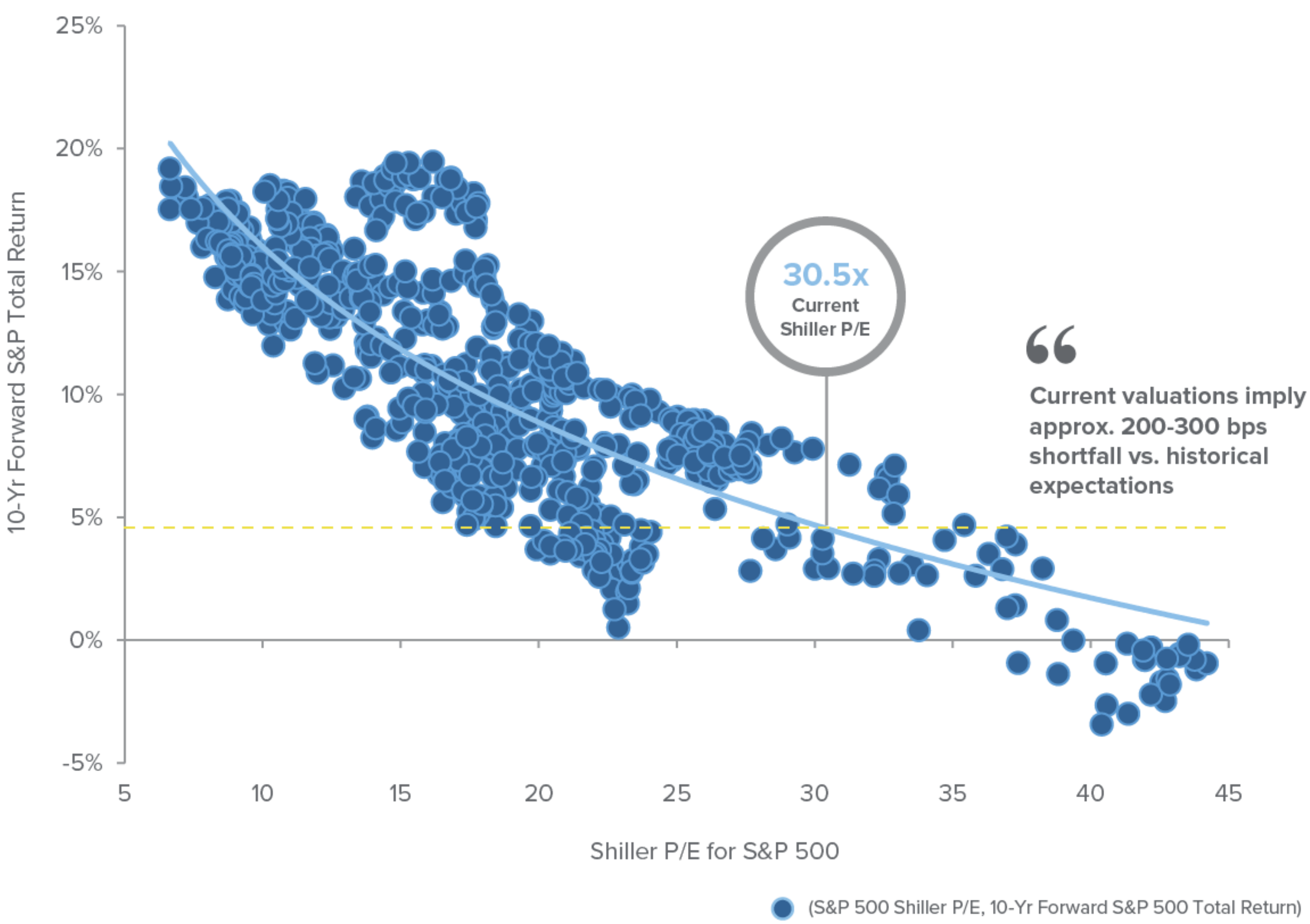
High Conviction: Anticipate the Alpha Opportunity

Institutional investors may need to reconsider current equity valuations and the potential for lower returns over the next 10 years vs. a “cheap” beta approach through passive investing. Balanced 60/40 portfolios with heavy passive allocations will struggle to meet plan objectives going forward as fixed income allocations are likely to generate negative to flat results. Therefore, the ability to source 200-300bps in alpha with a well-crafted, cost-appropriate, high active share strategy may appear more attractive going forward to offset lower capital market assumptions.

We Are in an Alpha World Going Forward

Valuations are currently higher than they’ve been over 90 percent of the time since 1950. History has shown us that when equity valuations are at similar levels, a lower return environment is likely to follow. The broader market appears to be in the sweet spot for stock selection, making more granular stock picking an important proposition to earn total returns to justify the risk budget allocation.

Shiller P/E vs. 10-Yr Forward S&P Total Return (Since 1950)



Source: Strategas Research Partners, 2019. As of 3/31/2019. Shiller P/E ratio is based on average inflation-adjusted earnings from the previous 10 years

Why Own the Laggards and Losers?

Return dispersions within the index have been steadily widening, shining more light on the separation between the winners and losers. Currently, the difference between the six-month trailing return for best performing stock compared to the worst performing stock sits at 65 percent, the highest it has been in last two years. Increased dispersion among returns presents challenges for passive investors who are forced to maintain exposure to the entire index, including the laggards and losers. Conversely, this development presents a potentially favorable environment for high-conviction, active managers to showcase their stock picking skill and generate alpha for investors.

Anticipate the Alpha Opportunity

The combination of unintended concentration risk to index investors, narrowing of market leadership and late cycle valuation concerns increases the opportunity to harvest single stock alpha. In addition, macro uncertainty and tightening of financial conditions has led to corporate debt levels reaching all-time highs, which could put pressure on cap-ex and stock buybacks. This is likely to create greater disparity between companies and an emphasis on high-quality, well-run businesses with conservative balance sheets becomes increasingly important for investors.

Take Action: Learn How Westwood's High-Conviction, Active Approach Can Help You Harvest Single Stock Alpha

LargeCap Select

Strategy

LargeCap Value

Strategy

LargeCap Value Fund

WHGLX