LESA SROUFE & CO INC.
VALUE ADVISORS

DANIEL RASMUSSEN: WHERE THE VALUE INVESTING STRATEGY STILL WORKS MAY 23, 2024

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Over the last 15 years, a wave of bad performance has seen allocators shift away from value investing to more growth-orient strategies. The universe of value managers has shrunk to those with attractive records from pre-2009, quants, and individuals who are obsessed with natural resource stocks. The recovery from the Covid Pandemic now seems like a false dawn for the value community in the US, as artificial intelligence is now the rage. But the story looks strikingly different internationally; since March 2020, performance of non-US developed markets has seen a steady linear rise. The underperformance of US value investing has been dependent on technological innovations, first in cloud computing and most recently in AI, which has enabled companies with the best technology to grow at near zero marginal costs. However, history has shown that markets tend to adapt to new technology when competitors catch up and drive down prices, or businesses in other industries adopt the new technology and use it to improve their own operations. We can imagine this happening with AI; after the initial spoils go to the first few companies, over the next three to five years, competitors will emerge. Economic theory would hold that at least customers need to derive a return on investment above what they spend on new technology. Perhaps then the sun will rise again on the US value investors.

LS Comment: Unbeknownst to many investors, international stock markets have experienced very competitive returns compared to their flashy U.S. counterparts, especially in recent months. We believe this trend will continue; international valuations remain discounted and of good value.