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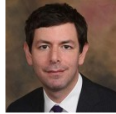

Jim Cahn Contributor

I write about advanced investing concepts – in everyday language.

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Should You Invest In Expensive Growth Stocks Or Less Expensive Value Stocks?

For many investors, deciding between investing in value stocks or growth stocks can be a tough decision. That's because investors frequently are swayed by their emotions and growth stocks are typically more likely to capture the imagination than value stocks. This is not to say that growth stocks are just pretty packages that have no value.

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However, historically speaking, going back to 1926, value outperforms growth. According to a recent analysis of premium performance over rolling periods by Dimensional Fund Advisors value beats growth 60 percent of the time in a one-year period; 77 percent of the time in a five-year period; 88 percent of the time in a 10-year period; and 95 percent of the time in a 15-year period.

If you're a value investor you won't necessarily capture the benefits of value in any given year, *but* in any given year there's a 60 percent chance of value outperforming growth. In five years there's nearly an 80 percent chance and in 10 years, nearly a 90 percent that you're going to outperform.

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As you can see, long-term value stock investors have a very good chance of being rewarded. The trouble for investors is that value stock companies (like Edison International (EIX), Best Buy (BBY) and Abbott Laboratories (ABT) tend

to be a bit on the dull side while growth stock companies are often exciting (think Google (GOOGL), Amazon (AMZN) and Costco (COST).

It is not surprising and even understandable that investors are attracted to growth stocks since these are usually tied to companies that are doing new things and getting a lot of positive attention in the media (think back to the dotcom era).

The temptation to put your money behind companies that are generating a lot of excitement is often too hard to resist. But resist it you should. Here's why.

Last year's Dalbar's Quantitative Analysis of Investor Behavior found that the average equity mutual fund investor underperformed the S&P 500 by a margin of more than 8 percent and that underperformance was due to emotionlly-driven, poor investment choices.

Clearly with margins like that, it's important to take your emotions out of the equation. Unfortunately, removing your emotions from investment decisions is not an easy thing to do, and for some, it's impossible.

But, you may say, "I am keeping my emotions in check. Look! I've done a ton of research."

Even if you have intensely researched the company that is making your heart go pitter-patter, you will not gain any insight that hasn't already been considered by industry analysts.

Common sense prevails over the long term, and common sense – and history – says that inexpensive value stocks outperform expensive growth stocks. When you find yourself entranced by some shiny new growth stock, call your financial advisor for a dose of common sense. Presumably, you trust him or her. Before you let your emotions get the better of you, let your advisor guide you to the best investment decisions you can make.

Value investments can perform different from the market as a whole. They can remain undervalued by the market for long periods of time. Stock investing involves risk, including loss of principal. Past performance is no guarantee of future results.

Jim Cahn is chief investment officer of Wealth Enhancement Advisory Services, a Registered Investment Advisor based out of Minneapolis, MN.

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