Parts One through Three of the series are linked below.

Part One: Introduction

Part Two: Quantifying the Value Proposition

Part Three: Sector Analysis

In Part One, the introduction to our Value Your Wealth series, we documented how recent returns for investors focused on growth companies have defied the history books and dwarfed returns of investors focused on value stocks. In particular: ?*There have only been eight ten-year periods over the last 90 years (total of 90 ten-year periods) when value stocks underperformed growth stocks. Two of these occurred during the Great Depression and one spanned the 1990s leading into the Tech bust of 2001. The other five are recent, representing the years 2014 through 2018*.?

In this, the fourth part of the *Value Your Wealth* series, we focus on growth and value mutual funds and ETFs. Our purpose is to help determine which professional value and growth fund managers are staying true to their stated objectives.

Fund Analysis

A large part of most investor?s investment process starts with the determination of an investment objective. From this starting point, investors can appropriately determine the asset classes and investment strategies that will help them achieve or even exceed their objectives.

Once an investor decides upon an objective, strategy, and asset class, they must select individual securities or funds. This article focuses singularly on assessing growth and value mutual funds and ETFs. In particular it shows how an investor focused on growth or value can choose funds that are managed properly to meet their goals.

Investors usually key on the following factors when selecting a mutual fund or ETF:

- Declared fund strategy (Growth or Value in this case)
- Prior period returns
- Fee and expense structure
- Reputation of the fund family and possibly the manager

These four factors provide valuable information but can be misleading.

For instance, prior returns provide a nice scorecard for the past but can be deceptive. As an example, if we are currently scanning for value funds based on performance, the highest ranking funds will more than likely be those that have leaned most aggressively toward growth stocks. While these funds may seem better, what we believe is more important the fund managers adherence to their objectives. Given we are looking forward and believe value will outperform growth, we want fund managers that we can trust will stick with value stocks.

It is also important not to shun funds with the highest expenses and/or gravitate towards those with the lowest. We must be willing to pay up, if necessary, to achieve our objectives. For instance, if a

fund offers more exposure to value stocks than other comparable value funds, it may be worth the higher fee for said exposure. Conversely, there are many examples where one can gain more exposure to their preferred strategy with cheaper funds.

Most investors check the fund strategy, but they fail to determine that a fund is being effectively and cost efficiently managed towards their stated strategy.

We now compare the largest growth and value mutual funds and ETFs to assess which funds offer the most value, so to speak.

