

What's (left) in a name?

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Analyzing mean-reversion after single-day drops for securities across a variety of styles and market capitalizations.

We analyzed single-day drops in names across a variety of style and size categories in U.S. equities and found that LargeCap Value names that experienced 15% to 30% single-day price drops outperformed significantly for longer holding periods, relatively unsurprising given the nature of “Value” securities, which are underpriced relative to existing fundamentals.

It's a shock not uncommon in the investment industry: holding securities that have plummeted in price in a single day. These sudden drops — due to an earnings miss, corporate actions, etc. — occur most frequently in smaller-sized companies but also occur a significant amount of times in larger-sized companies that comprise the major stock indices. The initial instinct might be to sell, sell, sell — but is that the right trade on average? Should the portfolio manager hold or even buy more of the security?

To better answer this question, we examined three different investment periods:

- 2010-2014 with Quality-Value outperforming
- 2015-2019 with Quality-Growth outperforming
- 2020-2022 with the COVID-19 pandemic and the reopening trade

We also analyzed the individual constituents of the following four different asset classes for those investment periods:

- Russell 1000® Value or LargeCap Value
- Russell 2000® Value or SmallCap Value
- Russell 2500® Value or SMidCap Value

- S&P 500®

We formed two “buckets” for the constituents that experienced a single-day drop between:

- -15% and -30%
- More than -30%

The final step was to buy the security after it experienced a single-day drop in one of the two buckets, in effect “buying the dip.” We then calculated the average and median excess return (i.e., the return of the security relative to its benchmark) for various holding periods — three months, six months, 12 months and 24 months. We also counted the “winning percentage,” which is the ratio of the number of names that outperform over the total names that fall into the respective bucket for each investment period and asset class. The below tables summarize the findings. Cells with no highlights represent statistically insignificant results.

January 2010 – December 2014 ¹									
		-15% to -30% Single-Day Return				More than -30% Single-Day Return			
		LargeCap Value	SmallCap Value	SMidCap Value	S&P 500	LargeCap Value	SmallCap Value	SMidCap Value	S&P 500
3 Months	Average Return	-2.6%	-6.4%	-6.3%	-0.4%	9.7%	-6.9%	-7.6%	-0.2%
	Median Return	-0.7%	-3.8%	-4.2%	1.4%	6.4%	-5.2%	-5.7%	5.8%
	Win %	47.1%	39.6%	39.7%	51.4%	60.0%	39.4%	34.2%	60.0%
6 Months	Average Return	1.2%	-9.0%	-8.2%	2.2%	23.8%	-7.5%	-8.6%	16.1%
	Median Return	1.3%	-8.5%	-7.9%	0.7%	15.6%	-4.5%	-11.5%	15.8%
	Win %	52.1%	34.4%	36.3%	51.4%	66.7%	39.4%	35.5%	60.0%
1 Year	Average Return	3.4%	-13.8%	-13.8%	7.5%	51.8%	-13.7%	-14.7%	15.4%
	Median Return	1.2%	-13.7%	-15.5%	3.9%	45.9%	-14.7%	-16.9%	27.8%
	Win %	50.7%	35.9%	34.9%	55.6%	60.0%	39.4%	36.8%	60.0%
2 Years	Average Return	19.3%	-18.7%	-18.8%	31.7%	135.9%	-29.8%	-20.7%	100.8%
	Median Return	12.1%	-22.6%	-21.5%	31.1%	107.5%	-38.1%	-38.7%	93.5%
	Win %	57.1%	33.5%	34.0%	68.1%	80.0%	27.3%	34.2%	100.0%
Number of Securities		140	704	771	72	15	66	76	5

