

Value investors get some traction

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Investors are throwing their support behind value stocks exposed to the domestic economy, reinvigorating the debate over value versus growth.

Two of the most notable features of the 2019 profit reporting season, which reaches its peak this week, is the apparent revival of value stocks exposed to the domestic economy and some overdue recalibration of growth stocks exposed to international markets.

The most obvious examples of value coming back in favour have been in the retail sector where two heavily shorted stocks have performed strongly. JB Hi-Fi hit a record high and Harvey Norman hit the highest level in two years.

High-flying growth stocks that have come back towards earth include Nearnmap, which has fallen 30 per cent in the past month. Another high flyer coming back to earth is a2 Milk Company, which is down about 18 per cent this month.

While it is true that the high-profile tech growth stocks – WiseTech, Xero and Afterpay – are not far off their record levels, there are strong arguments to say domestically exposed value stocks are poised to come back into favour.

Tim Carleton, the co-founder of Auscap Asset Management, says he is the most bullish he has been on the domestic economy since the global financial crisis more than a decade ago.

He will lay out his thesis on Thursday in a speech to a conference in Sydney for specialist investment managers and academics organised by the Portfolio Construction Forum.

Carleton, who runs the Auscap Long Short Australian Equities Fund and is a big believer in the value approach to investment, says the Australian economy looks pretty attractive relative to the international economy.

In particular, he says it is hard to go past investing in an economy where the housing market has bottomed, there is an infrastructure boom that is only 15 per cent of the way through its cycle, is close to full employment, has record low interest rates and the federal budget is back in the black.

Earlier this week, Carleton sent his annual letter to investors in his fund explaining why the company failed to beat its benchmark in the year to June 2019. Its return of negative 9.17 per cent was the first negative year since the fund was established in 2012.

"We are firmly of the opinion that fundamentals determine valuation in the long run even if investor sentiment can be very powerful in the short term," he told investors.

"To provide an example, so far in 2019 JB Hi-Fi has delivered a record half-year result and a record full-year result. Yet leading into these results the stock suffered declines over the course of 2017 and 2018 due to negative sentiment in relation to the consumer and the entrance of Amazon into the market.

"Sentiment can be a powerful force in determining share prices in the short term, even during periods when we are confident in the performance of the underlying business."

Carleton's letter to investors is similar to many that have gone out to investors in actively managed equity funds which failed to perform in line with past performance in 2019. Others of note include letters from Platinum Asset Management, Forager Asset Management, Caledonia and PM Capital.

Source: <https://www.afr.com/chanticleer/value-investors-get-some-traction-20190821-p52jh0>