



ALTERNATIVE MARKET BRIEFING

Long/short equity fund benefits from value bet

Tuesday, January 25, 2022

B. G., Opalesque Geneva:

A long/short U.S. equity hedge fund that switched from growth stocks to value stocks has reaped profits from this move.

The Disciplined Alpha Offshore Fund (with onshore and UCITS versions) follows a regime-based U.S. long/short diversified equity strategy. It captures alpha opportunities through its proprietary Macroeconomic Regime model. The prevailing regime (momentum, neutral, or value) determines the weights of various equity selection factors, as well as gross and net exposures.

The fund generated a net return of 6% in December and almost 39% for 2021. It has annualised 9% since its July 2013 inception - outperforming the respective HFR peer groups by approximately 5.6% to 7% annually.

From a sector perspective, in December, all sectors contributed to performance especially Information Technology, Health Care, and Materials.

"Our Macroeconomic Regime model has been in Value Regime since the end of March 2020," says Kevin W. Shea, CEO of Boston-based [Disciplined Alpha](#), in a report to investors seen by Opalesque. "When the Regime model is in Value Regime, the strategy is essentially long value stocks, and short growth or momentum stocks."

The manager argued last year that he expected value stocks to outperform growth stocks. Growth stocks outperformed value stocks for four years through 2020, but the market that most closely resembles the four years ending in 2020, is the four years known as the Internet Bubble, which ended in February 2000.

While the shift from growth stocks outperforming to value stocks outperforming in the early 2000s can be tracked by evaluating the performance of the Russell 1000 Growth and Russell 1000 Value Indices, this does not necessarily represent the opportunity for investors, the manager adds. During this time period, the cheapest stocks in the overall Russell 1000 significantly outperformed the Russell 1000 Value Index.

"Our outlook is that value stocks will continue to significantly outperform growth stocks and our strategy is well positioned to take advantage of this outperformance," concludes Shea.

The [Russell 1000 Growth](#) Index is currently up 4.3% for the last 12 months, and the [Russell 1000 Value](#) Index 12.9%.

Shares of companies that promise high future growth have also lagged behind the broad stock market year to date, [reports](#) WSJ.com today. The Russell 1000 growth index, for example, is down 12% in 2022, while the Russell 1000 value index has dropped just 3.6%.