When we embarked on our Value Your Wealth series, we decided to present it using a top-down approach. In Parts One and Two, we started with basic definitions and broad analysis to help readers better define growth and value investment styles from a fundamental and performance perspective. With this basic but essential knowledge, we now drill down and present investment opportunities based on the two styles of investing.

This article focuses on where the eleven S&P sectors sit on the growth-value spectrum. For those that invest at a sector level, this article provides insight that allows you to gauge your exposure to growth and value better. For those that look at more specialized funds or individual stocks, this research provides a foundation to take that analysis to the next level.

Parts One and Two of the series are linked below.

Part One: Introduction

Part Two: Quantifying the Value Proposition

Sector Analysis

The 505 companies in the S&P 500 are classified into eleven sectors or industry types. While very broad, they help categorize the S&P companies by their main source of revenue. Because there are only eleven sectors used to define thousands of business lines, we must be acutely aware that many S&P 500 companies can easily be classified into several different sectors.

Costco (COST), for instance, is defined by S&P as a consumer staple. While they sell necessities like typical consumer staples companies, they also sell pharmaceuticals (health care), clothes, TVs and cars (discretionary), gasoline (energy), computers (information technology), and they own much of the property (real-estate) upon which their stores sit.

Additionally, there is no such thing as a pure growth or value sector. The sectors are comprised of many individual companies, some of which tend to be more representative of value and others growth.

As we discussed in Part Two, we created a composite growth/value score for each S&P 500 company based on their respective z-scores for six fundamental factors (Price to Sales, Price to Book, Price to Cash Flow, Price to Earnings, Dividend Yield, and Earnings Per Share). We then ranked the composite scores to allow for comparison among companies and to identify each company?s position on the S&P 500 growth-value spectrum. **The higher the composite score, the more a company is growth oriented and the more negative the score, the more value-oriented they are.**

The table below summarizes the composite z-scores by sector. To calculate this, we grouped each company based on its sector classification and weighted each company?s z-score by its market cap. Given that most indexes and ETFs/Mutual funds are market cap weighted, we believe this is the best way to arrange the sector index scores on the growth-value spectrum.

	S&P 500 Sector	ETF	RIA Pro Composite
Value	Financials	XLF	-0.703
	Energy	XLE	-0.313
	Utilities	XLU	-0.253
	Materials	XLM	-0.158
	Consumer Staples	XLP	-0.132
Growth	Health Care	XLV	0.058
	Communication Services	XLC	0.189
	Industrials	XLI	0.232
	Consumer Discretionary	XLY	0.248
	Information Technology	XLK	0.318
	Real Estate	XLRE	0.462

