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MEMORANDUM

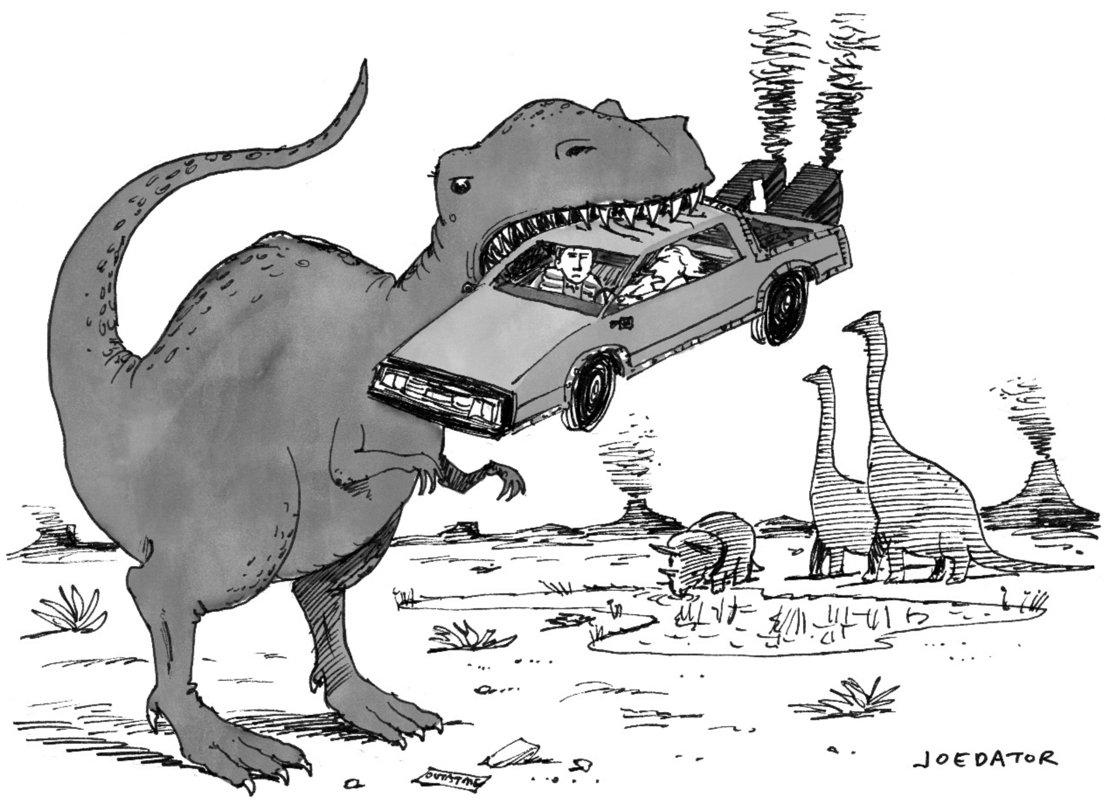
FROM: Gina Moore

DATE: August 10, 2021

RE: BACK TO THE FUTURE — A TRIP THROUGH THE PAST OF "BALONEY.COM"

It all started two decades ago when the TMT/Internet Bubble was in full swing . . .

It was February of 2000 and the trailing twelve-month performance of the Russell Midcap Growth outperformed Midcap Value by 93 *whole percentage* points. The "new-fangled" internet high-flyers were out of control. AJO's performance was lagging, to put it mildly, and we were desperate to illustrate the anti-value craze was both pervasive (not just a tech sector phenomenon) and unprecedented.



"Yeah, whatever. At least we didn't go back to the TMT bubble."

The birth of Baloney.com

We grabbed data on the 2,000 or so largest stocks across all sectors as far back as 1962. We constructed a simple cheap/dear strategy — buying the cheapest 10% and shorting the richest 10% based on trailing price-to-earnings, rebalancing monthly. We ignored transaction costs (would have been gargantuan) and had no concern for reality (e.g., locates or shortability).

Our study tracked the path *and* trajectory of the returns to value over the past (then) thirty-eight years. The trajectory was impressive — an average of 5.5% annually, with a standard deviation of 13.3%, but as value investors that fact was not surprising. We wanted to better visualize the path of value — particularly *after* points of underperformance. In fact, four periods of significant underperformance preceded the Internet Bubble (aka Baloney.com). The most significant was the Great Garbage Market of '68 when value was down (25)%. Obviously, it could get ugly. In February of 2000, with value underperforming (54)%, we could only hope the end was in sight.

Back to the future

Twenty years later, we have two more observations to include in the mix: the GFC — value down (22)%, and the latest, a four-year, four-month trouncing by the FAANGs (the internet stocks that actually made it to adulthood) punctuated by the global pandemic — value down (43)%. "The latest" is the longest anti-value period in our study. It is difficult to label because, well, how do you label anything punctuated by a global pandemic. And, it is not over yet . . .

