



# The Rennie Quarterly Return

**Rennie & Associates**  
**Financial Planning**  
**Investment Planning**  
 ...  
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## Growth, Value, Large, Small—Does It Really Matter?

Over the past 10 to 15 years, the investment community seems to have become much more focused on investing in various segments/sectors of the stock market. This seems to have coincided with the growth of Morningstar, a very popular mutual fund analysis and rating company.

Morningstar divides the stock market into nine components. They are shown in Table I along with each component's share of the total stock market.

Large Value 16%	Large Blend 28%	Large Growth 25%
Mid Value 5%	Mid Blend 4%	Mid Growth 10%
Small Value 2%	Small Blend 4%	Small Growth 6%

Table I

Value stocks are characterized by lower earnings per share growth and price/earnings ratios, and higher dividends. Growth stocks exhibit higher EPS, P/Es and lower dividends. Large cap stocks have an average market capitalization of around \$75 Billion, mid caps around \$7 B and small cap stocks around \$1 B.

### Growth Vs. Value

To evaluate the effects of investing in growth stocks versus value stocks, we believe that the Russell 1,000 Value and the Russell 1,000 Growth Indices are very useful.

Computation of these indices began on 1/1/79.

An examination of these indices (see Graph #1 on the attached page) shows that their cumulative results tracked closely and were virtually identical until the year 2,000, the year when the dot.com bubble burst. So for about 20 years after these indices began, there was no premium to value versus growth, or vice versa. Since 2,000, value stocks have outperformed growth stocks by a wide margin. Does this data show an obvious premium for value stocks? We think not.

### Large Vs. Small

A case has been made that small cap stocks outperform large cap stocks based on data beginning in 1926 and published in the SBBI Yearbook by Ibbotson Associates (see Graph #2). The premium to small stock investing over large seems obvious. However, a further examination of the data shows that the periods of small stock outperformance have been very short. Also, the level of outperformance during these short periods has been huge.

To examine the significance of these short periods, we removed one of them, the seven consecutive years from 1975 through 1981, from the 82 year data base. The results are surprising (see Graph #3).

The small stock premium disappears.

We fully understand the dangers of what we have done. Clearly it is "data mining." Still, in looking at this from the investor's standpoint, we believe these altered results are instructive. If the future is like the past, small stock investors will have to be in small stocks during these rare but ebullient periods, or their results will be unrewarding. We don't see the merits of such an approach.

We also looked at the cap size question using the Russell Indices. For large cap stocks, we used the Russell 1,000 Index. For small cap stocks, we used the Russell 2,000 Index. The data shows that from the beginning of these indices on 1/1/79 through 2007, small stocks actually underperformed large stocks (see Graph #4).

### So what's an investor to do?

Based on these data and conclusions, we see no reason to believe that there is a capitalization or style premium. We believe that the best approach is to diversify as much as practicable and invest with funds and investment managers with consistent, long-term historical records of superior performance.

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## Our Two



"The nightingale which cannot bear the thorn  
 It is best that it should never speak of the rose"

Anvar-i-Suhaili, The Lights of Canopus

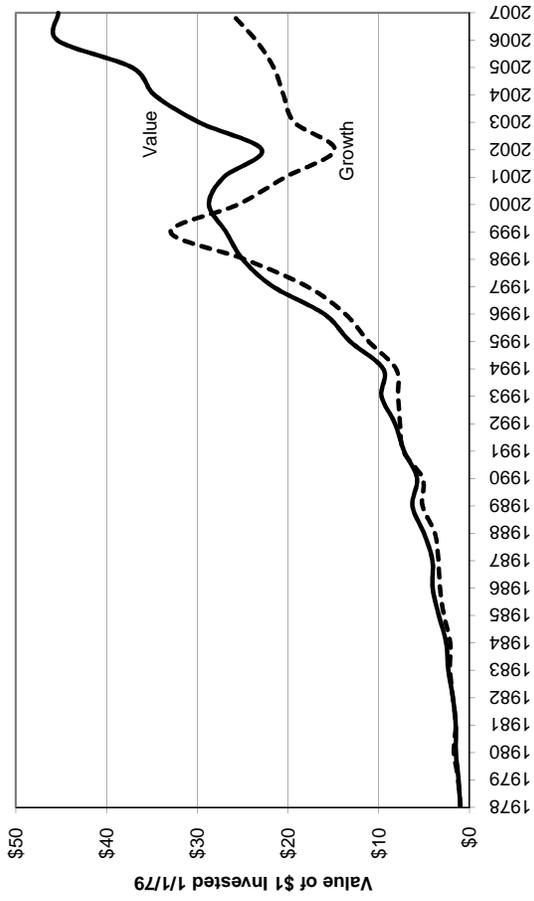


## Quarterly Trivia:

A barrel of oil contains 42 gallons. How much gasoline does this produce?

