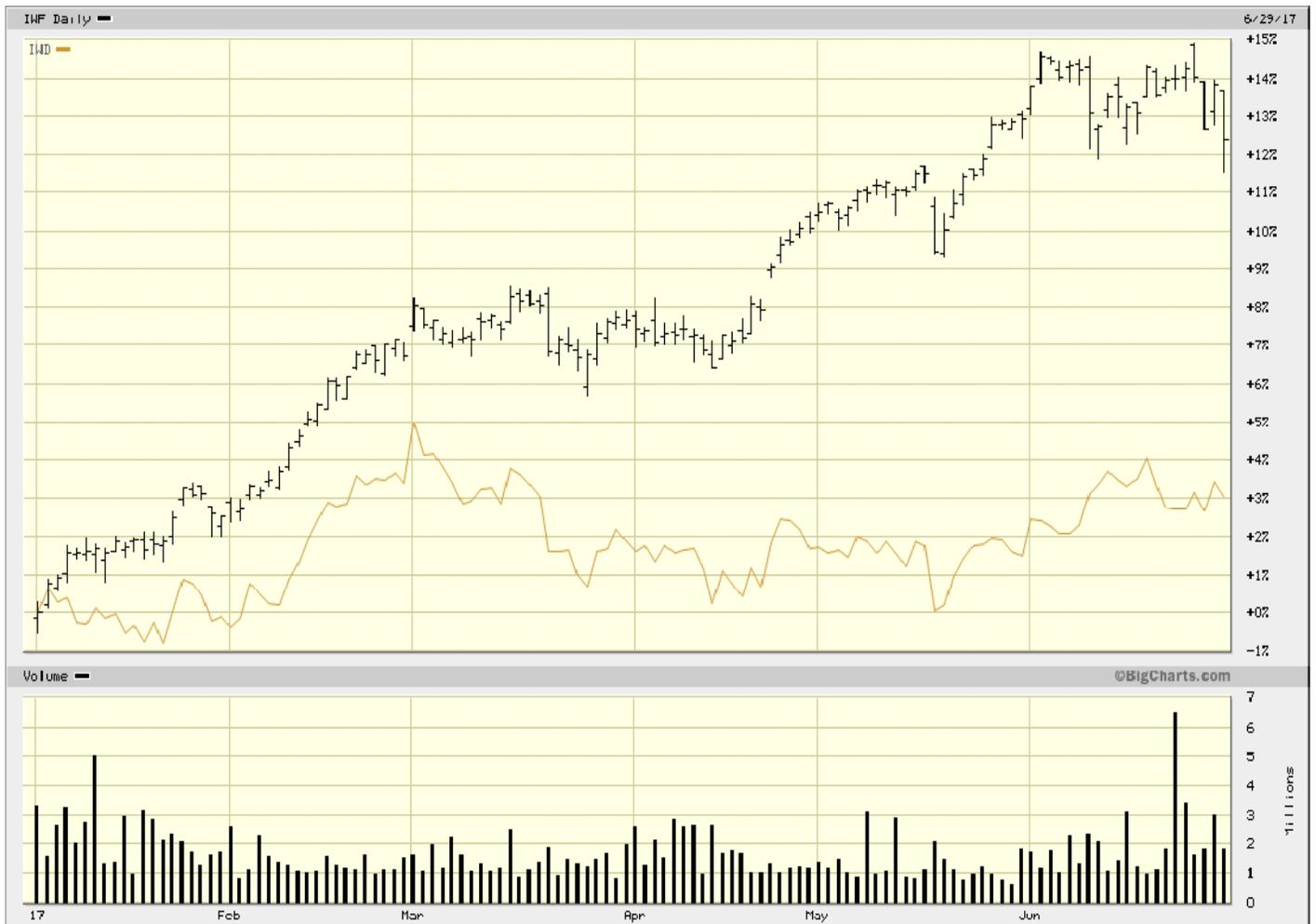

Growth stocks are up over 12% year-to-date while value stocks are barely up 3%. Even more striking is the performance of energy stocks, which have continued their decline.

This can be seen in the next chart which shows the iShares Energy ETF down 16% year-to-date (Blue).

