

Comparative Analysis of Growth Vs Value Stocks

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Abstract: In stock market trading, the equity investors always consider value stocks superior to growth stocks. The various theories on equity market investment also consider this. This research paper makes an attempt to compare both the value and growth stocks for the period of five years on the basis of Earnings Per Share. Earnings Per Share is very crucial for any investor as it decides the return on investment. The study on the basis of the analysis concludes that in the long run Growth stocks give good and progressive returns compared to that of value stocks.

Keywords: Growth Stocks, Value Stocks, Earning per Share, Return on investment, Undervalued shares

1. Introduction

Growth stocks are generally perceived as high quality stocks with good returns and issued by successful companies with the overvalued price. On the other hand, the price of value stocks are undervalued and not issued by very successful companies. Therefore the investor interested in safe returns always invests in growth stocks and the investor interested in accumulation of returns through dividends generally invests in value stocks.

2. Literature Survey

Previous studies on value and growth stocks have covered different financial markets, such as global markets (e.g., Bauman et al, 1998; Fama & French, 1998), developed domestic markets (e.g., Bird & Casavecchia, 2007; Cahine, 2008), and emerging markets (e.g., Gonenc & Karan, 2003; Yen et al 2004). Most scholars suggest that portfolios containing value stocks have the tendency to outperform portfolios containing growth stocks over extended periods of time. This is usually during a minimum 10-year time-frame (Bauman et al, 1998; Fama & French, 1998; Bird & Casavecchia, 2007; Cahine, 2008). Capaul et al (1993) and Bauman et al (1998) argue that value stocks did not outperform growth stocks in each month and quarter. In addition, various scholars, including Fama & French (1998) and Bourguignon & De Jong (2003), contend that the outperformance of value stocks upon growth stocks only exists for longer periods of time. It is unclear, however, whether this is also the case for shorter periods of time, such as the financial crisis (which lasted for approximately four years, excluding the European credit crisis of 2011). Both Beneda (2002) and Gonenc & Karan (2003) find different results in developed and emerging markets, which would contradict studies of, for example, Fama & French (1998), and Cahine (2008). While numerous articles discuss the performance of value and growth stocks in various countries in various years, most scholars do not make the separation

how value and growth stocks performed in bull- and bear-markets since it can be assumed that the crises and/or recessions fell outside the sample period. While the reasoning behind this remains unclear, it is logical that the economy, including its national and international environment, changes during and after bubbles and crises which could give distorted results on the long term.

3. Problem Definition

Earning Per Share is the return on investment which an investor earns on the shares which is calculated on the basis of profit earned by the company and number of equity shares outstanding. The study makes an attempt to compare the returns of both the types of investment options on the basis of historical returns of eighteen companies listed in Bombay Stock Exchange.

4. Objectives of the Study

- 1) To identify the value and growth stocks and to find out their Earning Per Share.
- 2) To analyse the movement of their EPS over a period of five years.
- 3) To find the progress and decline in EPS over the years.

5. Research Methodology

For the purpose of research, stocks have been categorised as value and growth stocks on the basis of Graham's formula. The stocks listed under BSE are taken into consideration. nine stocks are taken under Value stocks and vice versa. The EPS of these stocks were also taken from the data provided by BSE for the period of five years from 2010 to 2014. The EPS is then compared for 5 years and percentage change was found using the following formula:

EPS of 2014-EPS of 2010/EPS OF 2010*100

Growth stocks	EPS (2010)	2011	2012	2013	2014	Change in EPS	Percentage change in EPS
MRF Ltd	834	1460	1349	1891	2117	1283	1.538369305
EICHER	28	46	53	103	206	178	6.357142857
Bosch	187	273	357	305	281	94	0.502673797
Shree Cements	194	60	177	288	225	31	0.159793814
Page Industries	35	52	80	100	137	102	2.914285714

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Zandu Realty	17	11	-871	16	476	459	27
Clariant	42	144	38	62	353	311	7.404761905
Lakshmi Machine	84	134	121	104	163	79	0.94047619
Bajaj Finance	24	67	110	135	144	120	5
Value Stocks	<i>EPS (2010)</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>Change in EPS</i>	<i>Percentage change in EPS</i>
United Spirits Ltd	32	29	26	24	-356	-388	-12.125
Sun Pharma	43	13	18	5	-13	-56	-1.302325581
Reliance Inds	49	62	61	64	68	19	0.387755102
HDFC Bank	67	85	22	28	35	-32	-0.47761194
Ajanta Pharma	24	39	56	43	62	38	1.583333333
Kaveri Seed	21	31	42	94	30	9	0.428571429
United Drilling Tools	0.54	0.87	1.24	4.13	4.42	3.88	7.185185185
Granules India	11	10	13	15	40	29	2.636363636
Britannia Inds	48	12	15	19	30	-18	-0.375

Source: Bombay Stock Exchange

6. Results and Discussion

Growth Stocks

The result of MRF Ltd shows the percentage growth of 1.54%. Eicher shows 6% growth, Bosch 0.50%, Shree Cements 0.15%, Page Industries 2.91%, Zandu Realty 27%, Clariant 7.40%, Lakshmi Machine 0.94% and Bajaj Finance 5% change over a period of five years. Thus, it can be interpreted that growth stocks have given good return on investment to the investors and it is very much advisable to invest in such companies.

Value Stocks

United Spirits Ltd shows -12.12%, Sun Pharma -1.30%, Reliance Industries 0.38%, HDFC Bank -0.48%, Ajanta Pharma 1.58%, Kaveri Seed 0.42%, United Drilling Tools 7.18%, Granules India 2.63% and Britannia Industries -0.37%. the results indicate that value stocks have given negative returns to the investors in the long run except five stocks. Therefore in terms of EPS, value stocks may not be advisable.

7. Conclusion

It can be concluded that both value and growth stocks have their own merits and demerits. The investor depending on his need and preference has to make a decision on these two types of stocks. If an investor is risk averse, he would be interested in growth stocks whereas an investor interested in dividend gains would be interested in Value stocks.

8. Future Scope

The study would help the investors to take well informed decisions on investment in growth and value stocks on the basis of Earnings Per Share.

References

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