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Following Grahams traces

Value shares have been celebrating a comeback for three years. €uro explains why this is likely to continue and where the best value funds invest.

By Ralf Ferken

"A great company is not a great investment if you pay too much for the stock."
Benjamin Graham (1894-1976), value legend, known as the father of value investing

Would you open a reference book today that was already published in back in 1949? Doubts may apply. With "The Intelligent Investor" by Benjamin Graham many investors make an exception. Above all, this applies to so-called value investors who like to buy cheaply valued shares.
Graham is regarded as the intellectual father of value investing, a fairly influential school of thought in investing. However, Graham did not remain a man of theory, but developed useful rules, to systematically beat the stock market. "A great company is not a great investment if you pay too much for the share", is one of his credos. In addition, Graham introduced the "margin of safety". The simple logic behind this: anyone who buys a share with a low valuation suffers fewer setbacks if something goes wrong.
Even more popular are the words of wisdom of US investor Warren Buffett, who became a student of Graham at New York's
Columbia University after the publication of "The Intelligent Investor".
"Price is what you pay; value is what you get", is one of Buffett's sayings. Another one: "Rule number 1: Never lose money. Rule number 2: Never forget rule number 1."
By applying the value approach Buffet became a multi billionaire over the course of time - and investors in his listed holding company
Berkshire Hathaway have often become wealthy.
Together with his partner Charlie Munger, Buffet even broadened the approach Not only the valuation of the shares should play a role, but also the quality of the companies.

Low weighting in US stocks
"Don't pay too too much" remains the motto of all value investors. In
In recent years, value investors have had to survive a dry spell.
From 2008 to 2020, growth stocks performed better - i.e. shares that primarily promise high growth in their sales and profits, but are somewhat more expensive. This phase now seems to be over.
Since November 2020 value shares have outperformed growth shares again
(please see chart in the original article). This has a lot to do with interest rates, which have risen since then. Interest rates are the cornerstone of the capital markets. They not only determine what investors can earn with bonds or fixed-term money accounts. They also have an impact n the valuation of shares. If interest rates rise, investors often sell highly valued shares and only buy them again when they have become cheaper again – or when they are already cheap like
value shares.

A global value fund can often be recognized recognize by the country breakdown of the portfolio. For instance, US equities are clearly higher valued than shares from Europe or Japan when measured against the share indices of MSCI. As per end of September, the expected price/earnings ratio (PER) of US equities was at 18.4, while the PER of European stocks was at 12, and in Japan at 14.2.

One of the MSCI World ETFs now holds almost almost 70 percent in US equities. A global value fund, on the other hand, will almost always invest less in US equities. For instance, the Lingohr-Systematic-Invest Fund shows a weights in US equities of only 15 percent. At the same time, different value strategies are simply not all the same. Investors have the choice. They can either pick a low-cost value ETF, or the can choose quantitative or classic value strategies.
Or they decide on going with experienced value fund managers such as Peter E. Huber or Hans-Peter Schupp, who manage their funds deliberately by "swimming against the tide"

Contrarian strategies

Swimming against the current requires a lot of strength – and the ability to endure a lot of headwind on the stock market. This is especially true for fund managers of so-called contrarian funds. Those who bought, for example, shares in Deutsche Bank, which has been in crisis for a long time have to justify themselves more to their clients than if they they had bought shares in successful tech giants such as Apple, Alphabet or Microsoft.
Therefore, good contrarian funds are rare. In Germany, the Contrarian Value Euroland Fund stands out. It is managed by Hans-Peter Schupp. The founder of Fidecum invests in around 30 shares from the Eurozone that are trading well below their intrinsic value. This is primarily calculated based on the price-to-book ratio. One of his largest positions includes aforementioned Deutsche Bank with about nine percent. Although the bank will never be as profitable as it was a few years ago, the share price is far below its book value, argues Schupp.
He also sees opportunities with insurer Aegon, with energy and utility provider Eni and the car manufacturer Renault.
Among the experienced countercyclical investors in Germany, there is also Peter E. Huber, who manages the worldwide TT Contrarian Global equity fund from Taunus Trust. Huber invests in around 90 shares, which he broadly diversifies across countries and sectors. He considers US equities to be highly valued on average and weighs them at only nine percent. Instead, he allocates around 15 percent to German and Japanese equities. His favorites are neither Nvidia nor Tesla, but rather the British oil and gas company Shell as well an ETF for Japanese second-line stocks.

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