MarketGrader

The Barron’s 400

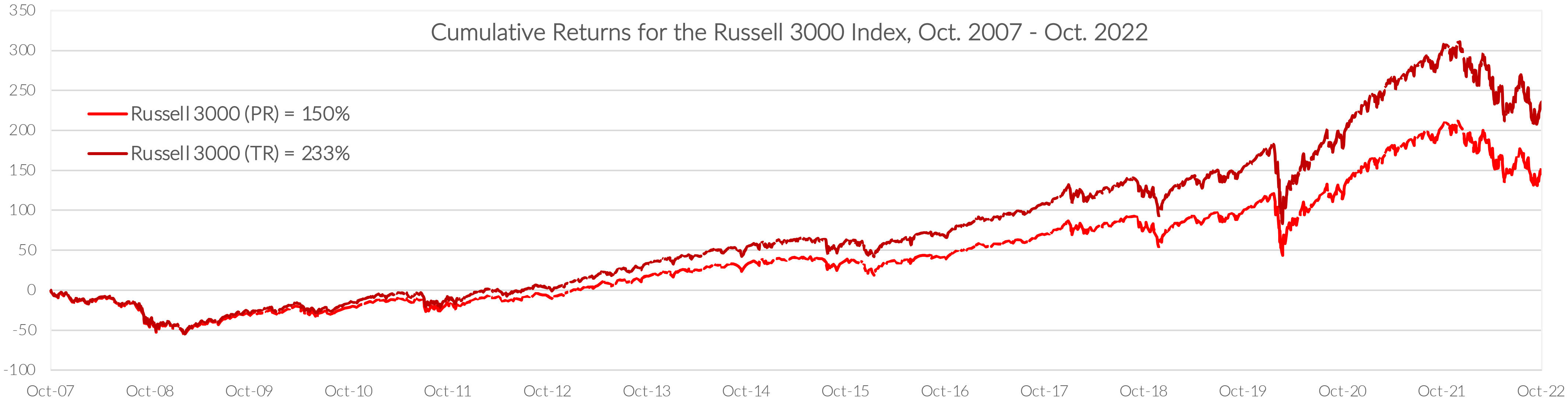
An Index for all Seasons

November 2022

Rule No. 1 for Equity Investors: Do No Harm

An equity investor who invests in a low-cost, broad market index fund is *given* the market return. Rule 1: don't give up what the market gives you.

In the last 15 years (since B400's official launch in 2007), a truly passive investor would have earned a cumulative price return of 150% and a cumulative total return (including dividends) of 233% if invested in the *total* U.S. stock market. This translates into annualized returns of 6.3% (before dividends) and 8.35% (after dividends).



Source: Bloomberg

The Role of ‘Factors’ in Equity Returns

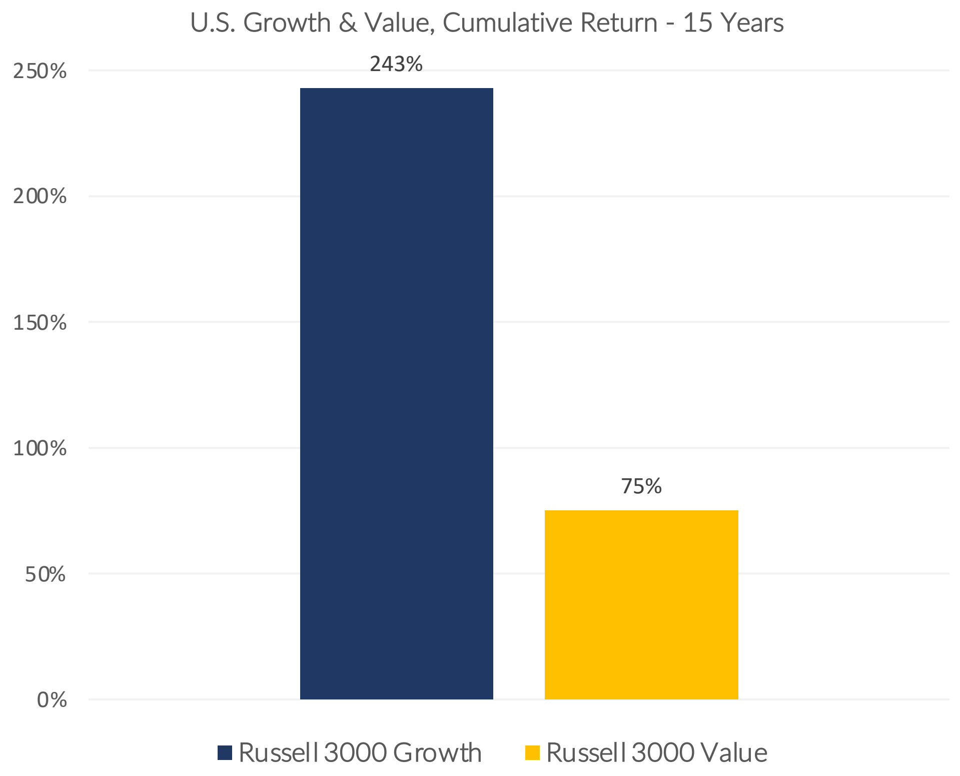
Investors who have experienced multiple market cycles understand that factors play a fundamental role in equity returns over long time periods. Among these, size and style are the most prevalent factors in asset allocation frameworks.

