

The 1-2-3 of Investing

Part 7: Growth Stocks versus Value Stocks

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In Part 6 of this series, stocks were sorted out by the market value of their publicly traded shares — i.e., capitalization. Large-cap stocks offered stability but limited growth potential while small-caps represented growth at the expense of stability. Mid-cap stocks could promise a balance of both stability and growth.

Another way to separate equities is to focus on what drives their investing style. Value stocks belong to established companies and are thought to trade below their intrinsic worth. The term “intrinsic” refers to a stock’s worth that is based on fundamental analysis apart from its current market price. In academic parlance, intrinsic worth is the present value of expected future cash flows and is commonly used to determine if a stock is over- or undervalued. Fundamental analysis looks at earnings, revenue and assets rather than market sentiment. Growth is limited owing to generous dividends that inhibit future expansion.

Growth stocks, on the contrary, are issued by companies that are expected to grow earnings faster than the market and that reinvest profits as opposed to paying dividends. One measure that can distinguish between growth and value stocks is the price-to-earnings ratio—the multiple of a firm’s earnings-per-share that investors are willing to pay. The average P/E ratio for growth stocks lies in the range of 20 to 25. For value stocks, the range is 15 to 20. The ratio can also serve as a device for determining whether a stock is underpriced (below-average P/E), overpriced (above-average P/E) or fairly priced (average P/E).

Historically, value stocks have outperformed growth stocks. Since 1927, the average annual return from value stocks has exceeded the same measure for growth stocks by 4.4 percent. While value stocks may promise greater returns than those from growth stocks, there are times when growth stocks have performed better. Those conditions include periods of economic expansion, low interest rates, and bull markets during which investors have a greater tolerance of risk.

Returns from Growth and Value Stocks by Decades and Cap Sizes¹					
Stock Category	1970s	1980s	1990s	2000s	2010s
Large-cap Growth	3%	16%	20%	1%	-14%
Large-cap Value	12%	20%	14%	5%	-11%
Mid-cap Growth	6%	15%	16%	5%	-13%
Mid-cap Value	13%	19%	14%	9%	-12%
Small-cap Growth	6%	11%	15%	6%	-13%
Small-cap Value	15%	21%	14%	11%	-12%

So which type of stock is the better choice right now? As of early 2026, the market is exhibiting a shift to value stocks. For youthful investors with long-term horizons, value stocks have the added benefit of outperforming growth stocks in the long run...10+ years. Curious about what stocks are value stocks? Popular ones are Berkshire Hathaway, Target, Allstate and General Motors. Better known are growth stocks such as Amazon, Tesla, Meta and Apple.

¹ Recall from Part 6 of this series that “cap” refers to a stock’s share price *times* the number of shares.