JAG CAPITAL MANAGEMENT LLC

TWO MINUTE DRILL
August 17, 2017

Timely Insights from JAG's Research Team

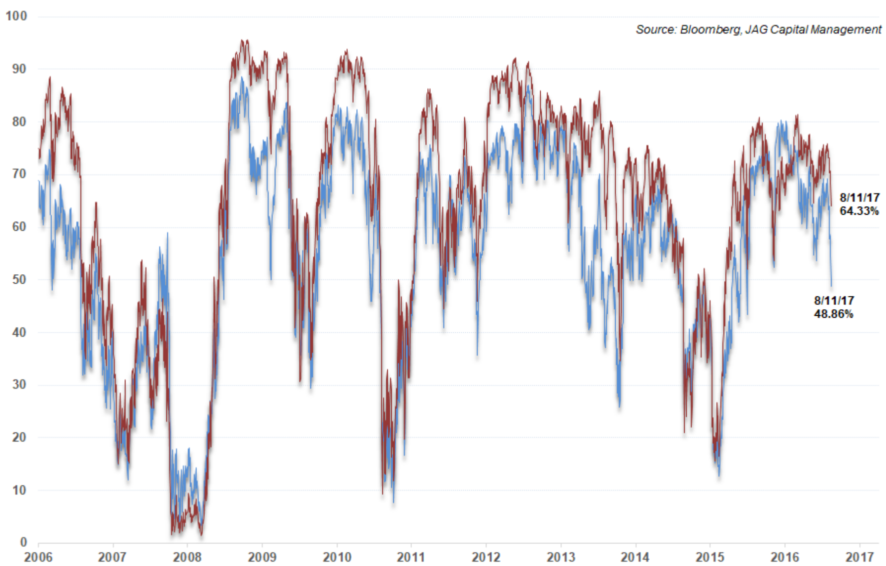
Total reading time = 2 minutes

RS1000 Value / RS1000 Growth with 50-Day Moving Average

BegDate	EndDate	R1V	R1G
8/1/2006	4/13/2012	1.0%	6.6%
4/13/2012	7/23/2013	26.2%	15.6%
7/23/2013	1/25/2016	2.5%	9.5%
1/25/2016	12/12/2016	30.7%	16.6%
12/12/2016	8/14/2017	4.2%	16.9%
8/1/2006	8/14/2017	6.8%	10.3%
Returns for periods > 1 year are annualized			

Everyone knows value stocks outperform growth stocks over the long term, right? Not so fast. Over the last decade – a "long term" period by most people's measures – value indexes tell a different tale. Since August 2006, the Russell 1000 Value index has produced a not-too-shabby annualized return of 6.8%. But this pales in comparison to the Russell 1000 Growth's average annual return of 10.3%. Does this mean value is dead? Hardly. There is nothing inherently wrong with investing in fundamentally strong stocks that are inexpensive compared to the market. We think much of the underperformance shown in this chart is actually more a function of passive index construction. The Russell 1000 Value index has roughly over 40% of its assets invested in Financials and Energy stocks. Between the Global Financial Crisis in 2008-2009 and the oil crash that began in 2014, cheap stocks in these sectors have tended to stay cheap (or get even cheaper). We see this chart as an argument for active management rather than an indictment of value as a valid and profitable investment style.

Percentage of Constituents Above 200-Day Moving Average - Russell 2000 (blue line) vs. Russell 1000 (red line)

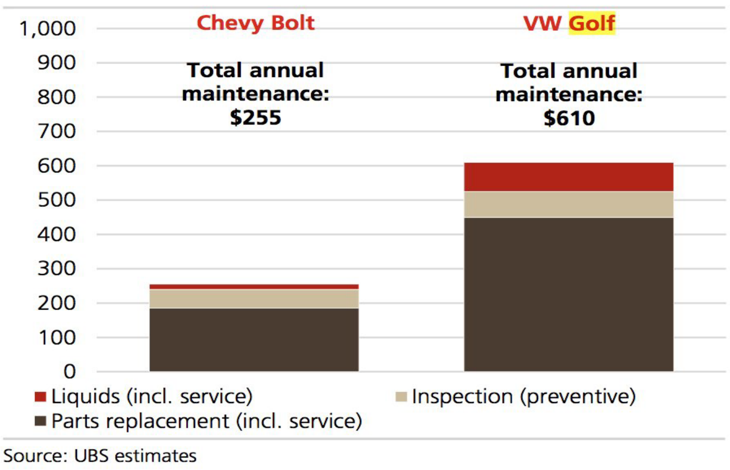


We are in a bull market for stocks, but the bull is not smiling on everyone. Only 49% of Russell 2000 constituents are trading above their 200-day moving averages, compared to almost 2/3rd's of the big caps in the Russell 1000. There are a lot of potential reasons for this, but we think the falling U.S. Dollar is probably a leading cause. Small companies tend to have higher proportions of their sales to domestic customers. By contrast, big caps tend to have more global sales bases. A cheaper dollar provides a tailwind to U.S. companies that sell their goods overseas. Since smaller companies tend to lack that benefit, their earnings streams (and stocks) look less-attractive to investors.

Retail20 Portfolio (blue line), AMZN (red line), and XRT (green line)

Our custom index of 20 brick-and-mortar retailers is down almost 30% since the end of 2014. Similarly the SPDR S&P Retail ETF (XRT) has declined almost 15% over the same period. Amazon's stock (full disclosure: we own AMZN in our managed portfolios) has soared over the same period. We do not think that traditional retailing is in a terminal death spiral, but we suspect that brick-and-mortar retail will be a smaller portion of overall retail sales in the future than they are today. If we are correct, there will be fewer traditional storefronts in 2027 than in 2017, and the survivors will need to be leaner, more innovative, and more focused on delivering excellent consumer experiences than they have been in the past.

The Bolt has ~60% Lower After-Sales Costs ($)



We cannot find any better data to demonstrate the near inevitable long-term migration towards electric vehicles than this chart from UBS. A $355 annual reduction in maintenance expenses for electric versus comparable combustion vehicles is material to most car-owning households. Throw in the additional obvious benefits of zero gasoline costs, and the value proposition is clear – even before one contemplates or debates the long-run environmental benefits of electric vehicles. The challenge for consumers thus far is that the higher up-front cost of electric vehicles do not (yet) adequately justify the lower costs of ownership. This seems likely to change as technology improves and electric vehicle costs fall. We do not think electric cars are a "fad" or a passing fancy. To the contrary, they are a big part of our future.

Disclosures

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