In the last 15 years an investor holding only large cap U.S. stocks would have earned a cumulative price return of 152%, 19 points better than an investor holding only small cap U.S. stocks. In the last 10 years the difference would have been even greater, with large caps outperforming small caps by 47 points.

Source: Bloomberg

The Role of ‘Factors’ in Equity Returns

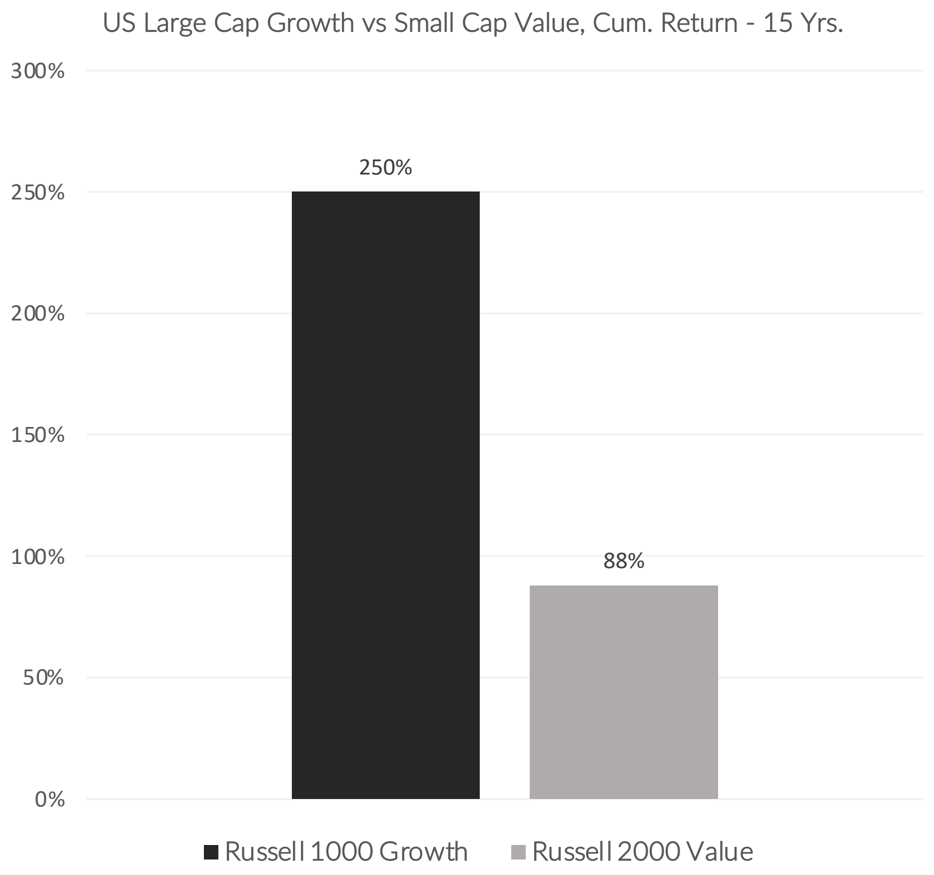
An even greater disparity occurred in the last 15 years between growth and value, with an investor in a passive growth benchmark gaining a cumulative price return of 243%, more than *three times* the return of the passive value benchmark of 75%. In the last 10 years the disparity was similar, with the growth benchmark outperforming the value benchmark 305% to 145%.



