

# Entry Points | Valuation Discipline, Risk and Pricing

## Video Transcript



**Brandon Smith, CFA, CAIA**  
Portfolio Analyst

***Portfolio Analyst Brandon Smith, CFA, CAIA, highlights the importance of adhering to a valuation discipline and the risks associated with investing in statistically expensive companies.***

Are today's highly valued growth stocks vulnerable? I'm Brandon Smith, Portfolio Analyst at Boston Partners, and on this edition of Entry Points, I'm going to highlight the importance of adhering to a valuation discipline and the risks associated with investing in statistically expensive companies. We have just emerged from a decade in which investors enjoyed historically high rates of return with low inflation. We believe these returns were primarily driven by multiple expansion as central banks experimented with zero-interest rate policies. Growth equities in particular saw multiples rise to valuation levels not seen since the dotcom era of the early 2000s.

Today, we are in a dramatically different market environment. Inflation, though it may have peaked, remains uncomfortably high, central banks have rapidly tightened their monetary policies and risk is seemingly being priced once again by the open market instead of the U.S. Federal Reserve. We believe we are in the early innings of multiple compression across a wide swath of equities, and we believe it's an important time to remind investors that a great company does not necessarily equal a great investment. Let's look at an example of such a great company, Microsoft, during a period that we believe has many similarities to today's market environment, the dotcom era of the early 2000s. This illustration covers the 12-year period from January 2000 through December 2011, with the chart on the left showing Microsoft's revenues in gray and operating income, or EBIT, in blue, with the black line showing operating margins which remained healthy.

Now, this chart is Microsoft's PE [price-to-earnings] multiple over this time period. Microsoft sales more than tripled over the 12-year period. Operating income, or EBIT, more than doubled, yet the market cap of the stock was reduced by more than half, going from \$476 billion to \$218 billion. The PE multiple went from 53 times earnings to nine times earnings over the 12-year period. And the cumulative stock price return was negative 55.5%. Why did the stock perform so poorly? Because investors paid way too much for it in 2000. Again, this was a great company that continued to grow, but investors experienced a poor return because they overpaid for it. We believe today's market indices are populated with many similarly expensive stocks and we remain optimistic on the prospects for continued outperformance of low-valuation stocks in the coming years.

## Are Today's Yightly Value Growth Stocks Vulnerable? Microsoft – From Growth to Value, it has happened before.



Data as of December 2011.

Source: Bloomberg, Company Filings.

This information is provided for informational purposes only and should not be considered a recommendation or investment advice. Past performance is not an indication of future results. Please refer to the end of this document for other important disclosures.

### Microsoft Corporation Price to Earnings Ratio - Next 12 Months



Data as of December 2011.

Source: Bloomberg, Company Filings.

This information is provided for informational purposes only and should not be considered a recommendation or investment advice. Past performance is not an indication of future results. Please refer to the end of this document for other important disclosures.

#### Market Data and Valuation Metrics

January 1, 2000 – December 2011

Sales	\$23B – \$72B	Market Cap	\$476B – \$218B
EBIT	\$11B – \$27B	P/E	53x – 9x

---

## **Brandon Smith, CFA, CAIA**

### *Portfolio Analyst*

Brandon Smith is a portfolio analyst for Boston Partners and has extensive experience with all of the firm's strategies. Prior to this, Mr. Smith was a Vice President and senior investment analyst at Envestnet Asset Management. Before that, Mr. Smith held investment analyst roles within the fund of hedge funds groups at Gottex Fund Management and Columbia Partners Investment Management. Mr. Smith holds a B.A. degree in government from Dartmouth College. He holds the Chartered Financial Analyst® and Chartered Alternative Investment Analyst designations. Mr. Smith has sixteen years of industry experience.

---

## **Disclosure**

This video transcript is provided for informational purposes only and should not be considered an offer for a particular security or securities. The views and opinions expressed by the speaker are those of his or her own as of the date of the recording November 2, 2022 and do not necessarily represent the views of Boston Partners or its affiliates. Any such views are subject to change at any time based upon market or other conditions and Boston Partners disclaims any responsibility to update such views. Any forward-looking statements are not guarantees of future performance and actual results or developments may differ materially from those projected. These views should not be relied on as investment advice, and because investment decisions are based on numerous factors, may not be relied on as an indication of trading intent on behalf of Boston Partners. Please consult your tax or financial advisor for additional information concerning your specific situation. This podcast transcript cannot be used for commercial purposes.

Foreign investors may have taxes withheld. Investing involves risk including the risk of loss of principal. Value investing involves buying the stocks of companies that are out of favor or are undervalued. This may adversely affect an account's value and return. Stock values fluctuate in response to issuer, political, regulatory, market or economic developments. The value of small and mid-capitalization securities may be more volatile than those of larger issuers, but larger issuers could fall out of favor. Investments in foreign issuers may be more volatile than in the U.S. market, and international investing is subject to special risks including, but not limited to, currency risk associated with non - U.S. dollar denominated securities, which may be affected by fluctuations in currency exchange rates, political, social or economic instability, and differences in taxation, auditing and other financial practices. Investments in emerging markets may increase risks.

**Boston Partners** | One Beacon Street, Boston, MA 02108 tel: 617-832-8200

[www.boston-partners.com](http://www.boston-partners.com)

**Boston Partners (UK) Ltd.** | 32 Cornhill, London, EC3V 3SG tel: +44 (0)20 3356 6225

[www.boston-partners-uk.com](http://www.boston-partners-uk.com)