

VALUE

INVESTING



GROWTH

INVESTING



Capital
—SPROUT—

NEWSLETTER

MAY 2023

The Chairman's Message



Greetings from Capital Sprout!

It gives me pleasure to share with you the **May-23** issue of Capital Sprout's Wealth Bulletin. Where this month's bulletin is about **Growth Investment & Value Investment, and how both investment types perform differently considering various factors.**

Like accounting, **Investment is also an Art & Science.** It also follows certain theories. In addition to art & science, investment also follows human psychological & behavior pattern which plays an important role. Growth and value are two fundamental approaches, or styles, in stock and mutual fund investing.

Investing is often categorized into two fundamental styles:

- (I) Growth investing**
- (II) Value Investing**

The decision to invest in growth vs. value stocks is ultimately left to an individual investor's preference, as well as their personal risk tolerance, investment goals, time horizon and many other factors. There is no thumb rule to selecting Growth v/s Value investing.

An ideal investment portfolio should consist of a blending of Growth & Value stocks/ funds.

Attempts are made to understand & analyze how Growth investing & Value investing performs differently in different time period with facts & figures.

I hope that readers will find this bulletin valuable as it aids their comprehension of the fundamental aspects of investing. This knowledge will assist them in selecting suitable stocks or funds for their investment portfolio.

CA DR Rajesh Khandol

Growth Investing

As its name defines, Growth investing style involves investment in stock of companies which are on Growth path in terms of **Revenue, Profit, future Business potentiality, Operational & financial parameters.**

Simply defined, the growth investing style involves investing in stocks that have an earnings growth that is substantially higher than the market average.

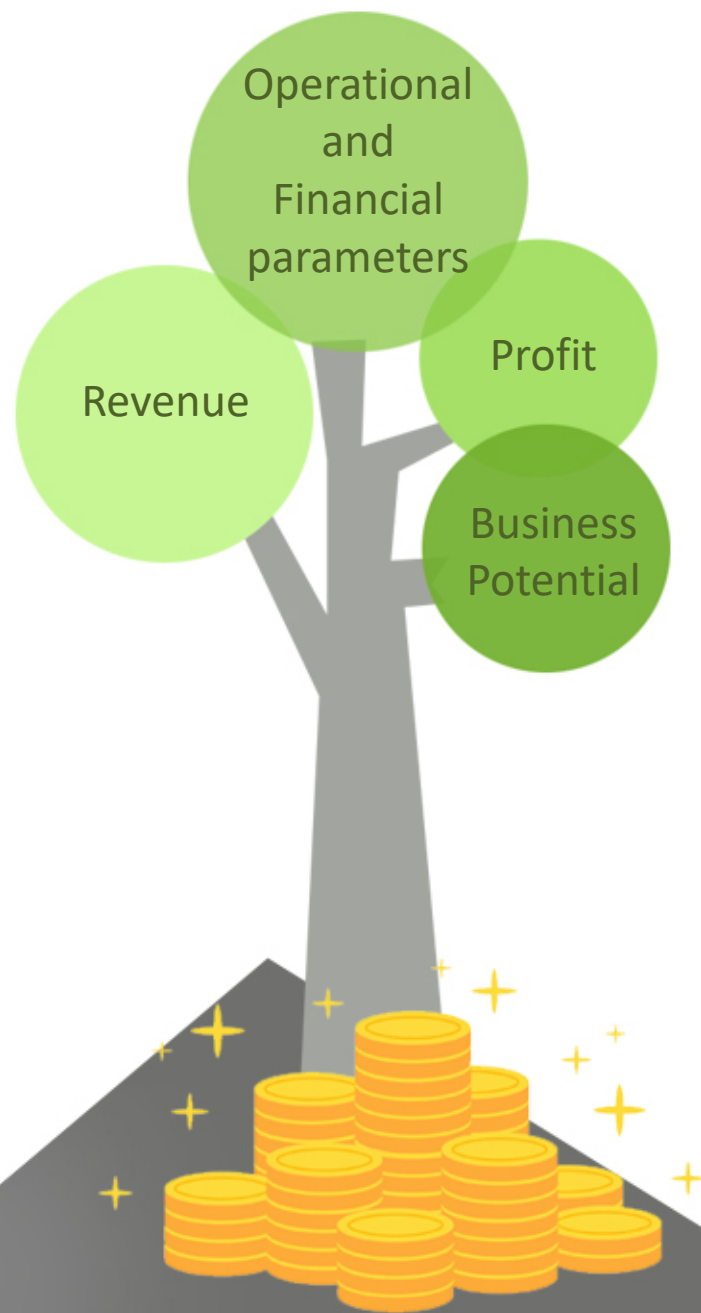
The critical assumption is that this above-average performance of growth stocks will continue in the future. Companies showing such outperformance might be new or belong to an emerging sector that can become an industry leader in the future.