Source: Bloomberg

The Role of ‘Factors’ in Equity Returns

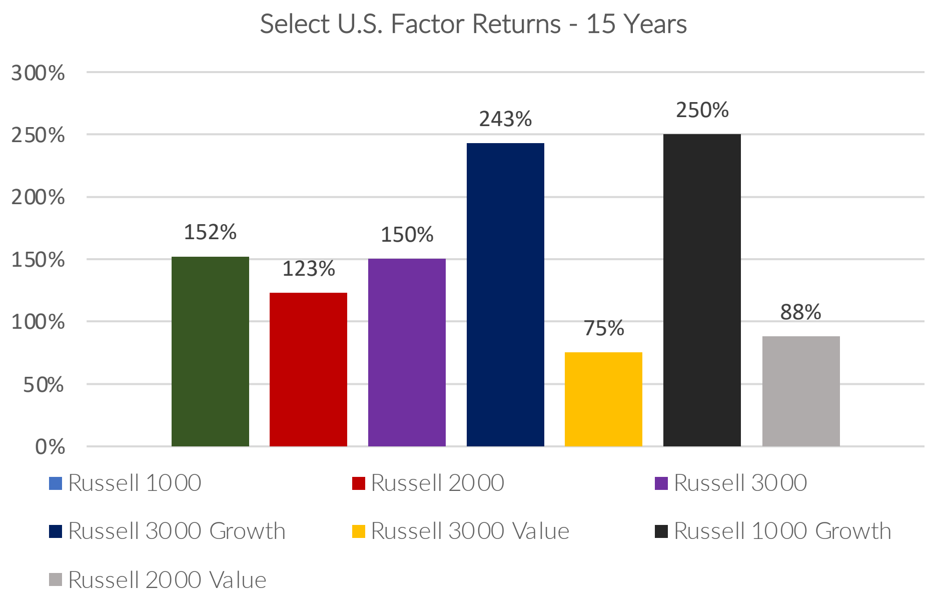
It is no surprise that in the last 15 years the extreme ends of the combined size and style factors have generated extraordinary disparities in investor returns. An investor in Large Cap Growth would have earned a cumulative price return of 250%, whereas an investor at the opposite end of the factor spectrum, Small Cap Value, would have earned 88%, a difference of 162 points.

