The Long & Short of It
Quarterly Newsletter
Second Quarter 2018

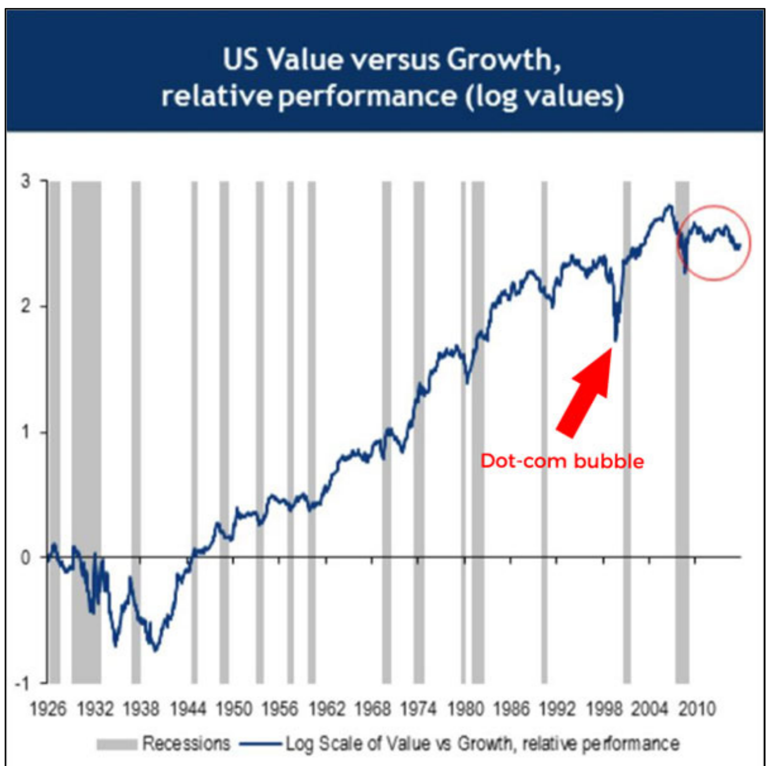
Value vs. Growth: A Primer

"Are Value Stocks Ready to Grow Again?" the *Barron's* cover article from April 28, 2018 lamented the recent performance lag of value managers relative to growth. "It's getting tiresome even for those famous for their patience." So, what is "value investing"? And why is "value" so much a part of who we are that we include it in our name?

Growth and value are two fundamental approaches to stock and mutual fund investing. Growth investors seek companies that offer strong earnings growth, while value investors seek stocks that appear undervalued by the market. The value approach to investing was developed in the late 1920s at Columbia Business School by finance professors Benjamin Graham and David Dodd. It focuses on securities with low price-to-earnings ratios or low price-to-book ratios.

For us, value investing is about keeping risk down while obtaining a solid return. According to Benjamin Graham: "You must thoroughly analyze a company, and the soundness of its underlying businesses, before you buy its stock; you must deliberately protect yourself against serious losses; you must aspire to 'adequate,' not extraordinary, performance."

Growth investors aspire to extraordinary performance and emphasize the future (which we like to call "the unknown"), believing that earnings growth and profitability are the best determinants of stock performance. A growth investor seeks to understand the future and utilize that information to extrapolate a reason for purchasing the stock today. By contrast, the value investor places more emphasis on what is currently known, looking for companies with sound fundamentals that can be purchased at a defensible price.



Monthly data. Average returns of Fama-French Large/Small Growth and Large/Small Value Benchmark Portfolios
Source: BofA Merrill Lynch Global Investment Strategy, Fama-French

In the chart entitled *"US Value versus Growth,"* one can see the significant advantage in performance accrued to a value approach relative to growth over the last 90+ years.

Historically, value-oriented investment approaches have not only offered superior returns relative to growth but also better risk characteristics. In the table below the chart entitled *"US Large Cap Value vs. Growth,"* we see that from 1972 to present, not only is the return for value better than growth but its volatility metrics are better as well. Both standard deviation (absolute volatility) and beta (relative volatility) are significantly improved in the long run. Measures of "risk-adjusted return" such as the Sharpe ratio and alpha (which we consider the best indicators of investment performance), are also better when using a value-oriented approach.

