



## Finding Value in Unexpected Places: Is Value Dead?

*We find it somewhat ironic (and encouraging) that at the current extremes of fear and greed – moments that we Value managers need and indeed celebrate – fresh suggestions are arising that Value is dead. It is encouraging because these “capitulations” of sentiment often mark the peak of the pain and the beginning of a change to the popular narrative.*

To test the theory, it is perhaps useful to go through a thought exercise to assess the attractiveness (or not) of Value today. **So step into a Time Machine. Go back 5, 10, 15, 50 years** and ask yourself a simple question: **“What would make the Value approach an attractive**

**opportunity?”** A rational investor might look for some or all of the following signs as a desirable entry point:

- ✓ A prolonged period of Value underperformance;
- ✓ Especially sharp recent underperformance;
- ✓ Historically wide valuation spreads (discount) compared to Growth;
- ✓ Rising frequency of “Is Value Dead?” headlines and narratives; and/or
- ✓ Headline risk and disgust/resignation surrounding the stocks/sectors showing up in ‘cheap’ portfolios.

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## So, when will the market reward us for our patience?

We find vast amounts of statistical evidence for the attractiveness of Value. However, as discussed above it will likely take investor sentiment to shift for the tide to change. The way investors feel about Value today is typical (and repeated) behaviour. As observed by US investor Howard Marks:

*“Investor psychology can cause a security to be priced just about anywhere in the short run, regardless of its fundamentals. The discipline that is most important is not accounting or economics, but psychology. The key is who likes the investment now and who doesn’t. Future price changes will be determined by whether it comes to be liked by more people or fewer people in the future. Investing is a popularity contest [in the short run], and the most dangerous thing is to buy something at the peak of its popularity. At that point, all favorable facts and opinions are already factored into its price, and no new buyers are left to emerge... When investor psychology is extremely rosy and markets are “priced for perfection” - based on an assumption that things will always be good - the scene is set for capital destruction. It may happen because investors’ assumptions turn out to be too optimistic, because negative events occur, or simply because too high prices collapse of their own weight.”*

For us, the story today is less about Shopify and the large US technology stocks being overpriced than about the large swathes of the rest of the market being underpriced. While it may feel like we are at the beginning of a totally new era where our work environment, shopping habits, travel plans, and entertainment choices will change completely, the structure of the overall economy is not entering a wholesale metamorphosis. We need cellphone towers to deliver the data on our phones. We build cellphone towers with raw materials, and finance these in traditional ways.

We own many businesses engaged in the chain of design, finance, construction and ownership of these assets. The market overly punished many of these companies during the pandemic sell-down but they will survive and thrive in the future. The catalyst that will allow us to win in the future is recognizing their persistent value.

We know Value hasn’t been dominant lately, but we also know over the long term, the best investments are the ones with less of an obvious advantage. Others may rather own Amazon today, or Apple, than the examples outlined in the Appendix to this article, because it’s comfortable. In investing, what is comfortable is rarely profitable over the long run.

As Mark Twain once famously quipped, the reports of our death are greatly exaggerated. The value gap has created the next opportunity for competitive Value investors. And we’ve never been more excited.

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IMPORTANT NOTE: This article is not intended to provide advice, recommendations or offers to buy or sell any product or service. The information provided is compiled from our own research that we believe to be reasonable and accurate at the time of writing, but is subject to change without notice. Forward looking statements are based on our assumptions, results could differ materially.

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SUMMER **2020** EDITION

# APPENDIX

## A Small Sample of Companies We Own

**Manulife**, a life insurance business with an established presence in Asia – a source of growth going forward where scale is needed. Despite its much stronger financial position today, it traded down to levels last seen during the financial crisis of 2008.

**Brookfield Asset Management**, a leading asset manager with deep global expertise and scale in real estate, infrastructure and private equity. As money continues to flow into these areas, they are well positioned to lengthen their track record of growing fees and sharing in superior returns.

**WPT REIT**, an investment trust with exposure to industrial real estate, which is very much in demand as warehouses are needed for e-commerce storage and distribution.

**Cognizant Technologies**, an IT services company offering business process outsourcing, consulting services, infrastructure maintenance, and service to many global companies. With a very sticky client base focused on financials and health care companies, Cognizant trades at a discount to peers.

**Frontdoor**, a home appliance business which is furthering its competitive advantage by building out a technology platform that allows contractors to view and troubleshoot appliance problems remotely.

**ASGN**, an IT staffing firm, is capital-light and less cyclical than a more cyclical staffing business. Supply for IT talent remains tight and scrutiny is high on compliance and data security, which leaves this leading firm well positioned to grow.

**Keysight**, which is involved in testing prototypes of communication devices, including cellphones. Decades of R&D brings strong barriers to entry, this business is poised to benefit from the new 5G wireless cycle.

**Checkpoint Software**, which provides cyber security solutions, is currently helping customers navigate a cloud transition.

**FANUC**, one of the largest global manufacturers of industrial automation equipment used to control machine tools on a factory floor. In a post-COVID-19 world, automating production can reduce factory downtime and improve efficiency.

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