Growth stocks are aggressively valued by the market and thus they typically display **higher P/E (Price to Earnings) & P/B (Price to Book) ratios and also better Earnings Per Share (EPS).**

At the same time, dividend yields may be minimal because most of the profits are ploughed back into the business.

Investors mostly buy these companies with the intention of earning higher capital appreciation rather than dividends.

The key risk of investing in growth stocks is the potential volatility in stock performance, especially in the short term. What's more, in many cases, growth stocks might be relatively recent market entrants with short or no historical trends that support the promise of future growth.



Value Investing

As its name defines, **Value investing** involves investing in stocks of companies which are fundamentally strong but these companies are undervalued & failed to compete with other companies in terms of market prices on stock exchange. Value investing is an investment strategy that involves picking stocks that appear to be trading for less than their intrinsic or book value. **Value investors are on the hunt for hidden gems in the market:** stocks with low prices but promising prospects

Such companies may be undervalued for a variety of reasons. Some may have gone through a cyclical underperformance, some may have been ignored by the market due to unsatisfactory past financial performance and some may be turnaround cases due to factors like change of management, change of line of business, new product launches or new capital infusion.

Value investing is the process of doing detective work to find these secret sales on stocks and buying them at a discount compared to how the market values them. In return for buying and holding these value stocks for the long term, investors can be rewarded handsomely.



Don't Follow the Herd

Value investors possess many characteristics of contrarians—**they don't follow the herd**. Not only do they reject the efficient-market hypothesis, but when everyone else is buying, they're often selling or standing back. When everyone else is selling, they're buying or holding. Value investors don't buy trendy stocks (because they're typically overpriced).



❑ Which investment strategy is correct for investment?

There is no defined rule or defined approach which ensures consistent success in the capital market. In fact, there is **NO answer** to the question “Which investment strategy is correct for investment?”

No investing strategy is correct or wrong. Both growth & value investing strategies are correct in their own gambit, in the given situations, facts & other factors.

Many factors should be considered before adopting a particular investing strategy. Investor’s psychology, risk appetite, time horizon, selecting type & nature of the company and reviewing many fundamentals.

❑ Which investment strategy should be adopted for investment?

Again the ANSWER to this question is “NO ANSWER” There is no thumb rule or defined approach for adopting a particular investment strategy. Various factors are to be considered before adopting a particular investing strategy. Timing of investment also plays an important factor in deciding which investment strategy to be considered for investment.