US Large Cap Value vs. Growth. 12/31/1971 to 5/31/2018			
Metric	US Large Cap Value	US Large Cap Growth	US Stock Market
Start Balance	$10,000	$10,000	$10,000
End Balance	$1,439,725	$848,615	$974,442
End Balance (inflation adjusted)	$235,196	$138,631	$159,187
CAGR	11.3%	10.0%	10.4%
CAGR (inflation adjusted)	7.0%	5.8%	6.1%
Standard Deviation	14.7%	16.6%	15.3%
Sharpe Ratio	0.49	0.38	0.42
Beta (*)	0.91	1.04	1.00
Alpha (annualized)	1.75%	-0.55%	0.00%
R Squared	90.2%	92.4%	100.0%
Upside Capture Ratio (%)	93.8	101.8	100.0
Downside Capture Ratio (%)	86.8	104.1	100.0

(*) US Stock Market is used as the benchmark for calculations.

Notes on results: Past performance is not a guarantee of future returns. Data and other errors may exist. The annual results for 2018 are based on full calendar months from January to May. CAGR = Compound Annual Growth Rate. Standard Deviation = Annualized standard deviation of monthly returns. Sharpe ratio is calculated and annualized from monthly excess returns over the risk-free rate (1-month T-Bills). The results use total return and assume that all dividends and distributions are reinvested. Taxes and transaction fees are not included. Sources of data: US Stock Market-- AQR US MKT Factor Returns 1972-1992 (AQR Data Sets) and Vanguard Total Stock Market Index Fund (VTSMX) 1993+. US Large Cap Value--Professor Kenneth French's Research Data[1] 1972-1992 and Vanguard Value Index Fund (VIVAX) 1993+. US Large Cap Growth-- Professor Kenneth French's Research Data[1] 1972-1992 and Vanguard Growth Index Fund (VIGRX) 1993+.

Robinson Value Management Mitigates Risk

As value managers, we have focused on risk mitigation, particularly for risk described as "a permanent or unrecoverable loss of market value." While fundamentals and long-term valuation are key, every investment opportunity must be evaluated through meticulous, multi-faceted analysis of its risks and uncertainties. We use many tools to manage risk: a long-term perspective, asset allocation and diversification, low multiples, contrarian mentality, price sensitivity, and cyclicality.

In the charts in the section, we compare our flagship equity portfolio to its primary peer group and benchmark. (For reference, there is a glossary of terms on the last page of this letter.) Our Contrarian Value Equity separate account composite ("CVEC") most closely aligns with the US Large Cap Value Equity peer group. The benchmark for this peer group is the Russell 1000 Value Index. All returns in the database are gross of fee in order to keep the comparisons "apples to apples." We have included gross of fee and net of fee results in a table to the right. The charts illustrate how our strategy compares to its benchmark and peer group with regard to ***absolute risk*** and ***relative-to-market risk***.

Annualized Total Returns				
Time Period	10 Year	5 Year	3 Year	1 Year
Contrarian Value				
Gross of Fees	8.2%	10.7%	8.6%	7.6%
Net of Fee	7.2%	9.7%	7.6%	6.6%
Russell 1000	*7.8%*	*10.8%*	*7.9%*	*6.9%*