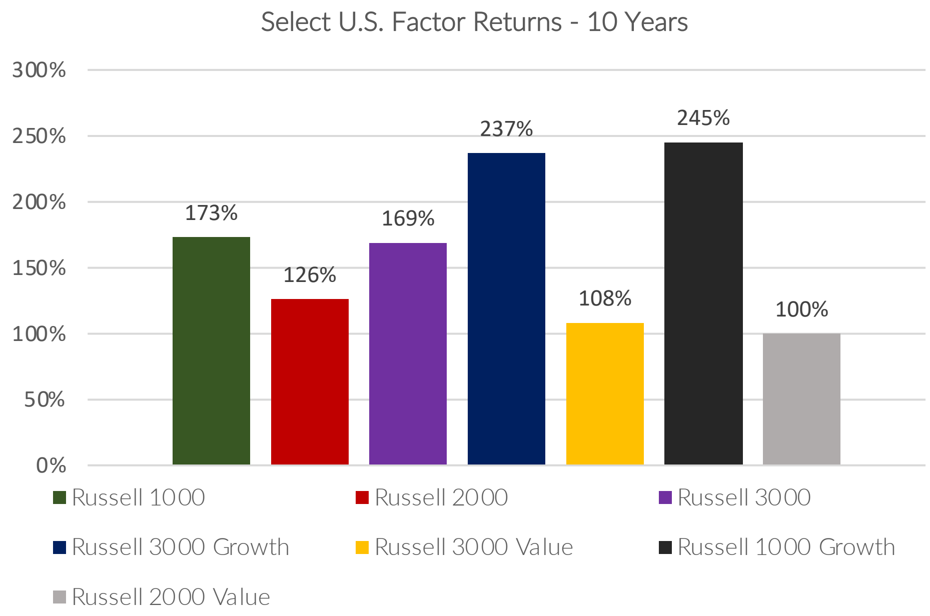


Source: Bloomberg

The Role of 'Factors' in Equity Returns

Large return disparities across factors are observed in the last 10 and 15 years, which explain why active investors place factor bets when trying to outperform the benchmark. After all, an investor owning the market benchmark in the last decade and a half would have underperformed the 'growth' factor by a massive 93 points (or 4.5% per year). On the other hand, that same passive investor would have more than doubled the return of the 'value' factor during that time.



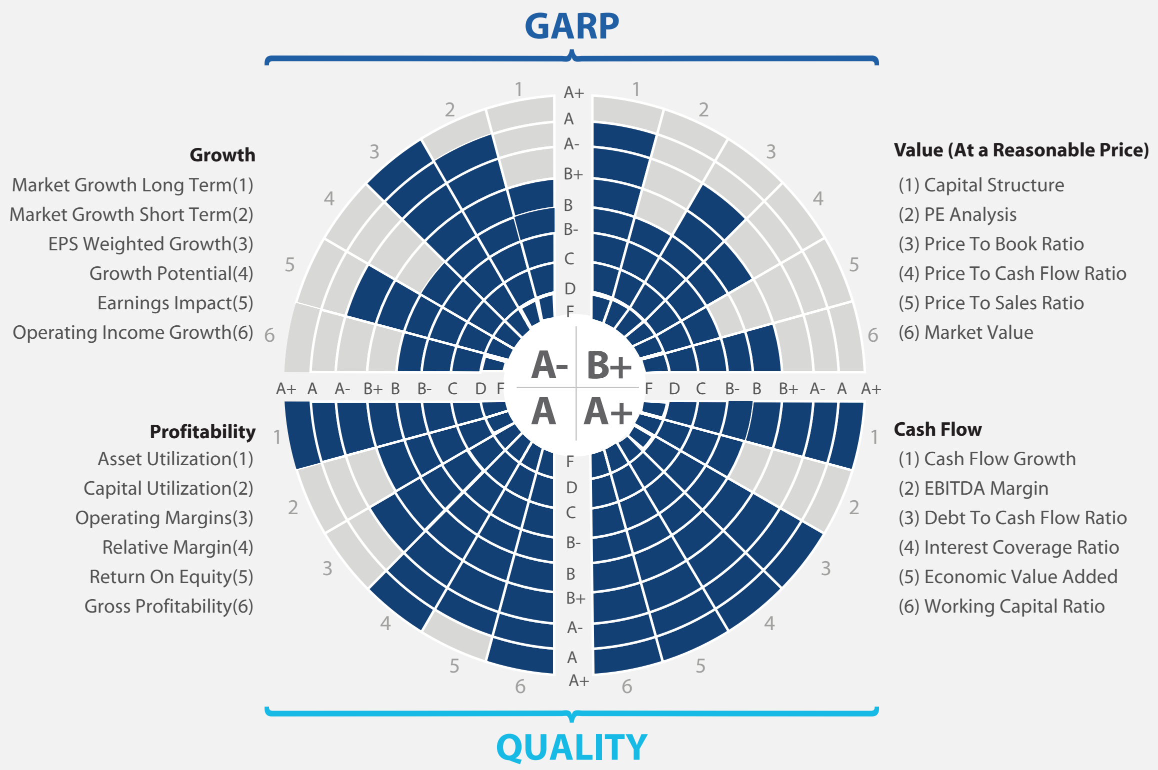


Source: Bloomberg

Is There a Better Approach?

We believe there is a better approach to investing in U.S. equities that does not require outsized bets on any given factor, while keeping investors fully invested and earning the market return, at a minimum.

The Barron's 400 Index seeks to straddle the divide between large and small, growth and value, and active and passive with a simple, transparent methodology.



Is There a Better Approach?

1. **Large vs. Small**

B400 selects companies across all size segments of the U.S. market by focusing on company quality, not size. It *equally weighs* the index constituents to avoid concentration risk in large cap stocks.

