FINANCIAL
newsletter

Caissa Wealth Strategies

MAY

Growth or Value?

The markets have made a sharp style reversal in the first quarter of 2016. If you compare growth stocks to value stocks, growth has been on a run since 1999 and in 2015 large cap growth outpaced large cap value by 9.5%! So if an investor had any 'lean' into large cap value, they didn't have a great year last year. Fortunately, Caissa was leaning heavily into the growth style for the past few years and it has paid off.

What is a growth stock? It is a stock that is typically associated with companies that have earnings that are growing and you want to buy it for its future cash flows. Growth stocks are names like Nike, Facebook, Apple and Microsoft.

A value stock on the other hand is better defined as a company with flattening earnings growth rates and a low P/E ratio. Value stocks are names like Walmart, Wells Fargo & Co and Exxon Mobil Corp. As of late, especially in 2015, many energy and materials names were what dragged down value stocks. However, the recent surge in oil prices have kicked off a first quarter in 2016 that has widely favored value stocks to growth stocks. Value has outperformed by at least 2.3% in the first quarter alone. Value stocks like an environment where oil is rising, the economy is expanding and the fed is very dovish on interest rates (slower to hike).

Caissa has a lean into growth stocks right now and we haven't yet offset that. One supporting item in the cause for not making a huge style shift is that the P/E ratio of growth stocks currently is 19.5 vs it's 20 year average of 21.1. Some would argue there is a bit of room to run there. Whereas the current P/E for value stocks is 16.3 and the 20 year average is 14.3 so some would say that value is a little overheated for the price and the earnings you get for paying up.

This style rotation has been playing out not just in large caps, but in small and mid caps as well. In addition, we see the P/E ratios in value stocks for mid and small caps also exceeding their 20 year averages while the growth stocks remain below their 20 year averages for P/E ratios.

Therefore, while the underweight of value was a large drag to us in the first quarter, we still believe there is room to run in the growth stock and will remain overweight there. This is yet another reminder that we have to remain allocated across all asset classes, styles and sectors as they can rotate in and out rather quickly!

~ Kelly Olson Pedersen, CFP®

the market at a glance

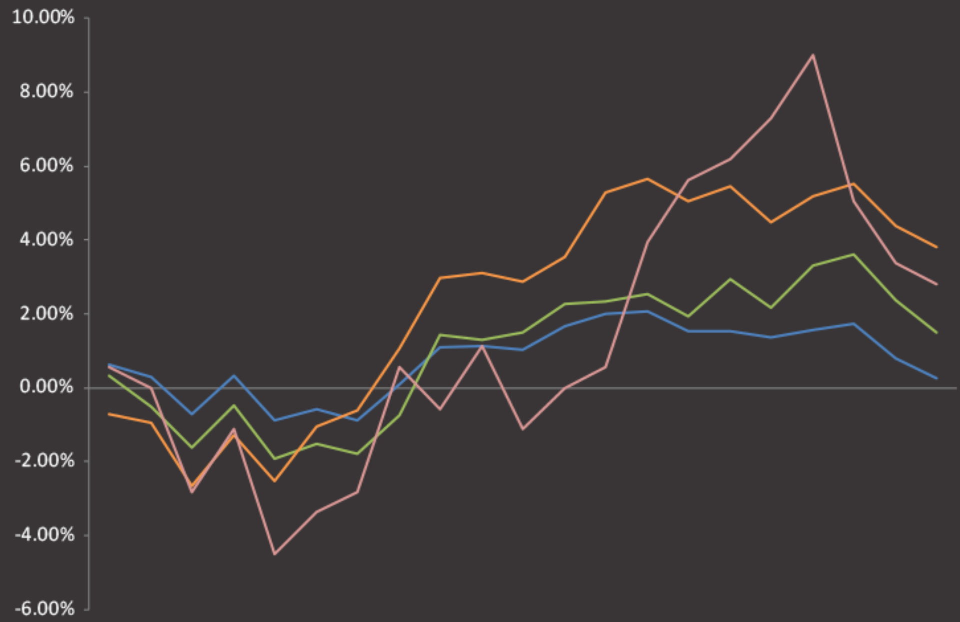
APRIL

U.S. Large Cap
(S&P 500)
2,065.30 (0.27%) ▲

U.S. Mid/Small
(Russell 2000)
1,130.84 (1.51%) ▲

International Large
(NYSE International 100)
4796.20 (3.80%) ▲

U.S. Treasuries
(U.S. 10-Year Treasury Yield Rate)
1.83 (2.81%) ▲



Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

The market in action

- The Department of Commerce reports U.S. GDP grew at an annualized rate of just 0.5 percent in Q1 of this year—its weakest growth in two years. Days later, the Eurozone reports annualized growth of 2.4 percent for the same period—its fastest growth in five years.
- Following the expiration of a temporary surcharge, the U.S. Postal Service lowers the price of stamps by 2 cents. The change marks the first reduction of stamp prices in 97 years.
- Peabody Energy Corporation, the world's largest private coal company, files for Chapter 11 bankruptcy. Coal revenues have been slashed in recent years due to cheap natural gas and increasing demand for clean energy. Peabody's stock value has fallen more than 97 percent since 2011.
- Mitsubishi Motors Corp. publicly admits that it lied about the fuel efficiency of some of its current vehicle models. The following week, Mitsubishi announces that an internal investigation had discovered evidence of falsified fuel testing as far back as 1991.
- Chip-manufacturing giant Intel Corporation announces plans to lay off 12,000 workers worldwide during an upcoming restructuring initiative. The 12,000 employees make up approximately 10 percent of Intel's global workforce.
- Alaska Air Group looks to buy competing airline Virgin America for $2.6B. The merger will make Alaska Air the fifth-largest U.S. domestic airline company.
- Drug companies Pfizer Inc. and Allergan, Plc. terminate plans for their $152B merger after the Obama administration introduces rules that restrict the profitability of corporate "inversions." Pfizer had planned the merger so it could transfer leadership to Allergan's headquarters in Ireland, where its tax liability would have been significantly lower.
- Approximately 39,000 Verizon Communications employees walk off their jobs and begin a massive strike on April 13.