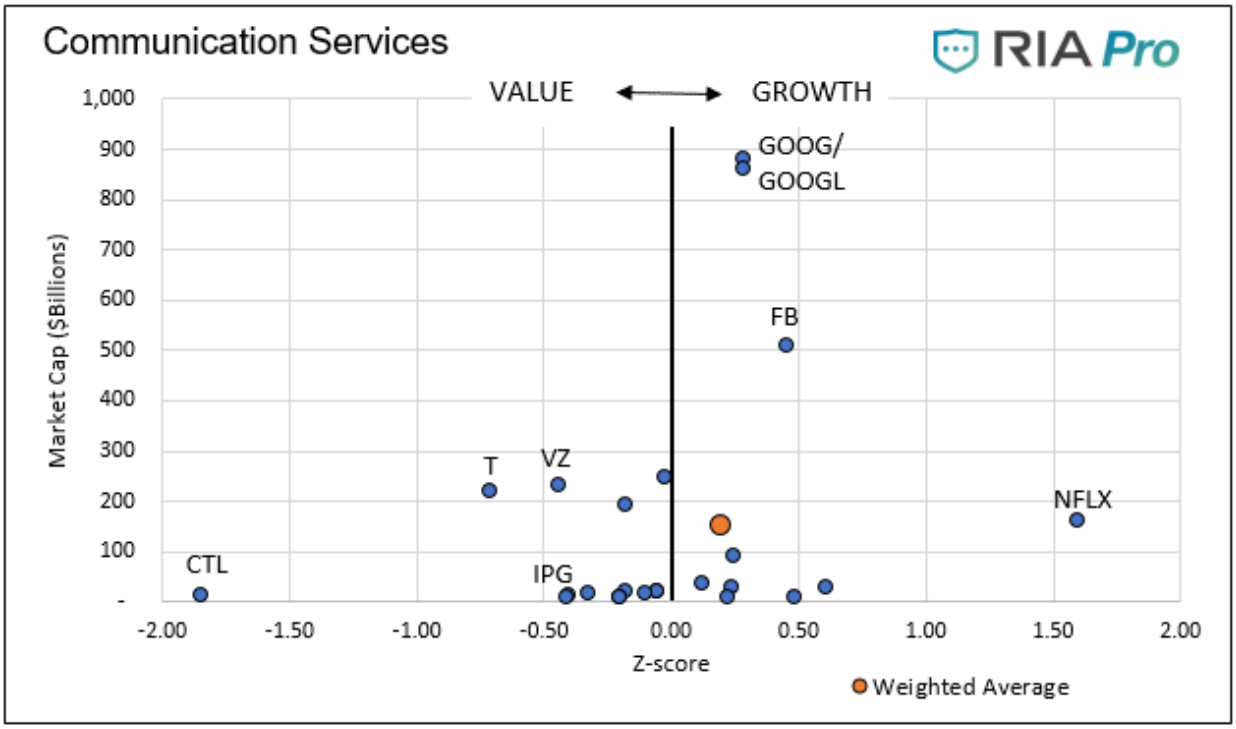
Data courtesy Bloomberg

As shown, the Financial, Energy, and Utility sectors are the three most heavily weighted towards value. Real-estate, Information Technology, and Consumer Discretionary represent the highest weighted growth sectors.

While it might be tempting to select sectors based on your growth-value preferences solely using the data in the table, there lies a risk. Some sectors have a large cross-section of both growth and value companies. Therefore they may not provide you the growth or value that you think you are buying. As an example, we explore the communications sector.

The communications sector (represented by the ETF XLC) is a stark combination of old and new economy stocks. The old economy stocks are traditional media companies such as Verizon, Fox, CBS and News Corp. New economy stocks that depend on newer, cutting edge technologies include companies like Google, Facebook, Twitter, and Trip Advisor.

As one might expect, the older media companies with more reliable earnings and cash flows are priced at lower valuations and tend to be defined as value stocks by our analysis. Conversely, the new economy companies have much higher valuations, are short on earnings, but come with the prospect of much higher growth potential.



The scatter plot below offers an illustration of the differences between growth, value and market capitalization within the communications sector. Each dot represents the intersection of market capitalization and the composite z-score for each company. The table below the scatter plot provides fundamental and performance data on the top three value and growth companies.

RIA Pro **Fundamental Data**

Ticker	Name	P/S	P/B	P/E	P/CF	Div. Yield	EPS (TTM)
Top 3 Value							
CTL	CENTURYLINK INC	0.55	0.66	10.31	1.84	17.79	-1.63
T	AT&T INC	1.27	1.27	9.66	4.99	6.28	2.87
VZ	VERIZON COMMUNICATIONS INC	1.83	4.51	11.52	6.98	4.11	3.77
Top 3 Growth							
NFLX	NETFLIX INC	9.46	27.62	128.70	n/a	0.00	2.90
TWTR	TWITTER INC	8.53	3.86	50.00	19.38	0.00	1.59
TRIP	TRIPADVISOR INC	4.43	4.85	62.50	17.68	0.00	0.82
S&P 500		4.43	12.26	27.36	18.11	1.80	55.99

RIA Pro **Z-Scores**

Ticker	Name	P/S	P/B	P/E	P/CF	Div. Yield	EPS (TTM)
Top 3 Value							
CTL	CENTURYLINK INC	-0.94	-0.21	-0.65	-0.39	8.96	-0.11
T	AT&T INC	-0.71	-0.19	-0.68	-0.32	2.43	-0.07
VZ	VERIZON COMMUNICATIONS INC	-0.54	-0.09	-0.60	-0.27	1.20	-0.06
Top 3 Growth							
NFLX	NETFLIX INC	1.80	0.68	4.30	n/a	-1.13	-0.06
TWTR	TWITTER INC	1.52	-0.11	1.01	0.03	-1.13	-0.08
TRIP	TRIPADVISOR INC	0.26	-0.07	1.53	-0.01	-1.13	-0.08

Data courtesy Bloomberg

As shown in the graph, the weighted average z-score (the orange circle) for the communications sector leans towards growth at +0.19. Despite the growth orientation, we deem 58% of the companies in the communications sector as value companies.

