



Corporate Marketing — Periodicals Division

WHICH WILL IT BE, GROWTH OR VALUE?

Will the stock market favor the companies with the fastest-growing profits; those whose stocks are the biggest bargains; or some of each? Is one investing style safer than another? No one really knows the answers, but combining both growth and value investing styles in a diversified portfolio is generally a good bet.

Whether you're working with an investment advisor—or managing your own portfolio—to determine which combination of approaches will work best for you, it helps to know just what these styles mean.

Growth Investing Tries to Choose Low-Priced Winners

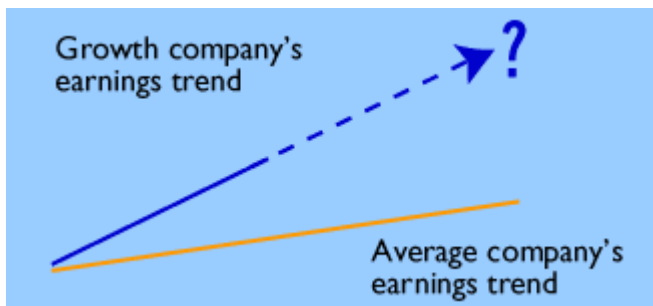
The goal of growth investing is to identify stellar companies early, buy their stocks while they are still low priced, and earn exceptional profits from these winners.

The challenge is that most fast-growing companies eventually will slow down. This is partly because other companies copy their successful ideas, and then become competitors who eat into their businesses. You need to be able to distinguish the exceptions—the companies whose profits really will keep growing fast—from the rule, which is that, most stars fizzle. Lots of research is required to gain confidence that a company can and will continue to shine.

The reward of growth investing is huge short-term gains on innovators like Home Depot, Wal-Mart, Intel, Kohl's, MBNA, Microsoft, and others like them—which is why this approach has always been so appealing.

Growth investing seeks to exploit general skepticism about companies' ability to sustain superior earnings growth by isolating instances in which such sustainability does seem likely. The prime research task is to pinpoint such companies before their stocks become overpriced. The second task is to identify the point at which their growth rates probably will slow. It is then that one would usually begin consider selling, especially if the stock in question is still trading at a price appropriate to the company's earlier growth rate.

Growth investing looks for companies whose rapid earnings growth is sustainable.



Source: Bernstein Investment Research and Management.

Value Investing Seeks Underperformers Who Probably Will Bounce Back

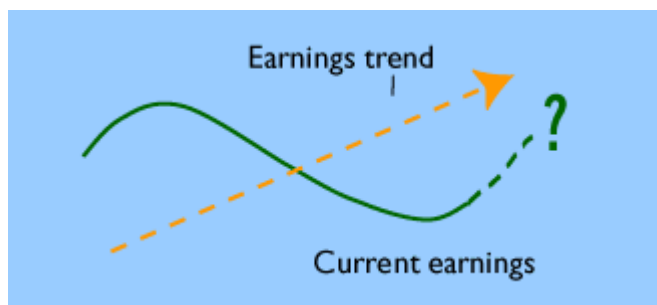
The goal of value investing is quite the opposite. Here, you try to identify depressed companies that likely will solve their problems; buy their stocks at beaten-down prices; then sell the stocks at exceptional profits when the companies' problems clear up.

The challenge here is that trends don't always reverse. Some companies lose value permanently over time, just as others continue to gain. Lots of research is required to distinguish the bargains from the lemons—to satisfy you that a company really will recover.

The reward of value investing is earning large returns on once-troubled companies that come back to robust life. Examples in recent years include Citicorp, Chrysler, IBM, Fannie Mae and CIGNA, among others. However, it's hard to keep winning and re-inventing all of the time; and few companies can maintain it.

Value investing tries to exploit undue pessimism about a company's ability to recover from temporary problems. The prime research task here is to separate the companies that will recover from those that won't—because their problems generally are not temporary, but structural. Stocks in the former group likely will outperform the market as investor pessimism fades; stocks in the latter group probably will continue to underperform.

Value investing looks for companies whose stock price is depressed but whose earnings likely will recover.



Source: Bernstein Investment Research and Management.

How Growth and Value Work Together—The Best of Both Worlds

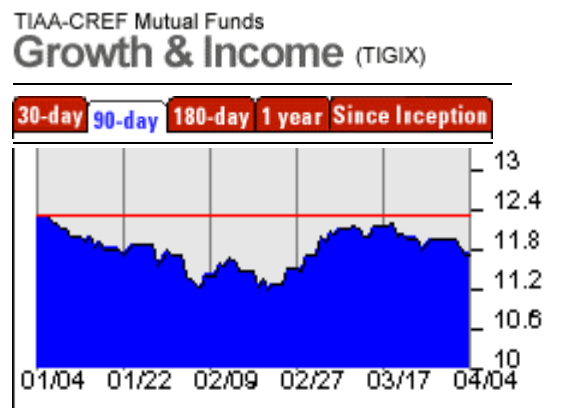
These two strategies work best together, rather like a seesaw. Over the years, when one style was doing especially well, the other usually lagged. The duration of each episode varied, but it surely always seemed lengthy if you were not on the winning side.

In the 1980s, for instance, as soon as investors became comfortable with growth stocks, value stocks bounded into the lead. Once value stocks gained peoples' confidence, growth stocks sprang past them again. In the early 1990s, value stocks had one of their most powerful surges on record, only to be followed by the most growth friendly five years in stock market history.

These market fluctuations can be hard on the nerves. Therefore, our goal is to decrease vulnerability to market cycles while achieving steady returns. To achieve this, we strive to capitalize on the best both growth and value investing has to offer. A combination of both growth and value stocks not only may reduce risk, but actually can produce superior returns over the long run.

Some investors are committed to value investing, others to growth stocks. But because the Market fluctuates naturally, it makes sense to invest part of the capital you've earmarked to stocks in a value-based portfolio and part in a growth-oriented portfolio, or in a portfolio that combines these two styles for you. While we generally advocate a 50/50 mix of growth and value, we ultimately tailor each portfolio to the client's specific needs

A good example of both styles working together is the TIAA-CREF Growth & Income fund (TIGIX).



Source: TIAA-CREF
As of 04/04/02

The TIAA-CREF Growth & Income Fund seeks favorable long-term returns, mainly through capital appreciation and investment income from a broadly diversified portfolio of common

stocks. Roughly, 80 percent of its assets are income-producing equity securities. The fund's management team looks for attractively priced stocks of larger, well-established, mature growth companies. Depending on opportunities that arise, the fund may also invest a portion of its assets in steadily growing smaller companies and some foreign companies. This fund may be suitable for investors who want to add capital appreciation potential to a conservatively oriented portfolio, or who want to lower the overall volatility of a more aggressive stock portfolio.