Growth or value? Try both

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The rise of Big Tech has strengthened the case for growth investing in recent years. Conversely, fears of an AI bubble are now shedding ever more light on the attractions of value investing. Investment Manager Neil Craze explains why the most sensible response may be to embrace both schools of thought.

Historically, growth investing and value investing have taken turns to shine. We're currently experiencing a period in which they're regularly shining in tandem, and this represents a rare synergy that demands investors' attention.

It's first necessary to understand how these supposedly competing schools stand apart from each other. In short: growth investing targets companies that are expanding at pace, whereas value investing targets companies whose potential is unrecognised by the wider market.

The former approach has held a clear edge for much of the recent past. In particular, the rise of mega-cap technology businesses added to growth investing's cachet and condemned value investing to a lengthy spell in the shadows – particularly during the COVID-19 pandemic.

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The phenomenon of concentration risk is key here. By way of illustration, let's briefly reflect on events in Asia towards the end of July.

Thanks to renewed fears over the sustainability of the AI boom – sparked in this instance by concerns over overspending by hyperscalers and reports that China could be making major moves in the AI race[1] – shares in the region's three big chipmakers suffered a rout. Taiwan's TSMC and South Korea's Samsung Electronics and SK Hynix all took a pounding.

The immediate fallout was especially uncomfortable for passive investors, who were reminded that a stock's weighting in an index reaches its peak at the very moment when the price begins to slide. The result: an outsized negative impact on overall performance.

Against this sort of unsettling backdrop, prudent investors are increasingly realising growth isn't the only game in town. It undoubtedly has its attractions, but it shouldn't be seen as the be-all and end-all.

And so we come to the resurgent appeal of value. Now almost a century old, this is an investment philosophy that has flitted in and out of favour ever since its emergence and whose relevance, all things considered, has arguably never been greater than it is today.

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All roads lead to prudent diversification

Two professors at Columbia Business School, Benjamin Graham and David Dodd, set about developing the idea of value investing in the 1920s. Their efforts were originally formalised in a 1934 text, *Security Analysis*, and later popularised in 1949's *The Intelligent Investor*, a tome that earned Graham the soubriquet of "the father of value investing".

The methodology that Graham and Dodd outlined in their formative work still applies. In essence, it requires investors to identify companies that the broader market has undervalued, buy them cheaply, wait for the herd to belatedly acknowledge their true worth and duly reap the rewards.

Central to this ethos is the notion that others have somehow overreacted – usually by mistaking temporary shortcomings for enduring weaknesses. Value investors can therefore be regarded as contrarian, which is to say they expect to be proved right over time.

The process can sound a little alarming. For example, you might feel somewhat unnerved if I were to tell you that one of the most impressive funds we've met with recently specialises in purchasing shares in "deeply unloved" companies whose capacity to survive and thrive may be significantly underappreciated.

Yet this is what value investing is all about – at least if it's done correctly. It's not a question of following gut instincts or embracing risk for the sheer thrill of it. Graham and Dodd framed it from the start as a kind of science – a pursuit rooted in level-headed scepticism, critical scrutiny and academic rigour.

Maybe this is why the aforementioned fund is run by a highly accomplished accountant. The so-called "Magnificent Seven" are conspicuous by their absence in its portfolio of holdings, as are other household-name tech companies and "pure play" AI stocks. Performance over the past few years has been eye-catching, to put it mildly.

I'm far from alone in thinking a good number of the most pressing challenges facing investors today stem from the nonsense of markets being priced for perfection. Volatility frequently strikes when analysts' short-term growth forecasts aren't met, even when a reasonable degree of growth has occurred anyway.

Value investing can help avoid such unwelcome turmoil, since businesses unloved by the herd tend not to stir the excitement of the analyst community. Frankly, many are likely to go all but ignored.

Amid all the ups and downs, the blips and the dips, the wobbles and the recoveries, the fact is that we're at a point in investment history when a case can be made for growth and value alike. In tandem, fixed income and alternative investments can also play important roles in portfolios. Accordingly, not for the first time, the ultimate lesson is simply this: diversification matters.

1. See, for example, Associated Press: "Cheaper, open and intelligent: Chinese AI models gain ground as they make inroads in the US", July 26 2026 – https://apnews.com/article/china-ai-model-us-kimi-deepseek-a00bf637866fcd4d81f4fde28c9862ce.

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