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Opportunities in Value Investing

Charles Pohl: Diana, we want to talk today about some fairly extraordinary things that are happening in the financial markets, both in the United States and around the world. And what we've seen in the recent past, both in the U.S. and outside of the U.S., is a great divergence in the performance of growth stocks versus value stocks. And this is important, both in understanding the recent underperformance, and also in terms of understanding the opportunities that we face as a value manager today. As you know, our process consists of looking at the long-term fundamental position of companies and comparing that against the valuation that we see in the marketplace. And so we are a value manager and we tend to be invested in so-called value stocks. If we look at the last 80 years of U.S. financial history, one of the things we see is that it is a very extraordinary period of time, this last ten years, in that growth stocks have actually outperformed value stocks and that has happened very rarely over 10-year periods. The last time that that happened was prior to the bursting of the internet bubble.

Diana Strandberg: And you'd have to go back to 1939 before you'd see another 10-year period where growth outperformed value. And, you know, the same is true outside the U.S., Charles. Growth has outperformed value by a magnitude and for a duration that we really haven't seen in 30 years.

Charles Pohl: And this creates, I think, some terrific opportunities for a value manager such as ourselves.

Diana Strandberg: As a result of this divergence between growth and value performance, valuation disparities have widened considerably. Companies with higher valuations have gotten even more expensive relative to companies with lower valuations. In the U.S. and the rest of the developed world, this is especially true in energy, materials, and financial services companies, and in emerging markets this is true across sectors generally. As a result, we're finding compelling investment opportunities as we look at our universe, and we have been finding more opportunity in financial services companies, we've been nudging our energy exposure up and we've been finding more investment opportunity in emerging market domiciled companies.

Charles Pohl: It's really quite an extraordinary period of time. During difficult periods such as these, our approach has been to retest and revisit our investment hypotheses and to try to reaffirm the long-term fundamental investment thesis behind each of our positions.

Diana Strandberg: No, that's true. Our strength is the ability to build investment conviction and to have the staying power and persistence with those convictions.

Charles Pohl: Yeah, and patience and persistence really have been two of the keys to our long-term investment success. Our ability to stay with difficult positions in the face of adversity has been extremely important to us. A couple of the things that help us to do that are our group decision-making process, you know, where we have multiple people looking over the investments and where we work together as a team. That helps us to build conviction and hold on to positions in difficult periods such as the current one. Also, our independence as a firm and our independent research effort are important to that, our independence as a firm because, you know, we are not subject to outside pressures or conflicts of interest, people trying to tell us to do the wrong thing at the wrong time. And our independent research effort is important because we have, you know, before we even purchase the investment originally, done our homework and we understand these companies at a very deep level, what we think the investment appeal is of them. And so when things go against us we are less likely to get frightened out of the positions, and that's been very important to us over long periods of time.

Diana Strandberg: No, it's true. It's impossible to time the bottom or the top with an investment and that's part of why we nudge positions over time, so that we have a lot of opportunity to rethink and, if appropriate, reaffirm our convictions in that investment. What that amounts to is we're able to build positions gradually over time that put us in good stead when things turn. What I'd note is conditions can change direction quickly and so we find that too many investors jump in and out at just the wrong time and we think that having patience and persistence and retaining a long-term view are essentials to long-term investment success.

Charles Pohl: Our experience has taught us that it is important to know your portfolio well, especially during periods of market extremes, and we are seeing some fairly extreme conditions in the markets right now with this wide gap that's opened up in terms of valuation between growth stocks and value stocks. And so now is not the time to be a passive investor. In fact, we think it is one of the most opportune times to be a value-oriented, long-term investor in the markets.

Diana Strandberg: We don't know how long current market conditions will persist but we do know that we have a team that's invested together over decades and that we'll remain focused and disciplined.

Charles Pohl: And we remain confident, especially in the current environment, that our value-based, long-term approach to investing will serve the funds and our clients well.

Diana Strandberg: That's right, Charles.