



# Winning RECIPE

**I**t was my good fortune to have grown up in a rural community north of the cheddar curtain on a multigenerational family farm. My mother's talents in the kitchen were legendary and her skills were extended beyond our family to include beneficiaries like our "hired hands" as well as the general community via bake sales for a charitable cause.

To this day, when people approach me to ask about her health, they often follow up by sharing a memory about a favorite dish, pie or meal. Unlike some "competitors," she would readily share her recipes. We knew, however, that others' attempts to imitate fell short, as it was the combination of quality ingredients and her technique that resulted in culinary excellence.

I think this same concept applies to investing. A tried and true recipe applied consistently with skill over time should result in a good outcome.

Investing over the past few years, for many, has felt like a wild rollercoaster. Market volatility and unusual sector performance have been so distracting that even industry veterans can find themselves tempted to begin messing with their recipe. These temptations seldom lead to good results.

In the same spirit Mom has had for almost nine decades, allow us to share our recipe for success for investing in equities.

**EMPIRICAL EVIDENCE, NOT HYSTERICAL HEADLINES.** Violent market swings can create conditions where investors are wanting for explanation and can find themselves seeking comfort from wherever they might find it. Investment "gurus" typically come out of the woodwork during times like this, inevitably some





claiming they saw the current market scenario coming and made a tactical call that was of amazing benefit to those who listened and acted upon their prophecy. These personalities can draw investors like bugs to a bug zapper — often to the same result.

If you are an investor, in regard to equities, there are three key tenets that have survived the test of time. They are:

- ▶ Small-Cap Stocks have a tendency to outperform Large-Cap Stocks over time.
- ▶ Value Stocks have a tendency to outperform Growth Stocks over time.<sup>1</sup>
- ▶ Stocks of highly profitable companies have a tendency to outperform stocks of companies with low profitability over time.<sup>2</sup>

These tenets are based on the careful

analysis of market data and over time have held true whether you are focused on U.S. Markets, Developed Non-U.S. Markets or Emerging Markets. Showing the differential in return across these markets requires more space than this article is allowed, but if you are skeptical, we would welcome the opportunity to review together.

There. We've shared our recipe card for equity investing, just like Mom used to share her recipe for her famous cherry pie. I have that recipe, too, but try as I may, I can never equal the texture of her pastry-like crust nor the sensation of a perfect balance of sweet and tart filling packed around the fresh cherries.

I guess seasoned hands make a difference.

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<sup>1</sup> Relative price as measured by the price-to-book ratio; value stocks are those with lower price-to-book ratios. <sup>2</sup> Profitability is a measure of current profitability, based on information from individual companies' income statements.

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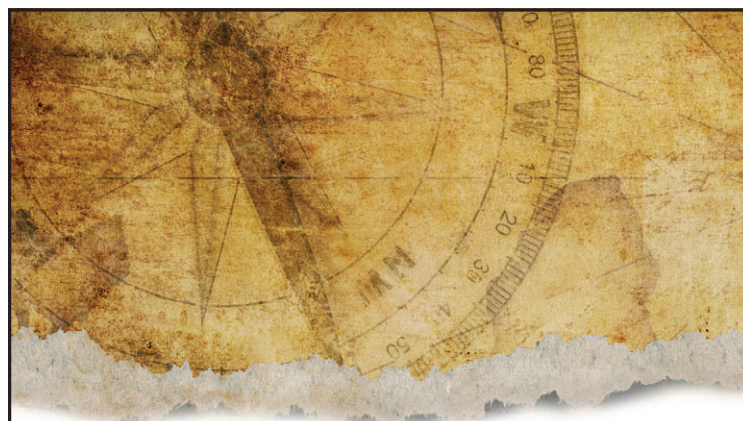
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