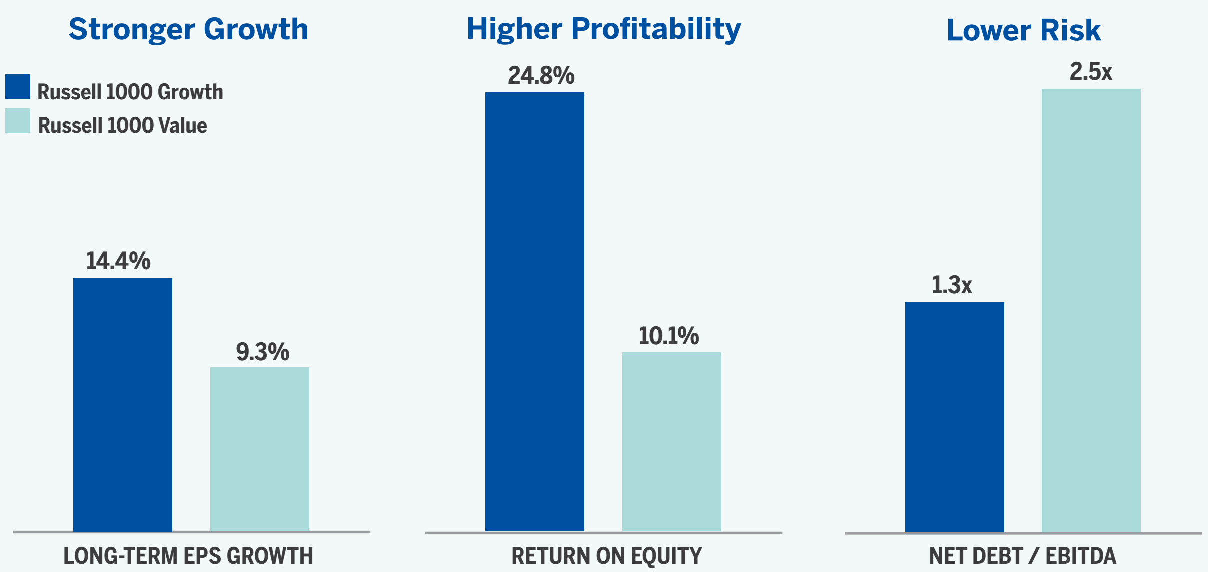
You Get What You Pay For

Investors generally expect growth stocks to have higher price-to-earnings (P/E) ratios than value stocks but not everyone is aware of the reasons why. To understand this difference in valuation, consider the variables that drive P/E multiples: growth, profitability, and risk. Given how favorably growth stocks rate across these measures compared to value stocks, their higher P/Es may be warranted.



Source: FactSet as of June 30, 2017. Long-term EPS growth represents consensus analyst estimates for the next three to five years. Future EPS growth may be materially different from the forecasts shown. Return on equity and net debt/EBITDA represent the last 12 months.

- The Russell 1000 Growth Index has higher expected EPS growth, higher returns on equity, and lower risk in the form of healthier balance sheets compared to the Russell 1000 Value Index.
- Growth stocks may generate strong returns in the future, if history is any indication (see Alger On the Money "Another Forecast from the Greatest Predictor"), despite their higher valuations relative to the broader market.
- At Alger, we strive to invest in companies that demonstrate the best growth prospects and we encourage investors to embrace growth as an important component of their portfolios.

Inspired by Change, Driven by Growth.

The views expressed are the views of Fred Alger Management, Inc. as of August 2017. These views are subject to change at any time and they do not guarantee the future performance of the markets, any security or any funds managed by Fred Alger Management, Inc. These views are not meant to provide investment advice and should not be considered a recommendation to purchase or sell securities.

The Russell 1000 Growth Index is an unmanaged index designed to measure the performance of the largest 1,000 companies in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.