The following table compares the weighted average z-score for each S&P sector along with the variance of the underlying companies within the sector and the percentage of companies that are considered value and growth. We use standard deviation on the associated composite z-scores to determine whether companies are close together or far apart on the growth/value spectrum. The lower the standard deviation, the more similar the companies are in terms of growth or value

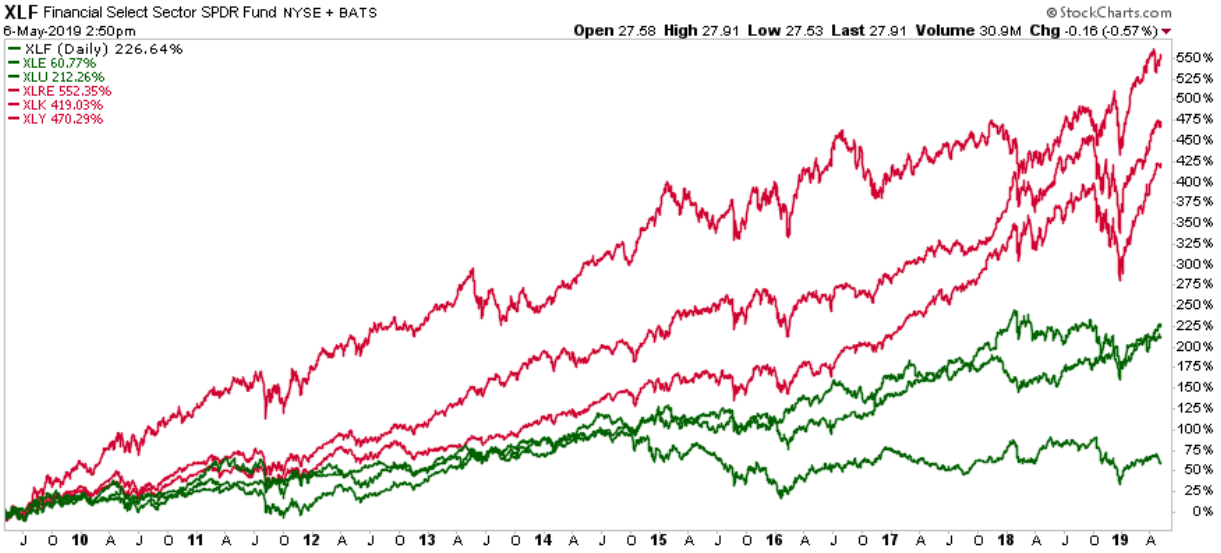
	S&P 500 Sector	ETF	RIA Pro Composite	Standard Deviation	Percent Growth	Percent Value
Value	Financials	XLF	-0.703	0.522	21%	79%
	Energy	XLE	-0.313	0.217	17%	83%
	Utilities	XLU	-0.253	0.146	7%	93%
	Materials	XLM	-0.158	0.231	27%	73%
	Consumer Staples	XLP	-0.132	0.272	33%	67%
Growth	Health Care	XLV	0.058	0.420	56%	44%
	Communication Services	XLC	0.189	0.603	42%	58%
	Industrials	XLI	0.232	0.471	37%	63%
	Consumer Discretionary	XLY	0.248	0.370	36%	64%
	Information Technology	XLK	0.318	0.677	71%	29%
	Real Estate	XLRE	0.462	0.545	75%	25%

Data courtesy Bloomberg

Again here, weightings, market capitalization, and the influence of individual stocks within a sector are important to understand The industrial sector, as shown above, has a score of +0.232, which puts it firmly in growth territory. However, Boeing (BA), due to its large market cap and significant individual growth score skews this sector immensely. Excluding BA, the weighted average composite score of the industrial sector registers as a value sector at -0.07. Again this highlights the importance of understanding where the growth and or value in any particular sector comes from.

Takeaways

The graph below shows the clear outperformance of the three most heavily growth-oriented sectors versus the three most heavily value-oriented. Since the beginning of the post-financial crisis, the three growth companies grew by an average of 480%, almost three times the 166% average of the three value companies.



This analysis provides you a basis to consider your portfolio in a new light. If you think the market has a few more innings left in the current expansion cycle, odds continue to favor a growth-oriented strategy. If you think the economy is late-cycle and the market is topping, shifting towards value may provide much-needed protection.

While we believe the economic and market cycles are late stage, they have not ended. We have yet to receive a clear signal that value will outperform growth going forward. At RIA Advisors, growth versus value is a daily conversation, whether applied to sector ETF?s, mutual funds or individual stocks. While we know it?s early, we also know that history has been generous to holders of value, especially after the rare instances when growth outperformed it over a ten-year period as it has recently.