

Title: Value in Emerging Markets with Allison Fisch

Description: President and Portfolio Manager Allison Fisch discusses why now is the time for value in Emerging Markets

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Hi, my name is Allison Fisch. I'm the president of Pzena Investment Management and also one of the portfolio managers on our emerging markets and international strategies.

So, the value investing approach actually works extremely well in emerging markets. And I think that's a little bit of a surprise to some people. You know, when you think about emerging markets, a lot of people immediately start thinking about growth, they start thinking about macro, you know, picking the right countries, so this is an area where we've actually done a lot of investigation.

And if you actually look at the data in terms of what type of investment approaches work best in emerging markets, what you'll find is that there are two approaches that have been proven to work well: one is using a momentum-based approach, and the other is using a valuation-based approach.

And so, you know, when you sort of dig into that, there's—there's even evidence that the value approach works better in emerging markets than in developed markets.

So, from our perspective, you know, we really wanted to understand kind of why this happens. And it all goes back to why value works anywhere. You know, if you think about it, a value investing approach is effective because investors are emotional. They're not rational.

You know, in times where the direction of the economy and the profitability of businesses looks in question, investors get scared and they want to feel safe. So, they sell everything that feels controversial, less well understood, you know, where it seems a little bit risky, and valuation spreads widen out.

And that's generally the bad part of the value cycle. You know, as those spreads are widening out, then, you know, sort of roll down the road a little bit, when it looks like maybe the world isn't going to end, profitability is going to bottom out and recover, then those spreads start tightening up very extremely, because that's investors rushing back in.

You know, all of a sudden these companies, and in the case of emerging markets, entire countries that were considered un-investable become too cheap to ignore.

So, it's really that sort of ebb and flow of fear and uncertainty into euphoria and excitement that cause the value investing approach to work anywhere.

And so, when you take a step back and you think about what characterizes emerging markets, you know, by their very nature, they're more far-flung, they're less well understood because of the diversity there.

You're more likely to have multiple controversies and different controversies taking place in different places at the same time. And so, this sort of cycle of fear and excitement becomes even more attenuated.

And that's what makes the value investing approach work anywhere. And thus it works very, very well in emerging markets, and perhaps even better than in the developed world.

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