Mutual Fund/ETF Analysis

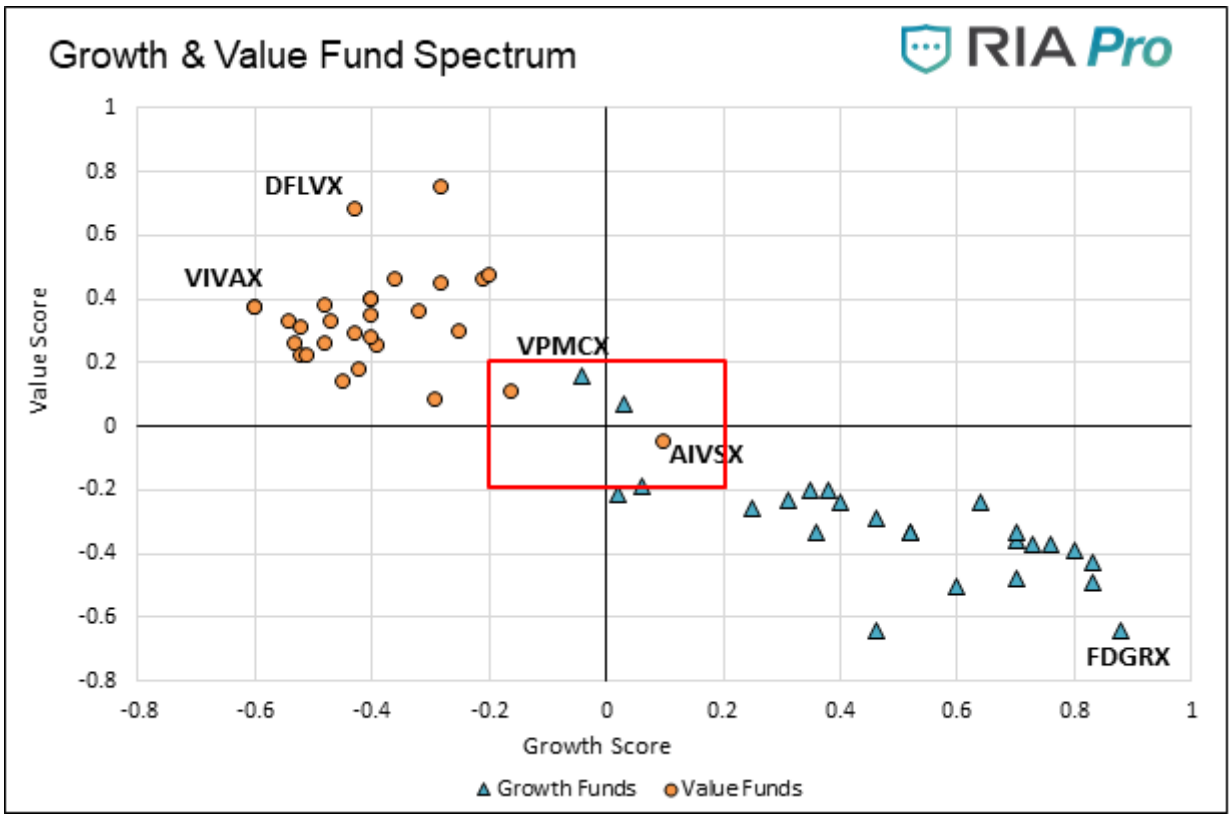
In order to limit the population of value and growth mutual funds and ETFs to a manageable number, we limited our search to the largest funds within each strategy that had at least 85% exposure to U.S. based companies. We further restricted the population to those funds with a stated strategy of growth or value per Bloomberg.

In prior articles of this series, we have used Bloomberg growth and value factor scores and our own growth and value composite scores. While we would prefer to use our own computations, the large and diverse holdings of the mutual funds and ETFs make it nearly impossible for this exercise. Accordingly, Bloomberg growth and value factor scores provide us the most accurate description of where the respective funds lie on the growth/value spectrum. It is important to note that Bloomberg assigns every fund both a growth and a value score. We consider both scores and not just the score pertinent to growth or value.

We understand most of our readers do not have access to Bloomberg data. As such, we provide a DIY approach for investors to track growth and value exposure amongst mutual funds and ETFs.

Growth and Value Scores

The scatter plot below shows the 54 funds analyzed. Each dot represents a fund and the intersection of its respective growth (x-axis) and value scores (y-axis). The funds most heavily skewed towards value (high value scores and low growth scores) are in the upper left, while heavily growth oriented funds are in the bottom right (high growth score and low value scores). Information about the funds used in this report and their scores can be found in the tables below the graph. Certain funds are labeled for further discussion.



A few takeaways:

- VIVAX (Growth -.60, Value +.37): While this value fund is farthest to the left, there are other funds that offer more value exposure. However, this fund has the lowest growth score among value funds.
- DFLVX (Growth -.43, Value +.68): This value fund offers an interesting trade off to VIVAX sporting a higher value score but a less negative growth score.
- AIVSX (Growth +.10, Value -.05): Despite its classification as a value fund, AIVSX has a slight bias towards growth. Not surprisingly, this fund has recently outperformed other value funds but would likely underperform in the event value takes the lead.
- FDGRX (Growth +.88, Value -.64): This growth fund offers both the highest growth score and lowest value score. For investors looking for an aggressive profile with strong growth exposure and little value exposure, this fund is worth considering.
- VPMCX (Growth -.04, Value +.16): Despite its classification as a growth fund, VPMCX has a slight bias towards value.
- In our opinion, the six funds with growth and value scores near zero (+/-.20) in the red box do not currently have a significant growth or strategy orientation, and as such, they are similar to a broad market index like the S&P 500.

