

Session 21

Growth Investing: Against the tide of history

Test

1. While growth stocks have historically delivered lower returns than value stocks, on a risk-adjusted basis, there have been periods in history where growth stocks have outperformed. In which of the following macroeconomic scenarios are growth stocks most likely to outperform value stocks?
 - a. Low interest rates and strong economic growth
 - b. Low interest rates and weak economic growth
 - c. High interest rates and strong economic growth
 - d. High interest rates and weak economic growth
 - e. Upward sloping yield curve and strong economic growth
 - f. Flat/downward sloping yield curve and weak economic growth
2. There is an argument that activity (on the part of investors) is more likely to pay off with growth stocks than with value stocks. Which of the following pieces of empirical evidence backs up this argument?
 - a. Growth index funds earn higher returns than value index funds
 - b. Active growth funds earn higher returns than value index funds
 - c. Active growth funds earn higher returns than active value funds
 - d. Active growth funds earn higher returns than growth index funds
 - e. None of the above
3. Which of the following may provide an explanation for why activity is more likely to pay off with growth investing than with value investing?
 - a. Growth companies tend to be smaller and less followed by analysts.
 - b. Growth companies are more difficult to value.
 - c. Growth companies face more uncertainty in the future.
 - d. Growth companies are more dependent upon management quality and decisions for success.
 - e. All of the above
4. As growth companies get bigger, they tend to see their growth rates decrease and PE ratios go down. Therefore, investing in growth companies cannot generate high returns.
 - a. True
 - b. False
5. Many investors in growth stocks are momentum investors, buying growth stocks that have gone up in the recent past and selling growth stocks that have dropped. Which of the following will the most likely consequence?
 - a. Growth stocks are likely to over valued by more than value stocks
 - b. Growth stocks are likely to be under valued by more than value stocks
 - c. Growth stocks are likely to be misvalued by more than value stocks.