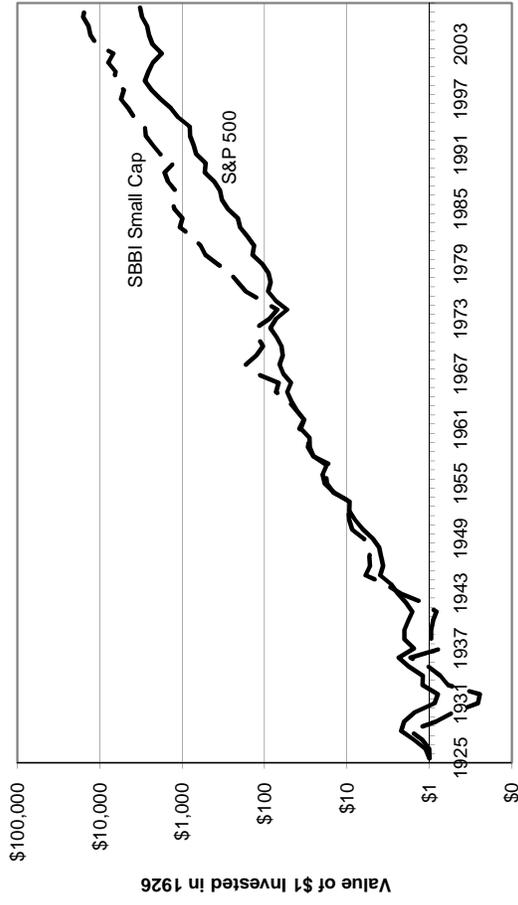
Approximately 19.6 gallons, the rest is refined jet fuel and other fuel oils.

Russell Value Vs. Growth



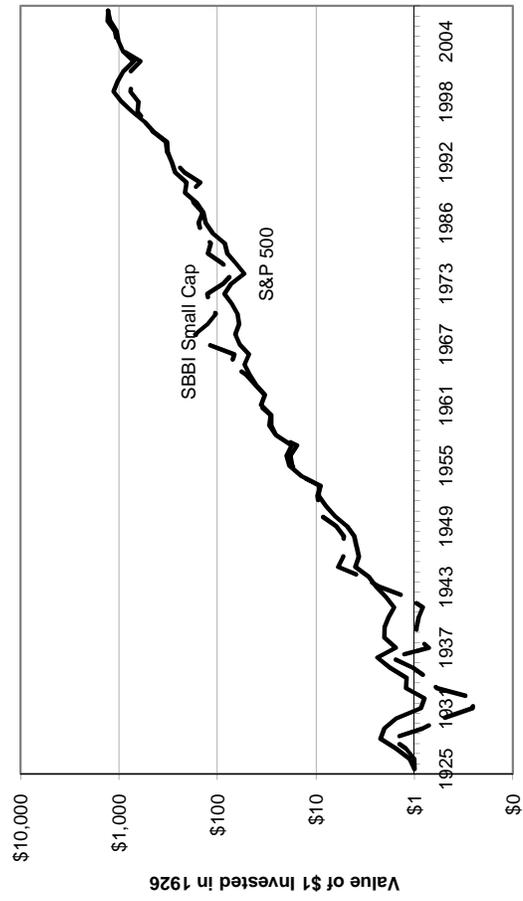
Graph #1

S&P 500 Vs. SBBI Small Cap



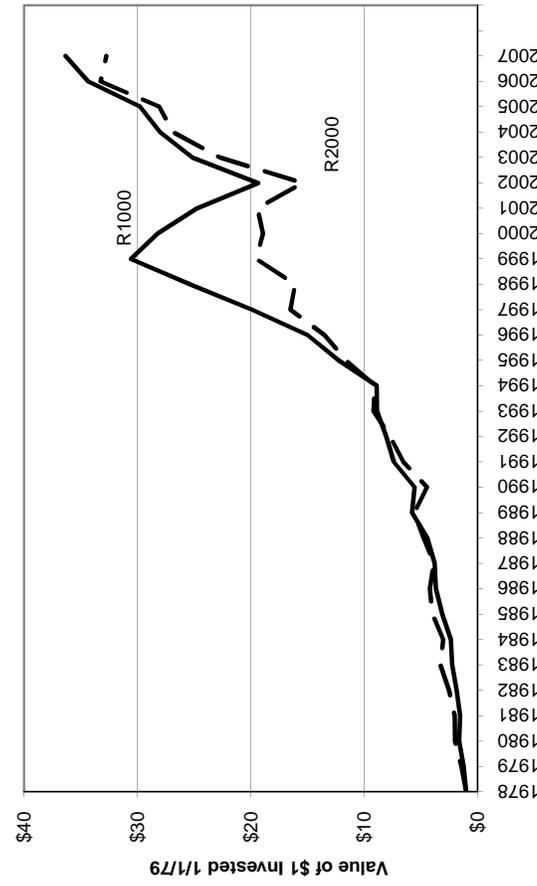
Graph #2

S&P 500 Vs. SBBI Small Cap (excludes 1975-81)



Graph #3

Russell 1000 Vs. 2000



Graph #4