It is important to stress that the data represents a snapshot of the fund portfolios for one day. The portfolio managers are always shifting portfolios toward a value or growth bias based on their market views.

(***CLICK on the tables to enlarge***)

Ticker	Name	Fund Type	Management Company	Assets ($M)	Strategy	Growth Factor	Value Factor	Stated Annual Fees (%)	5 Year Total Return (%)
AGTHX	AMER FND GRW FD OF AM-A	Open-End Fund	Capital Research & Management Co	194,249	Growth	0.64	-0.24	0.28	12.16
FCNTX	FIDELITY CONTRAFUND	Open-End Fund	Fidelity Management & Research Co	123,491	Growth	0.7	-0.36	0.6	13.35
ANWPX	AMER FNDS NEW PERSPECT-A	Open-End Fund	Capital Research & Management Co	88,657	Growth	0.35	-0.2	0.28	9.38
AMCPX	AMCAP FUND-A	Open-End Fund	Capital Research & Management Co	67,707	Growth	0.38	-0.2	0.3	10.33
VPMCX	VANGUARD PRIMECAP FUND-INV	Open-End Fund	Vanguard Group Inc/The	65,967	Growth	-0.04	0.16	0.37	13.11
TRBCX	T ROWE PR BLUE CHIP GROW	Open-End Fund	T Rowe Price Associates Inc	63,515	Growth	0.8	-0.39	0.56	16.00
PRGFX	T ROWE PR GROWTH STOCK	Open-End Fund	T Rowe Price Associates Inc	56,147	Growth	0.73	-0.37	0.25	14.79
VIGRX	VANGUARD GROWTH INDEX-INV	Open-End Fund	Vanguard Group Inc/The	49,855	Growth	0.52	-0.33	0.15	12.70
FDGRX	FIDELITY GROWTH COMPANY FUND	Open-End Fund	Fidelity Management & Research Co	44,910	Growth	0.88	-0.64	0.69	15.98
SMCWX	AMER FND SMALLCAP WRLD-A	Open-End Fund	Capital Research & Management Co	44,287	Growth	0.36	-0.33	0.28	8.82
RPMGX	T ROWE PR MID CAP GROW-INV	Open-End Fund	T Rowe Price Associates Inc	32,765	Growth	0.02	-0.21	0.85	13.00
HACAX	HARBOR CAPITAL APPRECIA-INST	Open-End Fund	Harbor Capital Advisors Inc	31,427	Growth	0.83	-0.49	0.6	15.11
FBGRX	FIDELITY BLUE CHIP GROWTH	Open-End Fund	Fidelity Management & Research Co	28,420	Growth	0.83	-0.43	0.56	15.48
FNIAX	FIDELITY ADV NW INSGHTS-A	Open-End Fund	Fidelity Management & Research Co	27,333	Growth	0.4	-0.24	0.49	11.36
PRNHX	T ROWE PR NEW HORIZONS	Open-End Fund	T Rowe Price Associates Inc	26,943	Growth	0.46	-0.64	0.64	16.69
IWF	ISHARES RUSSELL 1000 GROWTH	ETF	BlackRock Fund Advisors	43,916	Growth	0.46	-0.29	0.2	13.89
VUG	VANGUARD GROWTH ETF	ETF	Vanguard Group Inc/The	39,371	Growth	0.52	-0.33	0.04	12.85
VWUSX	VANGUARD US GROWTH FUND-INV	Open-End Fund	Vanguard Group Inc/The	26,382	Growth	0.7	-0.48	0.4	14.15
IVW	ISHARES S&P 500 GROWTH ETF	ETF	BlackRock Fund Advisors	22,924	Growth	0.25	-0.26	0.18	13.54
FOCPX	FIDELITY OTC PORTFOLIO	Open-End Fund	Fidelity Management & Research Co	20,171	Growth	0.76	-0.37	0.72	17.77
JGRTX	JANUS HNDRSN ENTERPRISE-S	Open-End Fund	Janus Investment Fund	20,620	Growth	0.06	-0.19	0.64	14.19
MFEGX	MFS GROWTH FUND-A	Open-End Fund	Massachusetts Financial Services Co	19,006	Growth	0.6	-0.5	0.56	14.29
TRLGX	T ROWE PR INST L/C GRW	Open-End Fund	T Rowe Price Associates Inc	19,291	Growth	0.7	-0.33	0.55	16.35
VHCOX	VANGUARD CAPITAL OPPORT-INV	Open-End Fund	PRIMECAP Management Co	17,423	Growth	0.03	0.07	0.42	13.34
FMAGX	FIDELITY MAGELLAN FUND	Open-End Fund	Fidelity Management & Research Co	16,931	Growth	0.31	-0.23	0.54	11.69