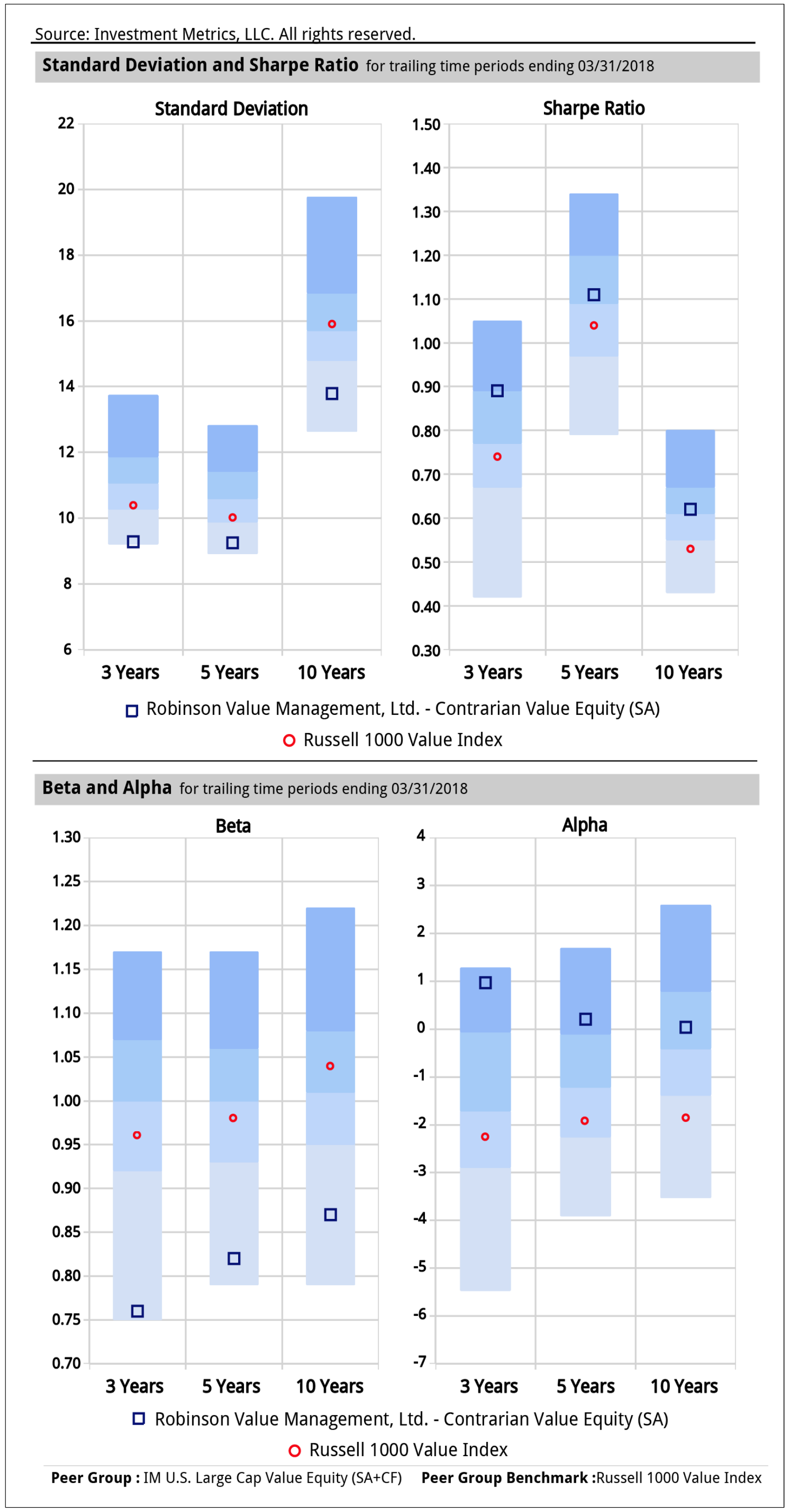
Absolute Risk

The first chart above and at right illustrates absolute risk measured using standard deviation and the Sharpe ratio. Lower is better for standard deviation, and the CVEC compares very favorably against its benchmark and peer group over 3-, 5-, and 10-year periods. The Sharpe ratio measures return for each unit of standard deviation. Higher is better here, and again, the CVEC ranks respectably against both its benchmark and peer group.

Relative-to-Market Risk

The second chart shows beta and alpha. On the left, CVEC's beta is very low relative to both its benchmark and peer group. To the right is alpha, the return adjusted for beta. CVEC's alpha is also attractive relative to its benchmark and peer group.

