

BlackRock

**Will value be great again?
Or should we all move on?**

Overview

- **Channeling Gov Cuomo of NY from 2018**

- Fama-French's most recent paper agrees

- **Not only that, but**

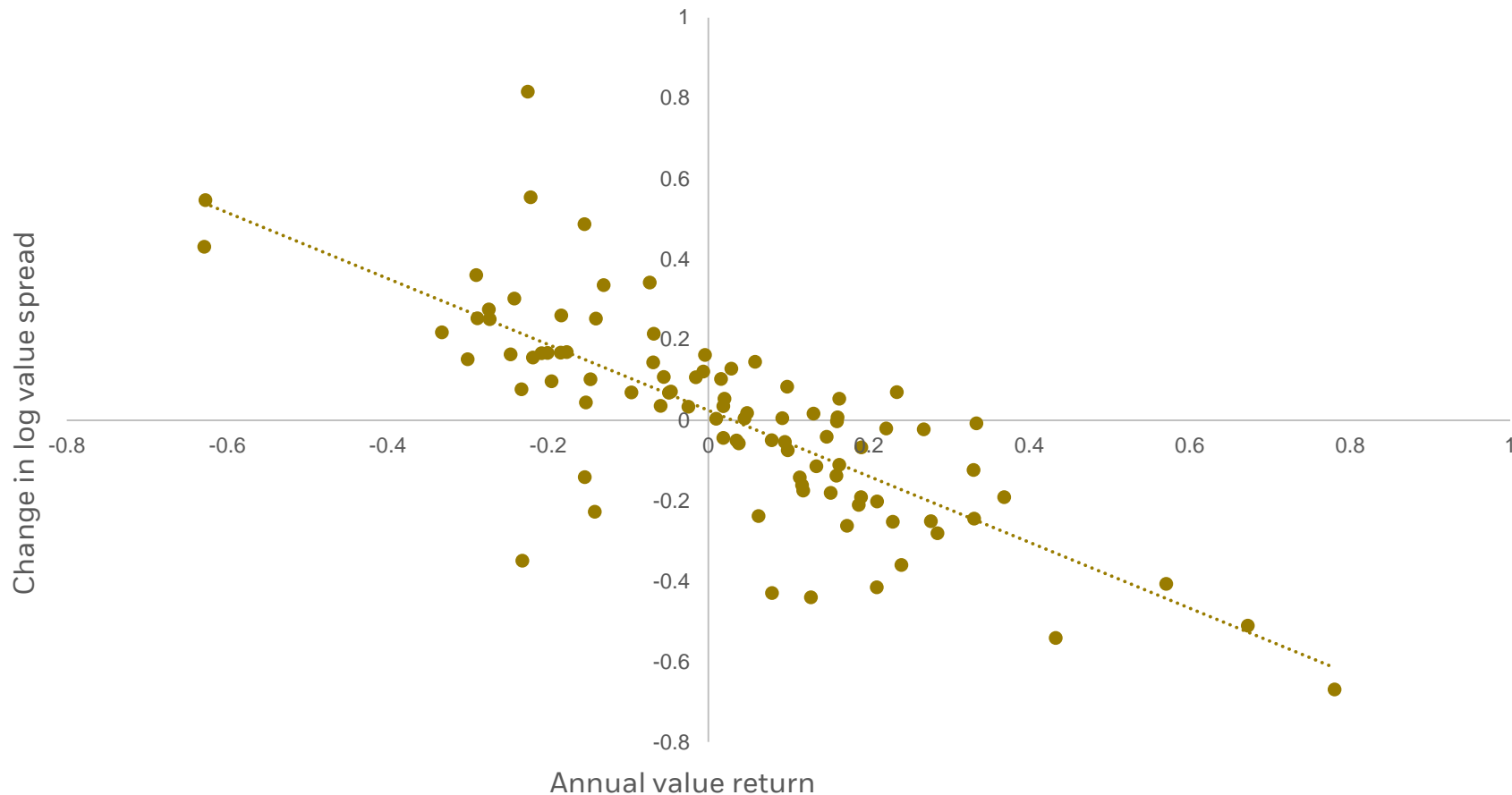
- Value spreads mostly forecast risk (told you so in November 2019)
- “Making value great” is a mis-allocation of human and financial capital
 - Human capital: dividing ideas by P squanders the value-add
 - Financial capital: X/P portfolios are a commodity. Spend your active fees elsewhere
 - For details, see “Value in Listed Equities: It’s Just a Story”, forthcoming September in *JPM*