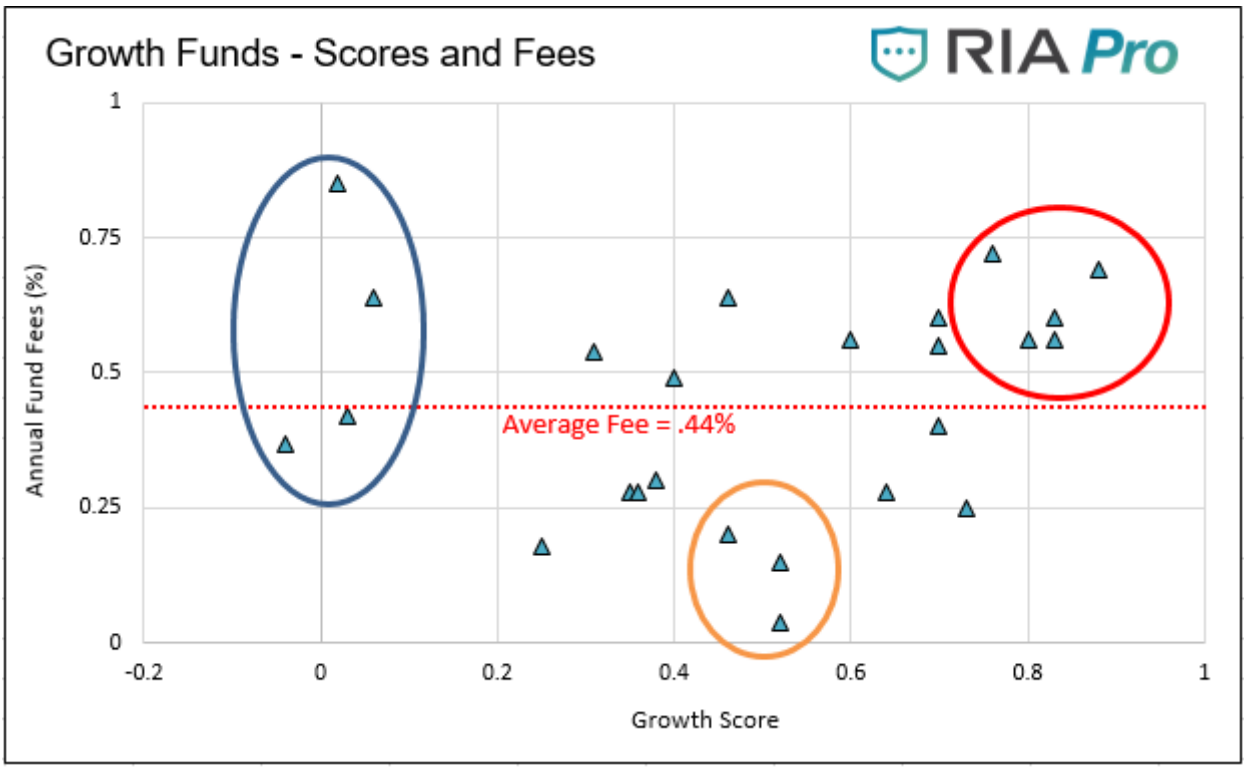
Ticker	Name	Fund Type	Management Company	Assets ($M)	Strategy	Growth Factor	Value Factor	Stated Annual Fees (%)	5 Year Total Return (%)
AWSHX	AMER FND WASH MUT INV-A	Open-End Fund	Capital Research & Management Co	116,420	Value	-0.16	0.11	0.23	9.78
AIVSX	AMER FND INV CO OF AM-A	Open-End Fund	Capital Research & Management Co	97,274	Value	0.1	-0.05	0.23	8.89
DODGX	DODGE & COX STOCK	Open-End Fund	Dodge & Cox	72,885	Value	-0.21	0.46	0.5	9.49
MFEBX	MFS VALUE FUND-B	Open-End Fund	Massachusetts Financial Services Co	45,895	Value	-0.42	0.18	0.47	7.62
VWNFX	VANGUARD WINDSOR II-INV	Open-End Fund	Vanguard Group Inc/The	47,126	Value	-0.39	0.25	0.32	7.56
VEIPX	VANGUARD EQUITY INCOME-INV	Open-End Fund	Wellington Management Group LLP	35,194	Value	-0.53	0.26	0.23	9.22
VIVAX	VANGUARD VALUE INDEX-INV	Open-End Fund	Vanguard Group Inc/The	31,634	Value	-0.6	0.37	0.14	9.36
DFLVX	DFA US LRG CAP VAL PORT-INST	Open-End Fund	Dimensional Fund Advisors LP	25,690	Value	-0.43	0.68	0.35	7.75
TRVLX	T ROWE PRICE VALUE FUND	Open-End Fund	T Rowe Price Associates Inc	24,857	Value	-0.29	0.08	0.64	7.75
IWD	ISHARES RUSSELL 1000 VALUE E	ETF	BlackRock Fund Advisors	38,874	Value	-0.54	0.33	0.2	7.66
VTV	VANGUARD VALUE ETF	ETF	Vanguard Group Inc/The	47,376	Value	-0.6	0.37	0.04	9.50
HLIEX	JPMORGAN EQUITY INCOME-I	Open-End Fund	JP Morgan Investment Management	21,815	Value	-0.52	0.22	0.4	9.49
PRFDX	T ROWE PRICE EQUITY INC-INV	Open-End Fund	T Rowe Price Associates Inc	20,576	Value	-0.52	0.31	0.53	6.94
MADVX	BLACKROCK EQTY DVDND-I	Open-End Fund	BlackRock Advisors Inc/USA	19,318	Value	-0.4	0.28	0.55	8.76
