GARP Investing: A sufficient Alternative to Value Investing?

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Abstract

Due to the international evidence of value stocks outperforming growth stocks, this research takes a different approach and examines the GARP strategy in its sufficiency compared to the value strategy. Portfolios based on four different multiples (PEG, P/E, P/B, and P/CF) are constructed with 73 stocks provided by the SMI Expanded index during the time period of 2006 and 2016. The PEG ratio is basically the P/E ratio complemented by the factor growth and serves as the selection criteria for GARP stocks. Results show that only the portfolio including stocks with the lowest price-to-earnings ratio managed to outperform the GARP portfolio in absolute and risk adjusted returns during the investment period. The cumulative spreads of the returns between the portfolios mostly aren't statistically significant. However, there is a statistical significance at the 90% level for the spread of returns between the GARP portfolio and the proxy of the overall market. This finding may indicate to inefficiencies in the Swiss stock market. Overall, the GARP strategy seems to be an adequate choice for stock selection.