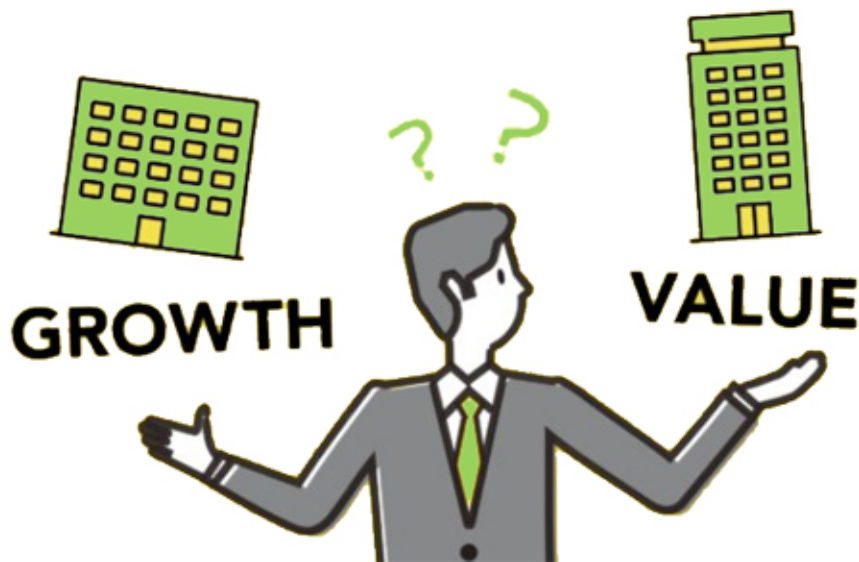
❑ Whether Growth investment yields a higher return as compared to Value return?

It is completely a wrong myth that growth investment yields higher returns as compared to Value return. Both growth & value-based investment goes through a cyclic time period. There are various examples where Value investment has given a handsome return in a specific time period than growth investment in the same time period

❑ The Bottom Line

The decision to invest in growth vs. value stocks is ultimately left to an individual investor's preference, as well as their personal risk tolerance, investment goals, and time horizon. It should be noted that over shorter periods, the performance of either growth or value will also depend in large part upon the point in the cycle that the market happens to be in. For example, value stocks tend to outperform during bear markets and economic recessions, while growth stocks tend to excel during bull markets or periods of economic expansion. This factor should, therefore, be taken into account by shorter-term investors or those seeking to time the markets.

Comparison Criteria	Growth	Value
Size of the company	Small to large cap	Usually large cap
Growth potential	High	Low to moderate
Object of investment	Expecting gain in short term (1 year) to medium term (3 years)	Expecting steady gain in long term (5 years)
Risk factor	Higher risk of downward as compared to value	Lower risk of downward as compared to growth
Volatility	High volatility	Low volatility
Valuation metrics	P/E ratio, EPS, ROE profit margin, growth rate of turnover, profit growth etc.	Book value, dividend, cash flow, hidden strength, future growth potentiality



Cyclic Pattern Of Growth & Value Funds In Terms Of Return

Type	Sl No	Name Of Fund	Period-1	Rolling Return	Period-2	Rolling Return
Growth Fund	1	Axis Growth Opportunities Fund	14-02-19 To 14-02-20	22.78%	12-01-22 To 12-01-23	-11.05%
	2	Axis Focused 25 Fund	29-12-16 To 29-12-17	46.11%	14-10-21 To 14-10-22	-20.19%
	3	SBI Focused Equity Fund	14-09-13 To 14-09-14	71.96%	14-01-22 To 14-01-23	-10.46%
Value Fund	4	Hdfc Balanced Advantage Fund	13-03-19 To 13-03-20	-14.37%	28-04-21 To 28-04-22	24.32%
	5	Icici Pru Value Discovery Fund	06-03-15 To 06-03-16	-12.05%	21-04-21 To 21-04-22	36.23%
	6	Sbi Contra Fund	06-02-13 To 06-02-14	-7.18%	08-03-22 To 08-03-23	22.94%

- ❑ Above table clearly indicates huge contradiction in Absolute return of Growth & Value funds in different timing period.
- ❑ First 3 funds are Equity funds are **Growth fund**. Absolute return of all 3 funds is around **22% to 72%** during **Period-1** but these same funds generated **NEGATIVE** return during the period **Period-2** in spite of **no changes in fund's attributes**.
- ❑ Funds no 4 to 6 are **Value Fund**. Absolute return of all 3 funds is around **NEGATIVE** during **Period-1** but these same funds generated **POSITIVE** return during the period **Period-2** in spite of no changes in fund's attributes.