Value spreads: doubling down on double failure

Failure 1: bad performance

Failure 2: Circularity. value will be great...says value

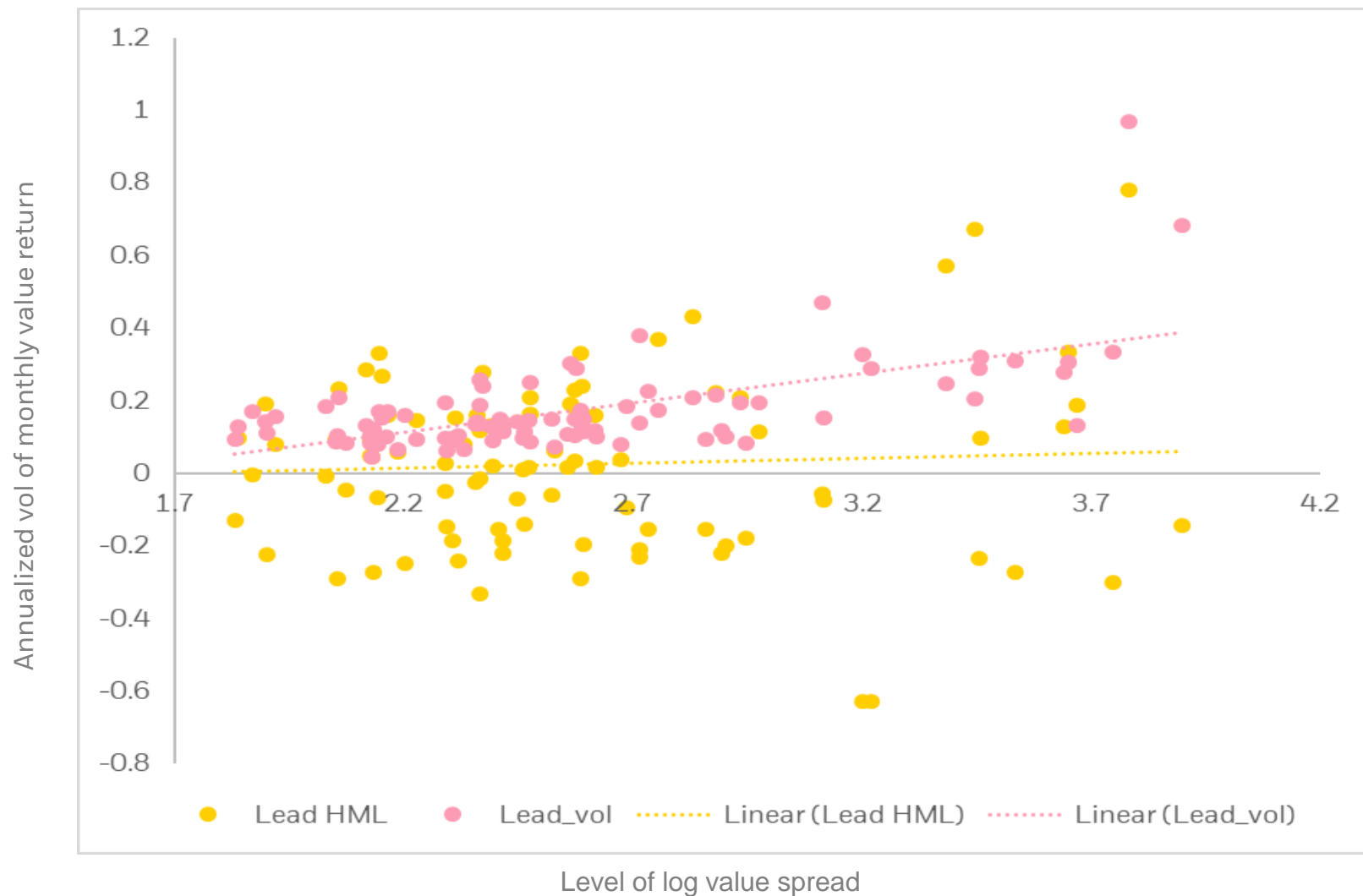
Value cheap = Value lost (also see next UBS value session) Log spread and trailing HML return 1926-2019



