



Why Have
Value in Your
Portfolio



What is Value



- ✓ Disciplined execution of a strategy based on fundamentals, mathematics, and business cycle
- ✓ Metrics like P/E, P/S, or P/B
- ✓ Researching a catalyst, hidden or locked asset, or company change
- ✓ Calculating an upside/downside expectation for the investment
 - ✓ Focus on max loss
- ✓ Enterprise valuation, analyzing the balance sheet (Market cap – cash + debt)







Why Value



- ✓ Markets in transition turn towards value
 - ✓ Momentum and growth can suffer dramatic drawdowns that value can offset
- ✓ Know what you own
 - ✓ Value anchors to asset prices, full-cycle cashflow, and competitive advantages
- ✓ Produce income or short-term support
 - ✓ Value stocks tend to pay dividends, repurchase stock, or have near-term catalysts for recognition
 - ✓ Advantageous in inflationary or rising interest rate environments



How Value Has Changed

Style	Effectiveness	Details
Classic Value		"Because It's Cheap" is less effective in modern markets. Large passive market structure ignores cheap stocks.
Benchmarked Value		Passive market structure rewards momentum causing distortions in entire sectors. Forcing portfolios to have similar sector weights as a benchmark results in lower returns and higher volatility.
Catalyst Value		Companies producing material amounts of cash generate catalysts like dividend increases, stock repurchases, and M&A activity. These catalysts get stocks noticed and close valuation gaps.
Compounding Value		Companies able to compound earnings over long periods of time can suffer drawdowns with an entire sector during periods of volatility. Opportunistic investing in these companies adds alpha to portfolios.

Modern value investors adapt to the market structure to add return and reduce volatility.



Catalyst Value

How the company will close the valuation gap by itself

Catalyst	Details
Asset Sale	Company management can IPO, spinoff, or sell an asset that the market ascribes a low valuation. Cash received from sale will boost stock price.
Material Free Cashflow	If free cashflow is a material % of the Enterprise Value, pressures build to close valuation gap.
Material Repurchase	Companies with high free cashflow or high cash as a % of Enterprise Value can realize value by repurchasing stock.
Dividend Initiation or Raise	Especially in rising rate environments, dividends provide immediate return to investors and support stock prices.
M&A	If insiders are aligned with shareholders, they may be incentivized to sell the company to close a valuation gap.

Fundamental research required to discover value catalysts



Compounding Value

- ✓ Increased volatility from weakening market structure results in severe mis-pricing of high-quality companies
- ✓ Companies that can compound revenue and earnings at double-digit rates can be opportunistically purchased at low valuations
- ✓ These positions can makeup the core of a value portfolio, generating long-term returns while catalysts add more upside





Frank Value Fund

Combining value styles for an adaptable approach to modern market structure





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