After the Great Garbage Market value decline, it took two years to regain leadership; after the GFC, value was back in business one year and ten months later; when the TMT bubble burst, value roared back from its amazing fall in just twelve short months. Through June 30, "the latest" rebound value is twelve months and +32% in the making.

We have another 33% to go before value can consider itself *back to the future* — does anyone have a DeLorean?

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gce

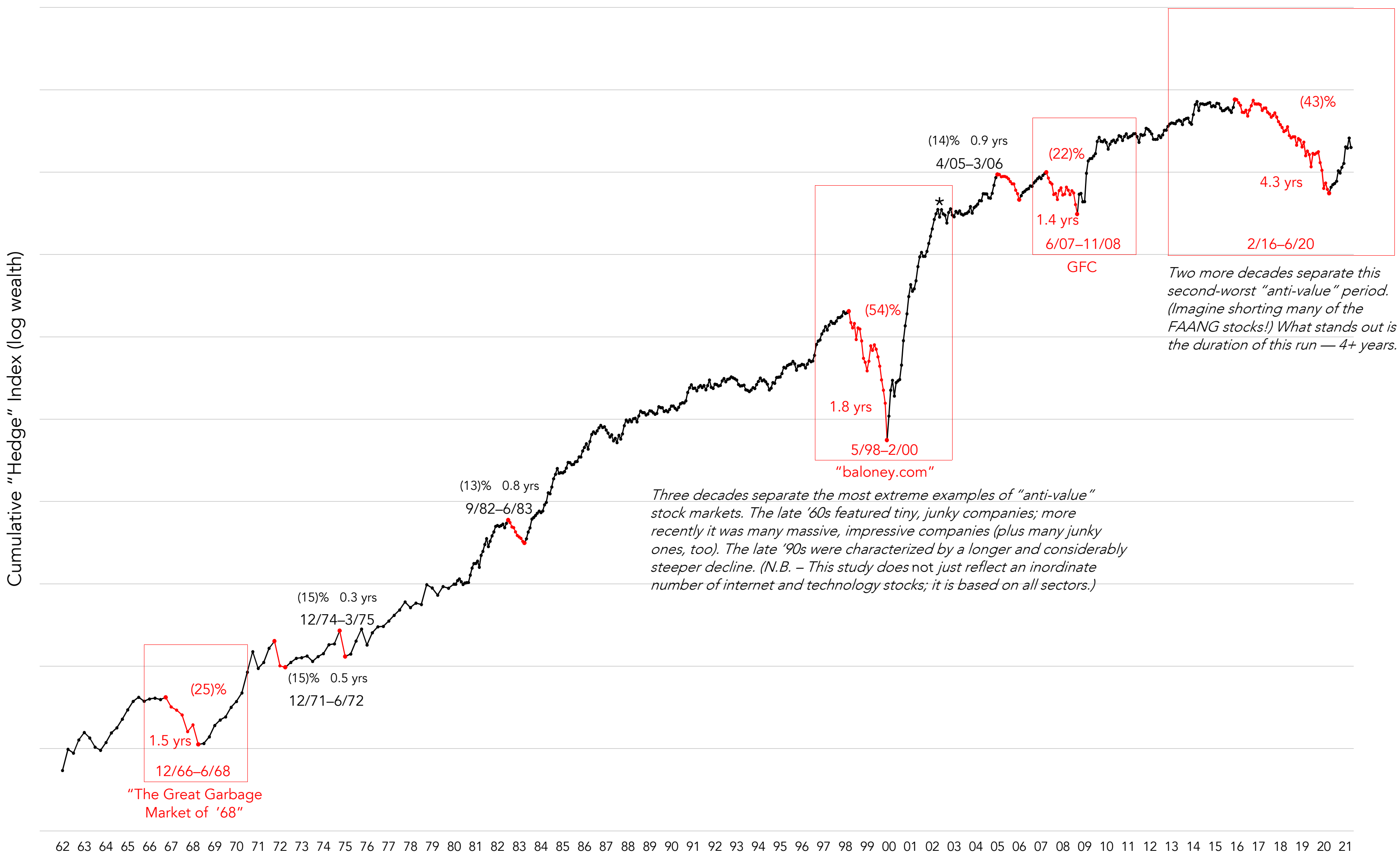
AJO

Long Cheap Decile / Short Rich Decile

Trailing P/E: equal-weighted, sector-adjusted returns

March 1962–March 1980, quarterly; March 1980–June 2021, monthly

(N.B. – These paper-portfolio returns are the result of an academic exercise and are not the results of any strategy or investment recommendations made by AJO. They do not reflect gargantuan transaction costs.)



Sources: AJO, Compustat, FactSet, Wilshire Associates. Jason Zweig coined "baloney.com"; David Dreman coined "The Great Garbage Market of '68." Only loss periods that exceeded (10)% are identified. Over the 58-year history, the annual compound return is 5.3%, with a standard deviation of 13.7%. *The rebound to 6/02 was an astonishing 224% in 2.5 years!