Source: https://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html. As of December 31, 2019. For illustrative purposes only

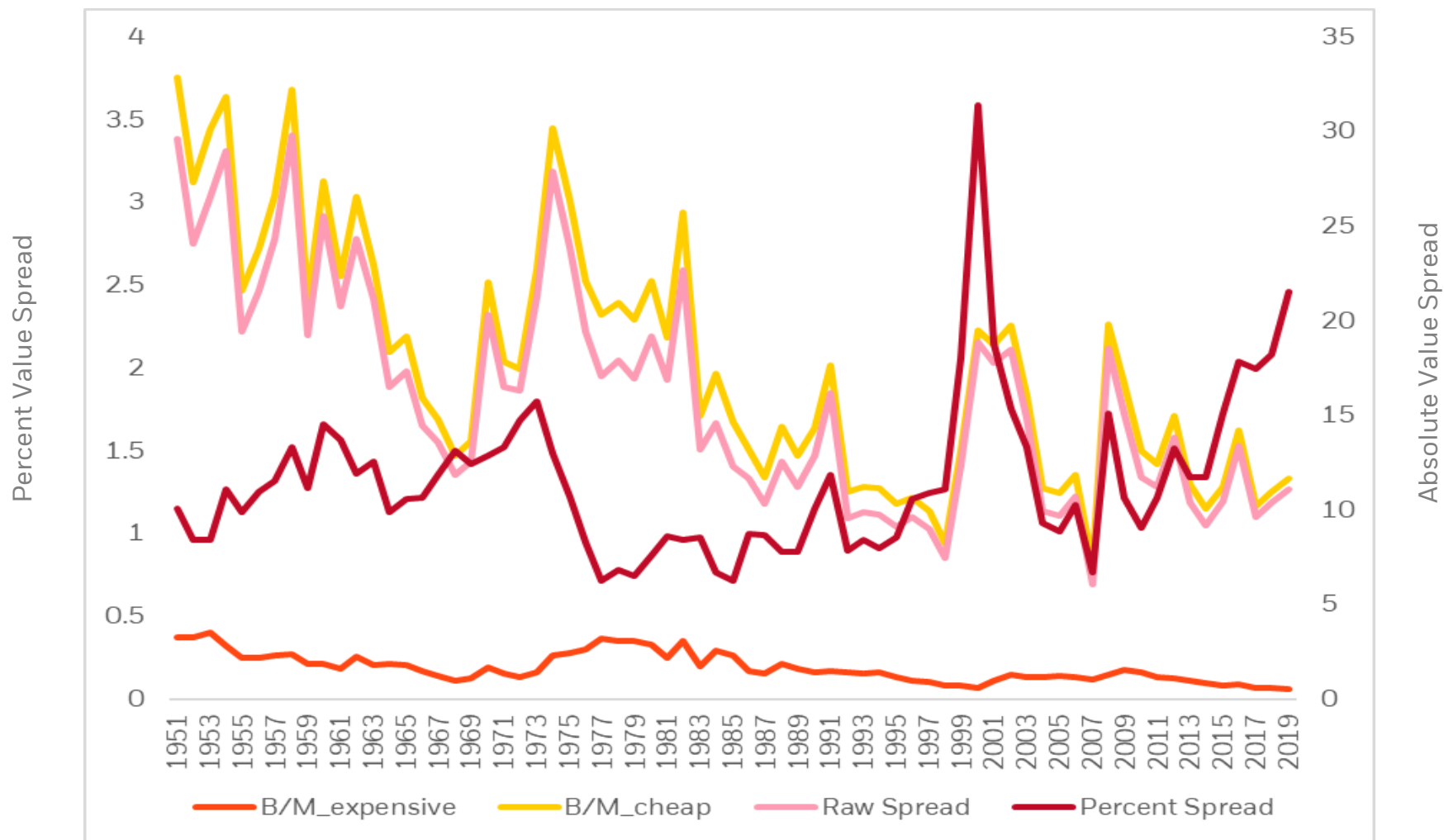
Percent spread forecasts risk, not return

Value spread and subsequent 12 month return and vol



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Simple spread forecasts better, because it has been low for a long time !