LCEAX	INVESCO DIVERS DVDND-A	Open-End Fund	Invesco Advisers Inc	18,984	Value	-0.51	0.22	0.38	6.76
VWNDX	VANGUARD WINDSOR-INV	Open-End Fund	Vanguard Group Inc/The	19,172	Value	-0.28	0.45	0.29	6.95
OAKMX	OAKMARK FUND-INV	Open-End Fund	Harris Associates LP	18,223	Value	-0.2	0.47	0.72	8.94
VISVX	VANGUARD S/C VAL INDX-INV	Open-End Fund	Vanguard Group Inc/The	17,418	Value	-0.4	0.4	0.17	7.94
JAMCX	JPMORGAN MID CAP VALUE-A	Open-End Fund	JP Morgan Investment Management	17,072	Value	-0.25	0.3	0.65	7.40
IVE	ISHARES S&P 500 VALUE ETF	ETF	BlackRock Fund Advisors	15,365	Value	-0.4	0.35	0.18	8.09
JVLAX	JH III-DISCIPLINED VAL-A	Open-End Fund	John Hancock Advisers LLC	15,450	Value	-0.48	0.38	0.66	6.97
DFSVX	DFA US SM CAP VAL PORT	Open-End Fund	Dimensional Fund Advisors LP	14,609	Value	-0.28	0.75	0.5	5.34
DDVAX	DELAWARE VALUE FUND-A	Open-End Fund	Delaware Group Equity Funds II	14,104	Value	-0.43	0.29	0.51	8.43
LBSAX	COLUMBIA DIVIDEND INCOME-A	Open-End Fund	Columbia Management Investment	13,891	Value	-0.45	0.14	0.56	10.23
VBR U	VANGUARD SMALL-CAP VALUE ETF	ETF	Vanguard Group Inc/The	13,506	Value	-0.4	0.4	0.05	8.08
TEMTX	FRANKLIN MUTUAL SHARES-C	Open-End Fund	Franklin Mutual Advisers LLC	13,229	Value	-0.36	0.46	0.65	4.13
TRMCX	T ROWE PR MID-CAP VALUE	Open-End Fund	T Rowe Price Associates Inc	13,042	Value	-0.48	0.26	0.65	7.01
PEYAX	PUTNAM EQUITY INCOME-A	Open-End Fund	Putnam Investment Management LL	12,904	Value	-0.47	0.33	0.47	8.29
JVMIX	JH III DISC MID CAP VAL-I	Open-End Fund	John Hancock Advisers LLC	12,788	Value	-0.32	0.36	0.71	8.51