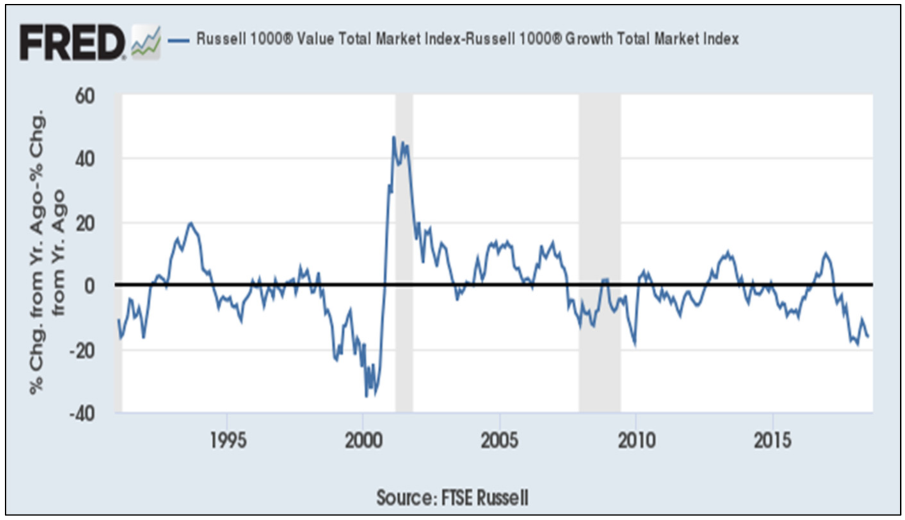
Note that the risk levels of managers in the peer group have risen relative to the benchmark in the last 3 years versus 5 years, whereas in the 10-year period, the median value manager was *less* risky than the benchmark. As we saw earlier, value has historically been less risky than the broader market. This recent increase in volatility in the peer group is typical late in a bull market. When growth has performed so well, even professional value-oriented managers tend to give in to pressure and jump on the bandwagon to own a little of the recent winners.



From the *Barron's* article, "Alec Lucas, senior analyst at Morningstar, points out that so many value managers have started buying what were traditionally considered growth companies that many value funds now pop up in Morningstar's "blend" category." To this temptation to drift into the currently hot growth names, we say, "Resist!" Those who submit will pay dearly when the tide turns and value makes its comeback. Instead, our approach is to embrace our value-oriented disciplines even more deeply and adopt an aggressively defensive posture.

Value Style Under Pressure: A Great Opportunity

Needless to say, this roaring bull market has been difficult for value investing. The chart at right illustrates the oscillation between the two approaches and how especially difficult the last several years have been for value. Moments like these, just as we saw in the dot-com bubble of 2000, are usually accompanied by investors feeling an urge to abandon the more prudent value approach and "jump aboard" the growth stock gravy train as it pushes the bull market ever higher. It feels awful to be "left out" but we have been here before. Given value's recent underperformance and its history of outperforming over the long run, a moment like this represents one of the best times to more fully embrace the approach.



Thank you for your appreciation of the strategy and for your patience with the current environment for value investing. The San Antonio Spurs have proved that while excellent defense is typically not fun to watch, what matters is the score at the end of the series.

Amy Abbey Robinson, CIMA
amy@robinsonvalue.com

Charles W. Robinson III, CFA
charles@robinsonvalue.com

DEFINITIONS

Peer group

Investment Metrics US Large Cap Value Equity (SA+CF) is RVM's primary peer group and contains products where the investment strategy considers price and valuation as major determinants of stock selection. Valuation considerations and/or metrics include relative price/earnings ratio, price/book ratio, dividend yield, or asset value. The weighted average market cap is in excess of $10 billion. The Russell 1000 Value and S&P 500 Value are commonly used benchmarks. This large peer group is comprised of 221 firms that manage 351 large cap value-oriented products. The benchmark for the peer group is the Russell 1000 Value Index.

Benchmark

Employed: Russell 1000 Value Index

This index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Informational: Russell 1000 Index

Measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index. As of the latest reconstitution, the average market capitalization was approximately $14.1 billion; the median market capitalization was approximately $4.1 billion. The smallest company in the index had an approximate market capitalization of $1.6 billion.

