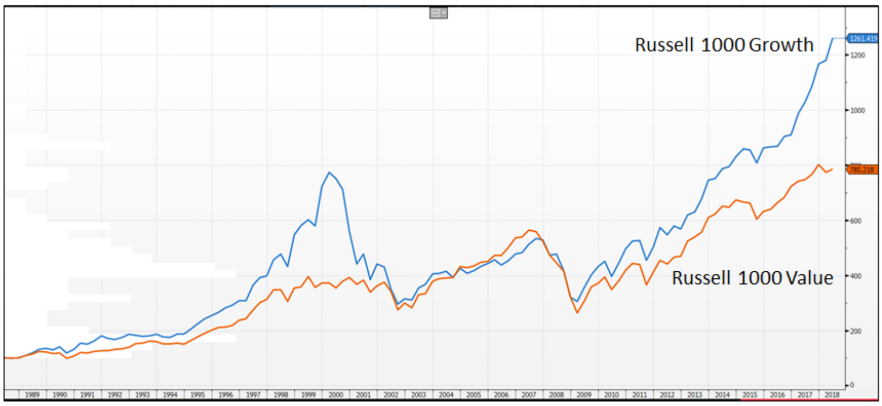
Opportunity:

1. A favorable juncture of circumstances
2. A good chance for advancement or progress

-Merriam Webster

Russell 1000® Growth versus Russell 1000® Value Indexed Price Return (June 1988 to June 2018)



Source: Bloomberg

Where is the Opportunity?

The name of our investment group is the Equity Opportunities Group. Within our process, we are looking for the best opportunities for risk adjusted returns for our clients. This opportunity set can change as the complexion of the stock market continually evolves.

Right now we're finding more opportunities within the value segment of the market. Why do value stocks appear more attractive right now? From 2010 to today, growth has outperformed value by the widest margin since the early 1980's and this year until the end of May, the Russell 1000® Growth Index is up 17% while the Russell Value Index is down over (2%) for the year.

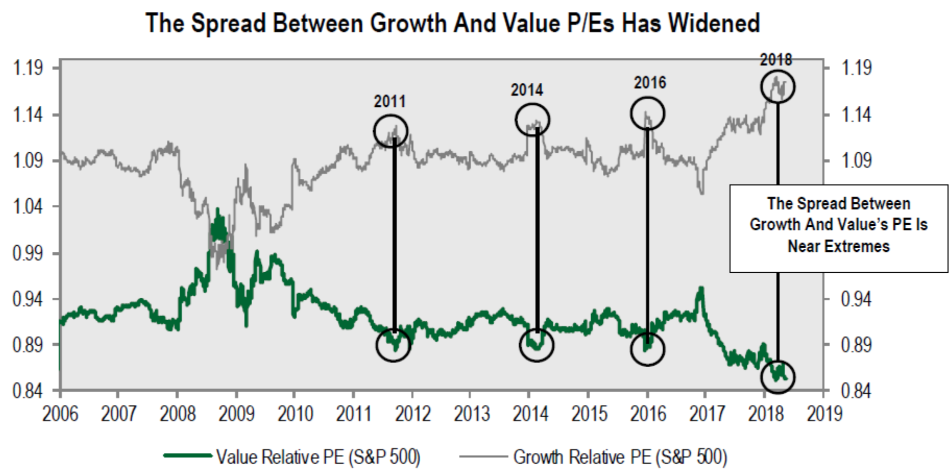
The chart above shows the long term performance of growth versus value from the late 1980's. This chart above is not supposed to look this way, at least according to the universities and business schools that have been teaching the Nobel Laureate "Fama and French" Chicago School of Business capital asset pricing model. Their work has been a foundation for portfolio managers and asset allocators and assumes that value stocks outperform growth stocks over time.

Within our strategies, we are looking for both growth and value. We are agnostic on "which is better" but are willing to use market imbalances to our clients' advantage if they present themselves. Earlier in the century, we would share a chart that showed most stocks in the market trading at roughly the same valuation (with the exception of Amazon). From that observation it appeared that investors were not "paying up for growth." At the time, we weighted portfolios toward growth since the market did not make investors pay much of a premium for the privilege of owning a 20% grower versus a 10% grower.

In 2018, we have begun to see the opposite dynamic. As highlighted by the chart on the second page, the valuation difference between growth stocks and value stocks is at extreme levels.

As a result, we are finding more "opportunities" within the value pool in 2018. Since the beginning of the year, the average stock added to the five largest Equity Opportunity portfolios has a forward price-to-earnings ratio below that of the S&P 500.

It should be noted that we've written about the relative



Source: CornerStone Macro

value of stocks outside the U.S. Not only are the stocks outside the U.S. cheaper, but the same growth and value dynamic is seen if we include stocks for all developed countries. The MSCI World Growth Index is up less than the U.S. but has still put up a 5% return as of the end of May versus the MSCI Value Index that is down (2%). Relative valuation is similar to the chart above. MSCI World Value stocks trade at 15x earnings versus 25x for growth, the widest difference since 2006 according to Bloomberg.

What's the cheapest ex-US stock in the strategies? Everest Re, the Bermuda based reinsurer is owned in two portfolios and sports a price-to-earnings ratio below 10x with an above average dividend that has grown over 20% annually over the past 5 years. How does the future look for Everest? As the CEO stated on the first quarter call: "Based on the first quarter and what we see ahead, we remain quite optimistic…"

So are we.

Chip Wittmann, CFA®
Executive Director
(757) 417-4901
cwittmann@sterling-capital.com