January 2015 – December 2019¹

		-15% to -30% Single-Day Return				More than -30% Single-Day Return			
		LargeCap Value	SmallCap Value	SMidCap Value	S&P 500	LargeCap Value	SmallCap Value	SMidCap Value	S&P 500
3 Months	Average Return	-2.3%	-6.5%	-5.6%	-3.0%	1.6%	-6.8%	-8.5%	1.7%
	Median Return	-0.3%	-3.9%	-3.0%	-2.4%	-3.8%	-3.1%	-4.9%	4.5%
	Win %	48.6%	42.4%	43.7%	40.2%	43.8%	45.4%	41.5%	71.4%
6 Months	Average Return	0.1%	-11.9%	-9.8%	-5.2%	17.6%	-10.1%	-11.2%	0.9%
	Median Return	0.5%	-10.5%	-6.4%	-3.1%	15.2%	-12.2%	-12.8%	-2.7%
	Win %	51.8%	38.5%	39.6%	39.3%	62.5%	41.3%	38.0%	28.6%
1 Year	Average Return	6.1%	-12.3%	-9.0%	-6.3%	3.2%	-5.9%	-7.2%	-2.4%
	Median Return	3.4%	-12.2%	-9.1%	-4.9%	2.9%	-3.6%	-5.6%	-0.5%
	Win %	52.9%	39.8%	41.0%	41.9%	50.0%	46.9%	44.4%	42.9%
2 Years	Average Return	27.5%	-3.2%	1.2%	-6.7%	85.3%	17.3%	10.9%	0.0%
	Median Return	13.2%	-12.6%	-8.5%	-5.8%	71.2%	0.3%	-15.3%	7.2%
	Win %	57.2%	42.3%	43.6%	41.9%	68.8%	50.5%	45.4%	57.1%
	Number of Securities	257	1323	1469	117	16	196	205	7

January 2020 – December 2022¹

		-15% to -30% Single-Day Return				More than -30% Single-Day Return			
		LargeCap Value	SmallCap Value	SMidCap Value	S&P 500	LargeCap Value	SmallCap Value	SMidCap Value	S&P 500
3 Months	Average Return	11.9%	-0.5%	-0.2%	10.2%	37.9%	16.7%	16.0%	57.3%
	Median Return	11.0%	-2.7%	-1.9%	8.0%	41.6%	10.3%	9.9%	61.0%
	Win %	67.1%	45.9%	42.6%	67.2%	81.5%	60.7%	59.3%	90.5%
6 Months	Average Return	11.7%	-5.2%	-3.7%	6.6%	35.3%	6.0%	7.7%	23.6%

	Median Return	8.3%	-8.9%	-7.0%	3.7%	30.0%	0.6%	0.5%	17.5%
	Win %	59.4%	40.7%	39.2%	54.3%	70.4%	50.9%	50.6%	61.9%
1 Year	Average Return	42.2%	-3.1%	6.0%	43.0%	74.5%	26.7%	32.4%	112.1%
	Median Return	28.4%	-15.7%	-7.2%	36.1%	43.9%	1.2%	4.1%	118.3%
	Win %	67.9%	39.8%	42.0%	74.3%	77.8%	50.9%	52.6%	95.2%
2 Years	Average Return	32.2%	-14.1%	-8.9%	39.6%	73.3%	14.1%	14.3%	167.7%
	Median Return	19.4%	-25.2%	-19.5%	30.3%	25.5%	-2.9%	-5.5%	161.9%
	Win %	61.2%	36.6%	35.4%	68.2%	68.5%	48.9%	47.9%	90.5%
	Number of Securities	925	3233	3897	409	54	405	447	21

We see clearly that the LargeCap Value -15% to -30% bucket is the most impressive, outperforming for longer holding periods in all three time frames. The S&P 500® -15% to -30% bucket outperformed in 2010-2015 and during the pandemic/reopening period. The more than -30% bucket for all asset classes is mostly a graveyard of securities or having too few names for any statistically significant results.

These results are simple and, in a way, answer the age-old question, “What’s in a name?” We find “Value” securities are undervalued relative to their fundamentals and outperform even after significant single-day drops in the securities. The hint is the name of the category.

How do we invest?

Investors should be mindful of the style category of securities that have suddenly plummeted in price. Is the stock still cheap relative to its fundamentals, with lower P/E and P/B ratios relative to its peers or historical averages? Does the stock have a high dividend yield? Is its market capitalization more than \$10B? If the answers to those screens are all “yes,” then on an average (and median!) basis, we recommend to buy with years-long holding periods.

¹Source: Bloomberg.

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