

# TRENDS & IDEAS

## ANOTHER YEAR OF LARGE-CAP VALUE OUTPERFORMANCE IN 2013?

02/05/2013 07:54 AM ET

After three years of growth stocks beating value shares, value stocks appear to have turned the tide, having outperformed growth in 2012. According to Lipper data through the one-year period ended January 31, large-cap value funds returned 17.0%, significantly ahead of large-cap growth funds, which rose 13.3%. The S&P 500 total return during this time was 16.8%. We believe this outperformance was largely driven by value funds' heavy weightings in the financials sector. Last year, the financials sector was the best-performing sector in the S&P 500, returning 24.2% on a price-only basis. While past performance is no guarantee of future results, we thought it would be timely to look at a few domestic large-cap value funds.

**TAKEAWAY:** After a year of value stock outperformance, we think these large-cap value funds merit a look.

**POSITIVE IMPLICATIONS:**

American Beacon Large Cap Value Fund;AMR	★★★★★	[AAGAX]
Invesco Comstock Fund;Y	★★★★★	[ACSDX]
Vanguard Windsor II Fund;Admiral	★★★★★	[VWNAX]

The recommendations contained in this Takeaway box are current, and may have changed since the original story was published. For full S&P Research Reports on these securities (when available), please click on the ticker and download the report.

With that in mind, we used the Funds Screener on MarketScope Advisor and searched for domestic large-cap value funds that are ranked five star by S&P Capital IQ with at least \$500 million in assets, manager tenure of seven years or more, and positive rankings on all three S&P Capital IQ ranking factors -- performance, risk and cost. We excluded institutional classes, since our focus is on the individual mutual fund investor, and we searched only for funds open to new investors. We think the following funds may be worth further investigation by investors who would like exposure to large-cap value funds.

American Beacon Large Cap Value Fund (AAGAX 23 \*\*\*\*\*)

With only \$565 million in assets, AAGAX is the smallest of the three funds from our screen. Management has been in place since 1987, and the fund's dividend yield of just under 3% is ahead of peers at 2.7%. The fund's expense ratio of 0.33% is significantly lower than peers (1.2%) and is probably helped by its lower portfolio turnover of 30%, compared to the peer average of 57.9%. As expected, financials comprise the heaviest weighting of the portfolio at 27.2% of the total. Although AAGAX lagged its peer average year-to-date through February 1 (6.6% vs. 7.0%), the fund outperformed peers on a one-year (19.5% vs. 16.7%), three-year (13.0% vs. 11.6%), five-year (2.7% vs. 2.0%), and ten-year average basis (9.7% vs. 7.4%) as well as since inception (9.0% vs. 7.2%). AAGAX's risk-adjusted return, as measured by its Sharpe ratio, of 0.67 is ahead of peers' 0.59, but its standard deviation is higher (16.4 vs. 15.9). Among the top 10 fund holdings viewed favorably by S&P Capital IQ equity analysts are JPMorgan Chase & Co. (JPM 48 \*\*\*\*\*), Johnson & Johnson (JNJ 74 \*\*\*\*\*), Pfizer (PFE 27 \*\*\*\*\*), and Microsoft Corp. (MSFT 27 \*\*\*\*\*).

Invesco Comstock Fund; Class Y (ACSDX 19 \*\*\*\*\*)

Like AAGAX, ACSDX's expense ratio of 0.63% is significantly lower than peers, and the fund also has low turnover of 17%. Year-to-date, ACSDX is outperforming the peer average (7.3% vs. 7.0%) and has good one-year, three-year and five-year performances, rising 20.1%, 14% and 4.4%. Financials make up 22.1% of the portfolio. While standard deviation is slightly higher than peers (16.3 vs. 15.9), its Sharpe ratio of 0.7 compares favorably to peers. S&P Capital IQ analysts view favorably Microsoft, Citigroup (C 42 \*\*\*\*\*), JPMorgan Chase & Co., Comcast (CMCSK 37 \*\*\*\*\*), and Time Warner Cable (TWC 89 \*\*\*\*\*), which are among the fund's top 10 holdings.

Vanguard Windsor II Fund; Admiral Class (VWNAX 55 \*\*\*\*\*)

VWNAX, with nearly \$20 billion in assets, is the largest of the three funds in our screen. Like the other two, its expense ratio and portfolio turnover compare very favorably with the peer average at 0.3% and 22%. It has the lowest weighting in the financials sector at 19.2%, and has been team-managed since 1985. VWNAX has lagged year-to-date, up 6%, but outperformed on a one-year, three-year, five-year and

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ten-year average basis, rising 17.8%, 12.5%, 3.1% and 8.7%. Its standard deviation of 15.5 is below peer average of 15.9, but its Sharpe ratio of 0.67 is higher. It should be noted that the initial minimum investment is steep at \$50,000. Top 10 holdings viewed favorably by S&P Capital IQ Equity analysts include Pfizer Inc., Philip Morris International (PM 87 \*\*\*\*\*), Johnson & Johnson, JPMorgan Chase & Co., Microsoft Corp., and American Express Corp. (AXP 59 \*\*\*\*\*)

At the Funds tab of MarketScope Advisor, you can review reports on these and many other funds.

Note: The fund rankings in this article - from five star (highest) to one star (lowest) - are quantitatively derived from performance, holdings, risk, and expense analysis. S&P Capital IQ's Equity Research's stock rankings or STARS - using a scale of 5-STARS (Strong Buy) to 1-STARS (Strong Sell) - are based on S&P Capital IQ equity analysts' qualitative and fundamentally driven outlooks for stocks over the next 12 months. Please refer to our most recent publication on each fund to see our current view.

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