Separate accounts
A separate account refers to a separately managed, institutional account or composite of discretionary accounts representing a similar investment strategy. Separate accounts are managed and distributed by an asset management firm. The portfolio can be traded in accordance with each investor's specific guidelines, so their performance is gross of fees. The rates of return shown for institutional products reflect total investment performance (i.e., the rates of return include capital appreciation or depreciation as well as income). All rates of return are shown before investment management fees since such fees for institutional accounts vary by client and are normally a function of total assets in the portfolio. The charging of management fees can have a significant impact on the value of an actual investment.

Rate of return
The rate of return percentages represent the aggregate increase/decrease in the value of a portfolio resulting from the net appreciation (or depreciation) of the principal, plus or minus the net income (or loss) experienced during the period. The annualized rates of return for all products is calculated by taking the geometric mean of all monthly returns for the respective time periods (i.e., 1 year, 3 years) except for institutional real estate products that use quarterly returns. Periods of less than one year are not annualized. Rates of return are calculated differently for institutional separate accounts, commingled funds and managed accounts, and mutual funds.

Standard deviation is a statistical measurement. When applied to the annual rate of return of an investment, it sheds light on the historical volatility of that investment. The greater the standard deviation of a security, the greater the variance between each price and the mean, indicating a larger price range. For example, a volatile stock has a high standard deviation, while the deviation of a stable blue-chip stock is usually rather low.

The Sharpe ratio is the average return earned in excess of the risk-free rate per unit of volatility or total risk. Subtracting the risk-free rate from the mean return, the performance associated with risk-taking activities can be isolated. One intuition of this calculation is that a portfolio engaging in "zero risk" investment, such as the purchase of US Treasury bills (for which the expected return is the risk-free rate), has a Sharpe ratio of exactly zero. Generally, the greater the value of the Sharpe ratio, the more attractive the risk-adjusted return.

Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole (in this case the S&P 500). Beta is used in the capital asset pricing model (CAPM), a model that calculates the expected return of an asset based on its beta and expected market returns.

Alpha is a measure of performance on a risk-adjusted basis that takes the volatility (price risk) of a security or portfolio and compares its risk-adjusted performance to the market as a whole (in this case, the S&P 500). The excess return of the security or portfolio relative to the return of the market as a whole is a fund's alpha.

This newsletter is furnished only for informational purposes and contains general information that is not suitable for everyone. The information herein should not be construed as personalized investment advice or considered as a solicitation to buy or sell any security. Investing the stock market involves gains and losses and may not be suitable for all investors. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Although the information contained herein has been obtained from sources believed to be reliable, its accuracy and completeness cannot be guaranteed. It is also subject to change without notice.

Robinson Value Management, Ltd. ("RVM") is an independent investment management firm, not affiliated with any parent organization. Founded in 1997, Robinson Value Management, Ltd. is an SEC registered investment advisor and serves both individual and institutional clients. The Contrarian Value Equity Composite ("CVEC") includes all fee-paying, fully discretionary accounts maintaining greater than 85% of the portfolio in equity assets. The benchmark presented is the Standard & Poor's 500 ("S&P 500"), a market capitalization weighted index considered to be representative of the U.S. stock market. It is comprised of about 500 of the largest U.S. publicly traded companies with each stock's weight in the index proportionate to its market capitalization. Returns reflect reinvested dividends and are expressed in U.S. dollars. Past performance is not necessarily indicative of future results. Robinson Value Management, Ltd. claims compliance with the Global Investment Performance Standards ("GIPS®"). To receive a complete list and description of our composites and/or a presentation that adheres to GIPS, call (210) 490-2545, email amy@robinsonvalue.com, or go to our web site at www.robinsonvalue.com.

Please contact Robinson Value Management, Ltd. if there are any changes in your financial situation or investment objectives, or if you wish to impose add or modify any reasonable restrictions to the management of your account. Our current disclosure statement is set forth in Part 2A of Form ADV and is available for your review upon request.