

# TOWLE & CO.

DEEP VALUE INVESTING

(314) 822-0204

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Rotation! The value segment of the market outperformed momentum and growth stocks in the fourth quarter, extending a trend that started in late August. From September 1 to the end of the year, the Towle Deep Value Composite registered a net return of 23% compared to 14% for the Russell 2000 Value and 11% for the S&P 500. Value investors benefited from investment capital that flowed into more economically sensitive sectors as U.S.-China trade talks advanced, the Federal Reserve reassured markets, and recession fears abated.

We believe the economic soft patch of 2018-19 and subsequent reduction of macro uncertainties provided a mid-cycle refresh that should extend the current expansion and support deep value equities going forward. According to a late-November note from JP Morgan, only 20% of the rotation from growth to value was complete. On November 8, 2019, Bank of America Merrill Lynch's equity and quant strategy group reported, "The only time in history that Value has gotten this cheap was in 2003 and 2008." Even AQR's Cliff Asness, a long-time value skeptic, has noted the historic opportunity in value equities. From the perspective of the Towle investment team, the future looks bright!

Historical performance is highlighted below. Periods greater than one year are annualized.

<i>Periods ending 12/31/19</i>	<i>Towle DVC (Gross of fees)</i>	<i>Towle DVC (Net of fees)</i>	<i>Russell 2000 Value</i>	<i>S&amp;P 500</i>
3 months	10.28%	10.09%	8.49%	9.07%
1 year	23.74	22.88	22.39	31.49
3 years	-0.29	-1.03	4.77	15.27
5 years	5.64	4.87	6.99	11.70
10 years	10.86	10.08	10.56	13.56
20 years	12.51	11.68	9.41	6.06
30 years	13.59	12.78	10.42	9.96
Inception (1/1/82)	15.42	14.60	11.73	11.79

*Returns are preliminary and subject to change. Past performance is no guarantee of future outcome.  
Please refer to the last page for additional disclosures.*

## **Portfolio Review**

**This section has been removed for compliance reasons to exclude discussing specific securities transactions.**

## **Looking Ahead**

In our view, the global economy is well positioned to improve. Low interest rates, modest inflation, a strong consumer, advancing trade talks, freely functioning credit markets, and accommodative central bank policy bode well for risk assets. In a clear indication of the shift in sentiment, Nancy Lazar of Cornerstone Macro definitively states, "No recession is coming, and the global slowdown is over." (*Barron's*, November 8, 2019) Given the supportive economic backdrop and improved investor confidence, capital should continue to flow to out-of-favor, undervalued securities that have underperformed.

While many of our deep value positions have moved off their lows, many are still well below their highs of 2018 and 2019. Since most investors remain under-allocated to deep value and the valuation divergence between growth and value is extended, we believe conditions exist for the rotation to continue. Chairman Rob Arnott of Research Affiliates LLC recently stated, "When value gets this cheap [relative to growth], the odds of it succeeding in the future go up drastically." (*Wall Street Journal*, January 10, 2020)

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We are pleased to announce the location of our second office: 250 Fillmore Street, Suite 150, Denver, CO 80206.

Please be in touch at [info@towleco.com](mailto:info@towleco.com) or call (314) 822-0204 if you have any comments or questions.

J. Ellwood Towle  
Christopher D. Towle  
Peter J. Lewis, CFA  
James M. Shields, CFA  
Wesley R. Tibbetts, CFA

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