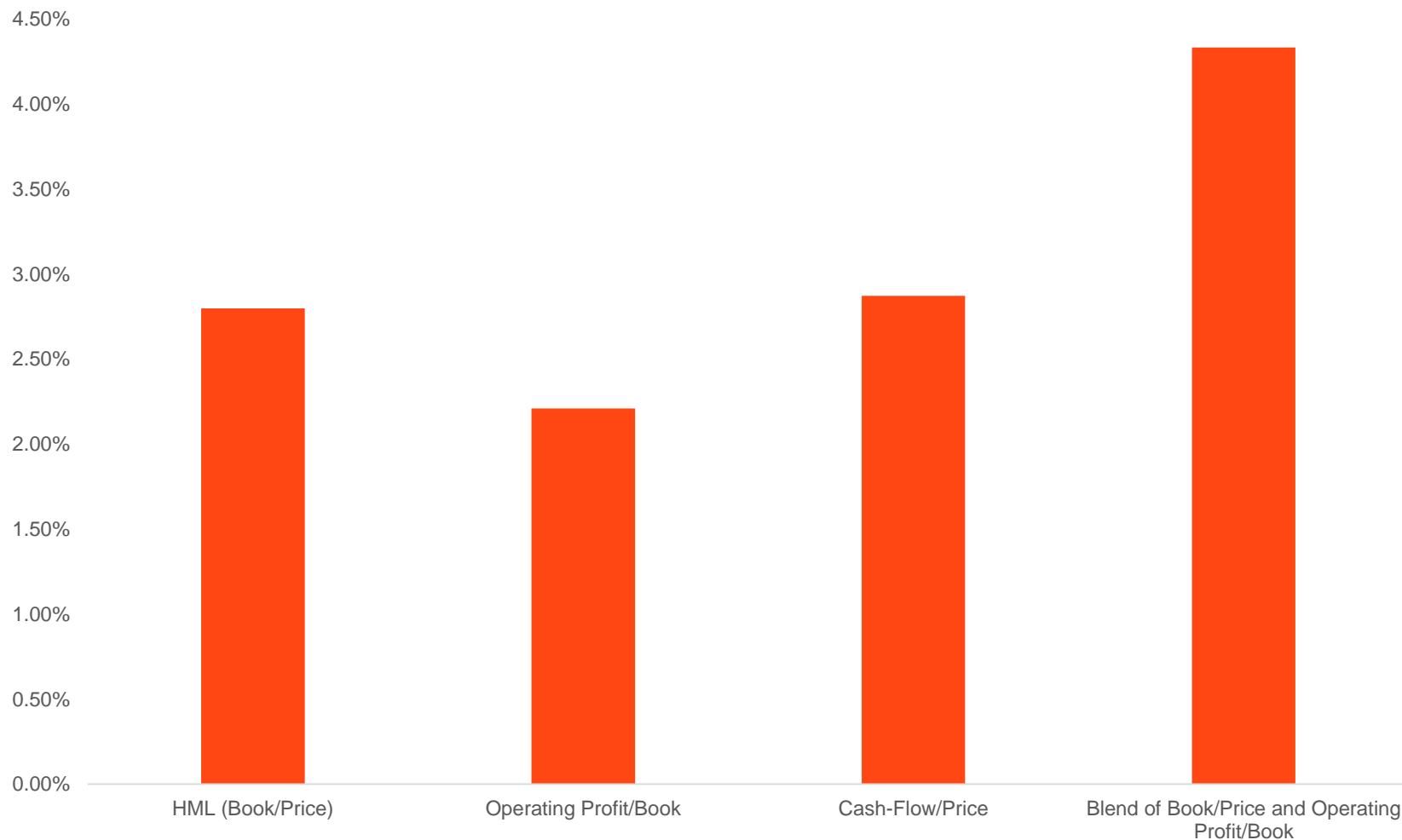
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Don't bother fixing value

Can't you fix value?

- **Sort of, but $\text{Insight/P} = (\text{Insight/Book}) * (\text{Book/P})$**
- **Much better to do a linear combo of the two:**
 - Diversification away from X/P
 - Save on fees for the B/P component
 - Isolate value-add of new ideas
- **Why?**
 - Ideal value metric just captures what the market is pricing
 - But alpha comes from pinpointing *mis*-pricing
 - Value is a sledgehammer: just bet against the current price, most of which you do not understand

Example from French's website, 1963-2019 Average annual alpha at 10% risk



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