Growth Funds



Value Funds



Cyclic Pattern Of Growth & Value Stocks In Terms Of Return

Type	Sl No	Name Of Fund	Period-1	Rolling Return	Period-2	Rolling Return
Growth Stock	1	Bajaj Finance Limited	28-09-18 To 05-07-19	71.54%	23-09-22 To 31-03-23	-33.66%
	2	Bajaj Finserve Limited	15-02-19 To 20-02-20	61.14%	04-11-22 To 24-03-23	-45.14%
	3	Relaxo Footwears Limited	05-10-20 To 04-10-19	38.52%	17-05-22 To 16-05-23	-14.51%
Value Stock	4	Itc Limited	18-04-19 To 20-03-20	-42.35%	17-05-22 To 15-05-23	38.13%
	5	Honewell Automation Limited	09-09-21 To 13-05-22	-19.82%	16-05-22 To 15-05-23	25.56%
	6	State Bank Of India	17-11-17 To 17-11-18	-13.81%	17-05-22 To 16-05-23	25.47%

- ❑ Above table clearly indicates huge contradiction in Absolute return of Growth & Value stocks in different timing period.
- ❑ First 3 Stocks are **Growth stock**. The absolute return of all 3 stocks is **POSITIVE** during **Period-1** but these same stocks generated a **NEGATIVE** return during the period **Period-2** in spite of **no changes in the fundamentals** of these stocks.
- ❑ 4th to 6th number stocks are **Value stocks**. The absolute return of all 3 stocks is **NEGATIVE** during **Period-1** but these same stocks generated **POSITIVE** return during the period **Period-2** in spite of **no changes in fundamentals of these stocks**

Growth Stocks vs Value stocks



CONCLUSION

Generating good return in the long term in the stock market is not a rocket science but it requires following discipline, following certain rules, theory, and Investment strategy in the selection of stocks, selection of time period and many other factors. One of the factors is the investment strategy in selecting a stock that we are discussing in this bulletin.

So the question that comes to mind of a layman investor is “**Which investment strategy should be adopted for investing? Growth or Value?**”



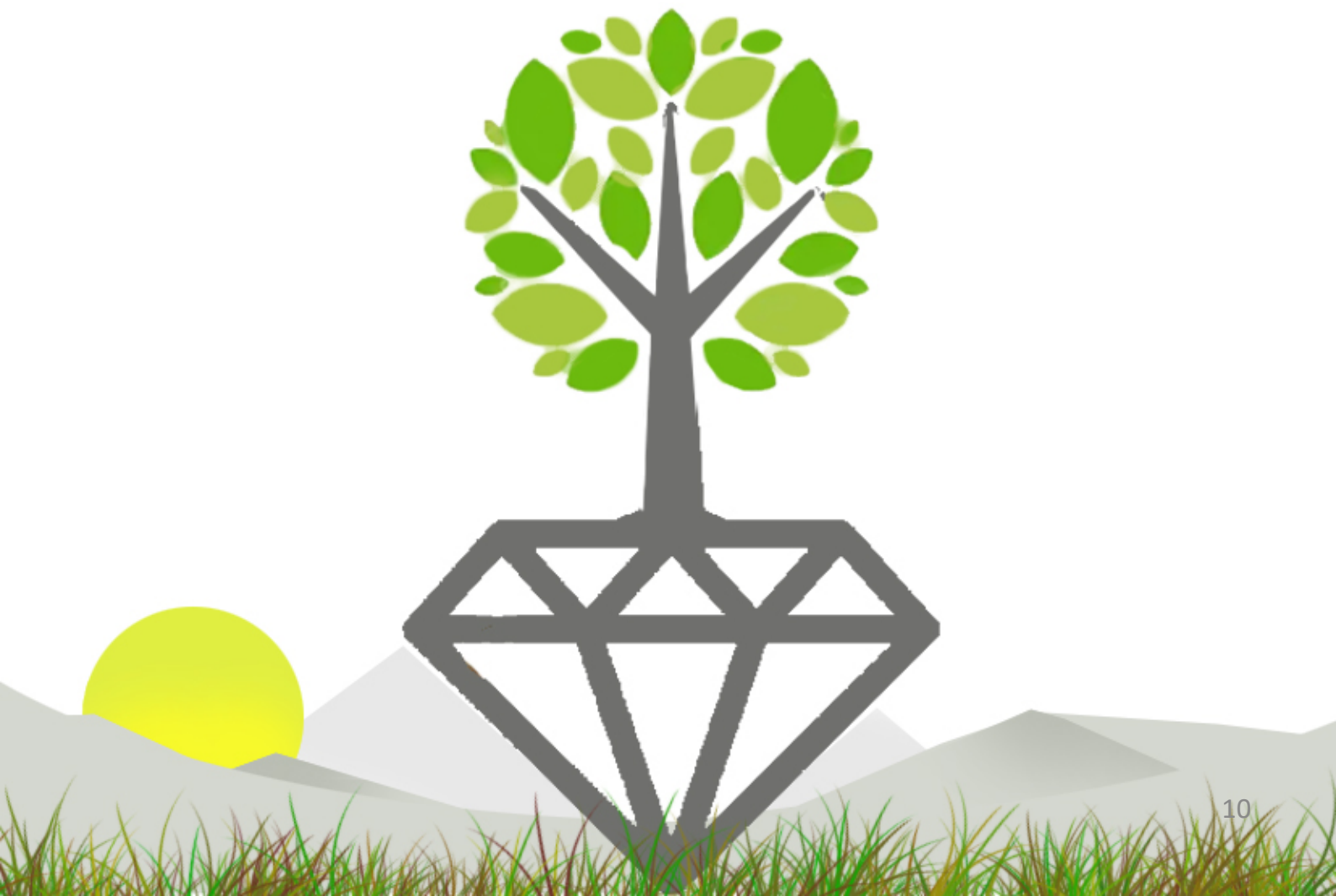
We can conclude that no investing strategy is correct or wrong. Both growth & value investing strategies are correct in their own gambit, in the given situations, facts & other factors. **We can compare the Growth Investment strategy with T-20 Cricket & Value Investment strategy with Test Cricket.** Some players are ideal for Test Cricket, if they play T-20 cricket then they might not get the same success as they get in their own Test cricket, likewise some players are made for Test- cricket and they might not get the same success in T- 20 cricket. Both forms of cricket are right in their own way, likewise, both growth & value investment strategies are right in their own path.