Data Courtesy Bloomberg

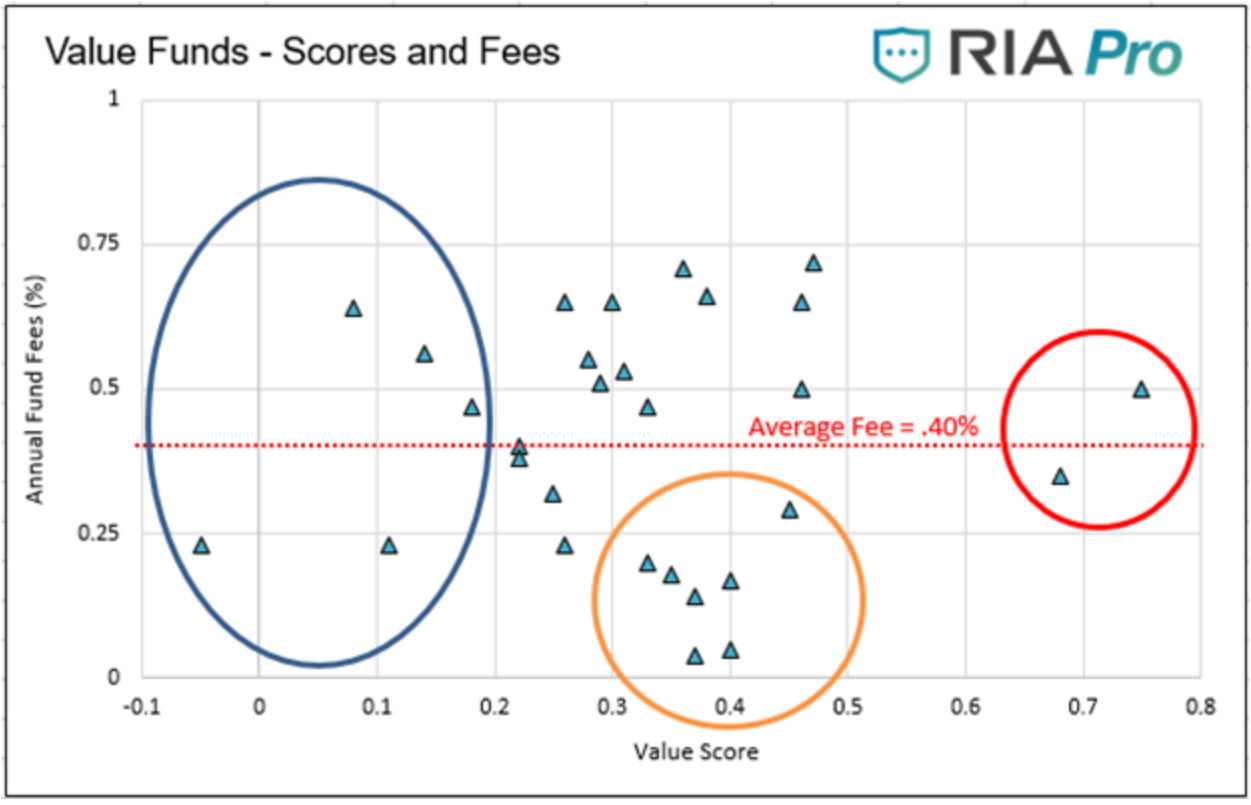
The data above gives us potential funds to meet our strategic needs. However, we also need to consider fees.

