Tobias Carlisle – Value: No Time to Die

It's been a miserable decade for "boring" value companies when compared to the exciting companies. But these things always work in cycles. And the current environment is one of the best setups for value in the past 200 years…

You must get through bad times of cycle in order to get the wind at your back. Because there will come a time when the tide turns.

When the disparity between growth and value is wide, that's when you start to know things are changing.

Value pays more cash flows at a lower valuation, while growth pays more in valuation for lower cash flows (in anticipation of those cash flows eventually growing).

High earnings growth eventually comes in value stocks (after we buy them), while growth stocks will see their earnings growth begin to drop off over time.

There are four ways to look at stocks:

- High growth value (high growth, low valuation)
- Glamour (high growth, expensive)
- Contrarian value (low growth, cheap)
- Place you don't want to be (low growth, expensive)

Not only does high-growth value outperform "glamour," but contrarian value actually sees the highest returns. The times when glamour outperforms is during stock market manias.

Adding "magic formula" value companies helps improve performance. Performance improves as more value is prioritized over profitability.

Why does ROIC indicate underperformance? Industries that are starved with capital because of underperformance improve as competition falls. The opposite is true for those high ROIC companies. It's a reversion to the mean.

Over the long-term, value crushes the glamour companies. But in the recent cycle, the glamour companies have been heavily outperforming the value companies. We've seen one of the biggest value underperformance periods in the past 200 years.

Value is now cheap on a price-to-cash flow basis. At the same time, glamour portfolios are the most expensive they've ever been. These valuation gaps can close quickly. It's collapsing now, but there's no tell-tale sign for how quickly it evens out. Now, the trend looks to be bouncing, and a return to a more normal regime will lead to value outperformance like we saw in the early 2000s.

February 2021 could've been the inflection point. But we're still in the early stages, and that could set value up for years of outperformance.

This provides a great time to be a value investor.