CONCLUSION

There should be a **Blending of both growth-based stock/funds & value-based stock funds in designing the portfolio.** Only picking growth-based stocks is not the correct strategy, as it might prove wrong in a longer period of time. Investors should also select value-based stocks in their portfolios. The composition of growth & value can be formulated according to risk appetite, time horizon, and psychology of investors and considering other factors. Growth based stocks should also be considered with fair valuation.

There is a probability of generating higher returns in the blended portfolio of Growth & Value than only picking either growth or value stocks in the portfolio if they follow a consistent blending strategy and review the same frequently.



Performances



Equity Market

Indices	01 st May, 2023	30 th May, 2023	High	Low
BSE S&P SENSEX	61,301.61	62,622.24	63,036.12	61,002.17
NIFTY 50	18,124.80	18,534.40	18,662.45	18,042.40

Mutual Fund

AUM Data of Mutual Fund for the Month of May 2023

(INR. In Lakh Crore)

Particulars	AUM As On 30-04-2023	Fresh Fund Mobilize During May – 23	Redemption During May -23	AUM As On 31-05-2023
Total AUM of all mutual funds scheme	42.31	8.59	7.99	42.91
AUM of equity oriented (growth) schemes	16.53	0.31	0.27	16.57

Source: Association of Mutual Fund of India (AMFI)

Performances

SIP Contribution

(INR. In Crore)

Year	SIP Contribution	SIP AUM
MAY-2023	14,749	7,52,944

FII & DII Inflow/Outflow Position

FII's **buying** in the month of April 23 is 0.28 Lakh.

DII's **selling** in the month of April 23 is 0.03 Lakh.

Inflow/Outflow position in the month of April - 2023

FII /DII	Gross Purchase	Gross Sale	Net
FII	2.37 Lakh	2.09 Lakh	0.28 Lakh
DII	1.36 Lakh	1.39 Lakh	-0.03 Lakh