Fees

The scatter plots below isolate growth and value funds based on their respective growth or value score and fees charged.



We circled three groupings of the growth funds to help point out the interaction of fees and growth scores. The four funds in the blue circle have average or above average fees versus other growth funds yet provide a minimal bias towards growth. The yellow circle represents a sweet spot between low fees and a good exposure to growth stocks. Lastly, the red circle shows funds where heavy exposure to growth comes with above average fees.



This graph circles three groupings of value funds to help point out the interaction of fees and growth scores. The blue circle contains funds with little to no bias towards value. The yellow circle

represents a good mix of value and cheap fees. The red circle, our sweet spot in this graph, shows that heavy exposure to value can be had with fees near the group average.

Alpha and Bad Incentives

Alpha is a measure that calculates how much a portfolio manager, trader, or strategy over or underperforms an index or benchmark. From a career perspective, alpha is what separates good fund managers from average or bad ones.

We mention alpha as we believe the current prolonged outperformance of growth over value is pushing professional fund managers to stray from their stated objectives. As an example, a value based fund manager can add exposure to growth stocks to help beat the value index he or she is measured against.

Adding growth to a value fund may have proven to be alpha positive in the past, but we must concern ourselves with how well the fund manager is adhering to the fund?s objective Simply put, we are trying to find managers that are staying true to their objectives not those who have benefited from a deviation from stated strategy in the past.

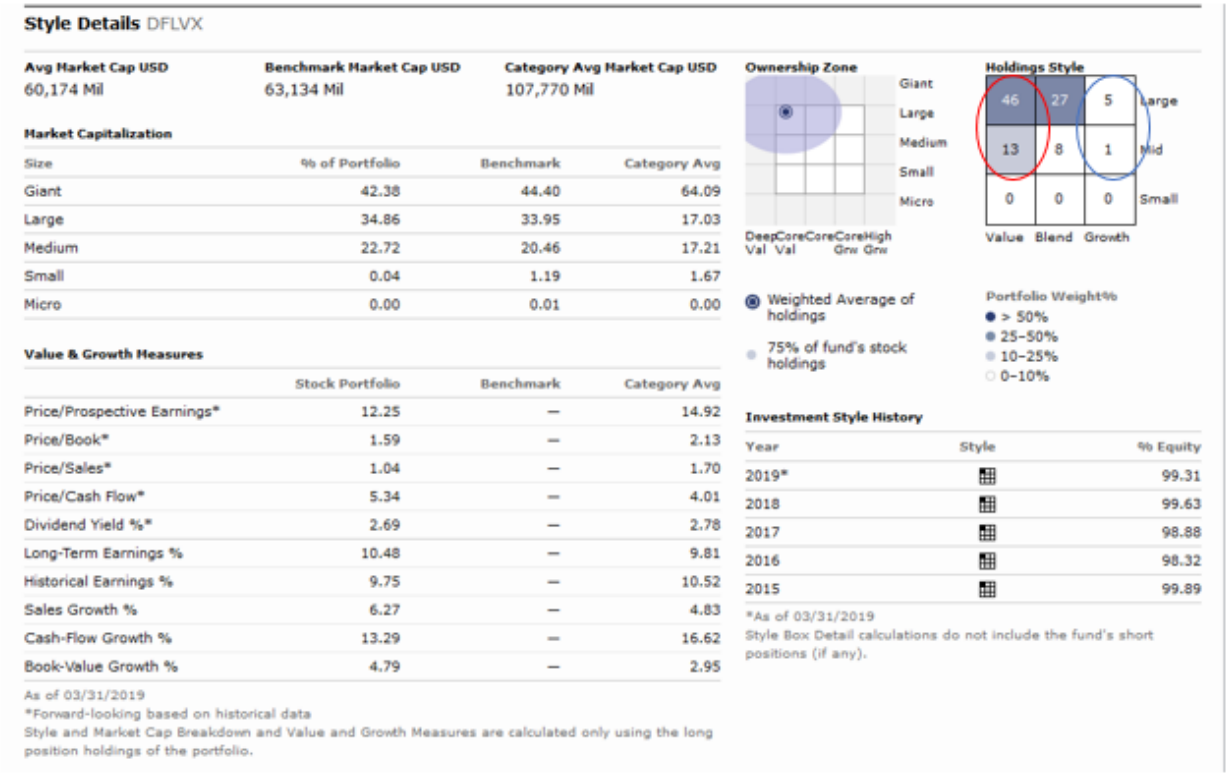
It is important to note that positive alpha can be attained by sticking to the stated objective and finding stocks that outperform the index. This is the type of alpha that we seek.