Over time, growth and value have essentially performed in-line with each other. The next chart, going back to 2000, shows that although value has had the preponderance of outperformance, that last several months have brought the styles into almost equilibrium over the last 16 ½ years.
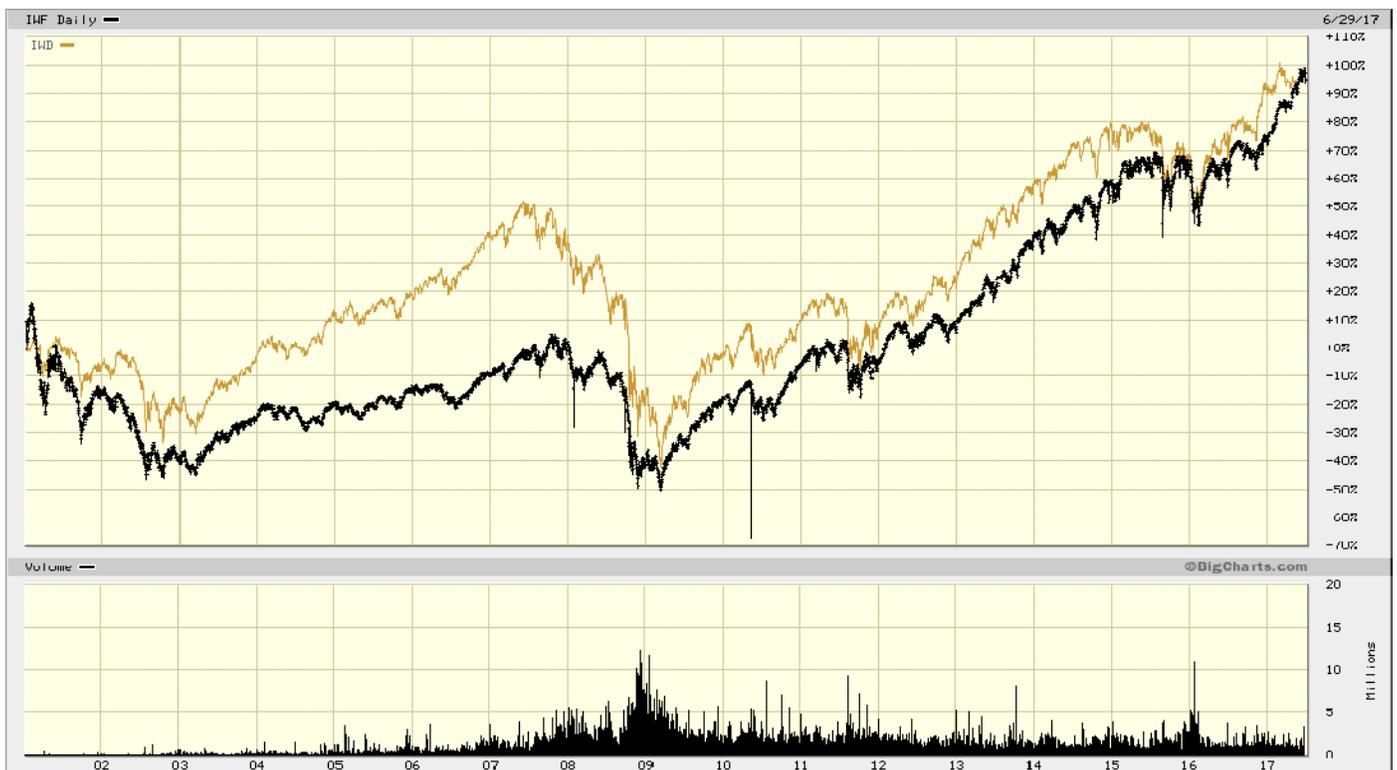
So, as "Growth at a Reasonable Price" stock managers (GARP), we tend toward the value end of the spectrum. When one side of the market outperforms the other, we do not jump ship and try and catch the "hot" area. Knowing that all markets, companies and stocks regress to the mean, we use the underperformance of our style to pick up bargains and wait to outperform when the tide does turn.

What about the investors who have made a long-term decision for Energy, you may ask? Energy is the blue color again in the chart below, which shows us that eventually, everything regresses to the mean over time.

So the takeaways from this newsletter couldn't be clearer. Know what type of investor you are; we choose GARP (which tends toward value) because it outperforms the preponderance of the time. Remain committed to your style during periods of outperformance because this drives you to continue buying great companies when their prices are lower. Finally, remember that you are investing for the long term, not simply for this quarter, or next.

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