2. **Growth vs. Value**

MarketGrader's 'GARP + Quality' score, based on 6 Growth Indicators, 6 Value Indicators, and 12 Quality Indicators, goes beyond growth vs. value stocks and rewards companies with healthy growth that are profitable, prolific cash flow generators, that trade at a reasonable valuation. These scores drive the selection of B400's constituents

3. **Active vs. Passive**

B400's selection process combines the transparency of a rules-based index methodology, with a twice-a-year rebalance schedule that ensures only the highest scoring companies are kept in the index. It also ensures profit-taking by returning to equal weight at each rebalance.

Focus on Consistency

B400's approach is focused on *consistency* rather than market timing. To use a baseball analogy, B400 focuses on consistently hitting singles and doubles to drive in runs, rather than swinging for the fences trying to hit home runs with each at-bat.

This means that although B400 won't always rank 1st in returns relative to size and style benchmarks, in the long run it does outperform them. We illustrate this in the tables below, which show B400's performance rank vs. the size, style and market benchmarks in the last 20+ years.

The dot-com Years

Rank	23 Years*	Return
1	Barron's 400	671%
2	Russell MidCap	413%
3	Russell 2000 Value	364%
4	Russell 2000	330%
5	Russell 1000 Growth	211%
6	Russell 3000	209%
7	Russell 1000	201%

Rank	20 Years	Return
1	Barron's 400	575%
2	Russell 1000 Growth	500%
3	Russell MidCap	474%
4	Russell 2000	394%
5	Russell 3000	358%
6	Russell 1000	354%
7	Russell 2000 Value	301%

*23-year analysis starts on Oct. 31, 1999, near the market top before the "dot-com" collapse. Source: Bloomberg

Focus on Consistency

The Easy-Money Years

Rank	15 Years	Return
1	Russell 1000 Growth	250%
2	Barron's 400	175%
3	Russell 1000	152%
4	Russell 3000	150%
5	Russell MidCap	148%
6	Russell 2000	123%
7	Russell 2000 Value	88%

Rank	10 Years	Return
1	Russell 1000 Growth	245%
2	Russell 1000	173%
3	Russell 3000	169%
4	Barron's 400	163%
5	Russell MidCap	149%
6	Russell 2000	126%
7	Russell 2000 Value	100%

Rank	5 Years	Return
1	Russell 1000 Growth	72%
2	Russell 1000	49%
3	Russell 3000	47%
4	Russell MidCap	35%
5	Barron's 400	35%
6	Russell 2000	23%
7	Russell 2000 Value	17%

Rank	3 Years	Return
1	Russell 1000 Growth	36%
2	Barron's 400	35%
3	Russell 1000	27%
4	Russell 3000	26%
5	Russell MidCap	20%
6	Russell 2000 Value	19%
7	Russell 2000	18%

Source: Bloomberg

Focus on Consistency

Monetary Policy Normalization (Under Way)

Rank	2 Years	Return
1	Russell 2000 Value	41%
2	Barron's 400	29%
3	Russell 2000	20%
4	Russell MidCap	17%
5	Russell 3000	17%
6	Russell 1000	17%
7	Russell 1000 Growth	6%

Rank	1 Year	Return
1	Russell 2000 Value	-12%
2	Barron's 400	-13%
3	Russell 1000	-18%
4	Russell 3000	-18%
5	Russell MidCap	-18%
6	Russell 2000	-20%
7	Russell 1000 Growth	-25%

Rank	Year-to-Date	Return
1	Russell 2000 Value	-13%
2	Barron's 400	-16%
3	Russell 2000	-18%
4	Russell MidCap	-19%
5	Russell 3000	-19%
6	Russell 1000	-20%
7	Russell 1000 Growth	-27%

The Barron’s 400 has the lowest average rank across the periods observed, despite not always being the top ranked index.

Rank	Historic Rank (Avg)	Average
1	Barron's 400	2.3
2	Russell 1000 Growth	3.6
3	Russell MidCap	4.1
4	Russell 1000	4.2
5	Russell 3000	4.3
6	Russell 2000 Value	4.4
7	Russell 2000	5.0

Source: Bloomberg

Singles & Doubles Win the Game