DIY

As discussed, growth and value factors can change for funds based on the whims of the portfolio manager. Therefore, the data provided in this article will not age well. If you do not have access to Bloomberg to track value and growth scores we offer another approach.

Morningstar provides a blunt but effective style analysis tool. To access it, go to www.morningstar.com and select your favorite fund. Then click on the tab labeled Portfolio and scroll down to Style Details.

The following screen print shows Morningstar?s style analysis for value fund DFLVX.



Style Details DFLVX

Avg Market Cap USD	Benchmark Market Cap USD	Category Avg Market Cap USD
60,174 Mil	63,134 Mil	107,770 Mil

Market Capitalization

Size	% of Portfolio	Benchmark	Category Avg
Giant	42.38	44.40	64.09
Large	34.86	33.95	17.03
Medium	22.72	20.46	17.21
Small	0.04	1.19	1.67
Micro	0.00	0.01	0.00

Value & Growth Measures

	Stock Portfolio	Benchmark	Category Avg
Price/Prospective Earnings*	12.25	–	14.92
Price/Book*	1.59	–	2.13
Price/Sales*	1.04	–	1.70
Price/Cash Flow*	5.34	–	4.01
Dividend Yield %*	2.69	–	2.78
Long-Term Earnings %	10.48	–	9.81
Historical Earnings %	9.75	–	10.52
Sales Growth %	6.27	–	4.83
Cash-Flow Growth %	13.29	–	16.62
Book-Value Growth %	4.79	–	2.95

As of 03/31/2019
*Forward-looking based on historical data
Style and Market Cap Breakdown and Value and Growth Measures are calculated only using the long position holdings of the portfolio.

Ownership Zone

Giant / Large / Medium / Small / Micro
Deep Val | Core Val | Core | Core Grw | High Grw

Holdings Style

	Value	Blend	Growth
Large	46	27	5
Mid	13	8	1
Small	0	0	0

Weighted Average of holdings
75% of fund's stock holdings

Portfolio Weight%
> 50%
25–50%
10–25%
0–10%

Investment Style History

Year	Style	% Equity
2019*		99.31
2018		99.63
2017		98.88
2016		98.32
2015		99.89

*As of 03/31/2019
Style Box Detail calculations do not include the fund's short positions (if any).

The box in the top right separates the fund?s holdings by market capitalization and value growth classifications. We can use this data to come up with our own scores. For instance, 59% (46+13) of DFLVX is biased toward value (red circle) while only 6% (5+1) is in growth companies (blue circle). To further demonstrate how a fund compares to its peers, the Value & Growth Measures table on the bottom left, compares key fundamental statistics. As shown by three of the first four valuation ratios, DFLVX has more value stocks than the average for funds with similar objectives.

Summary

The word ?Value? in a fund name does not mean the fund takes on a value bias at all times. As investors, we must not rely on naming conventions. This means investors must do some extra homework and seek the funds that are truly investing in a manner consistent with the funds, and ultimately the investor?s, objective.

As we have mentioned, we are at a point in the economic and market cycles where investors should consider slowly rotating towards value stocks. Not only is the style historically out of favor, many of the names within that style are unjustifiably beaten down and due for mean reversion to more favorable levels. We hope this article provides some guidance to ensure that those who heed our advice are actually adding value exposure and not value in name only.