



## **Value and Growth Stocks: European Evidence**

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### **A B S T R A C T**

In the four European regions (EU Without UK, EU With UK, UK, and Scandinavia), we use value and growth portfolios of firms sorted on various value-growth proxies, such as book-to-price (B/P), earnings-to-price (E/P), cash earnings-to-price (CE/P), and dividend-to-price (D/P), to examine whether the return distribution of a value portfolio stochastically dominates that of a growth portfolio. This study uses the LMW tests to test whether value index portfolios outperforms growth index portfolios based on B/M, E/P, CE/P, and D/P ratios. Using forty years of European data on value and growth stocks, we show that the non-book-to-price ratios are better than the book-to-price ratio as a value-growth proxy in Europe, except for Scandinavia. Specially, the evidence during the recent period shows a clear second-order stochastic dominance relationship of growth stocks over value stocks based on the book-to-price ratio in all four regions. Furthermore, during the boom market, the superior performance of value stocks over growth stocks that sorted by the non-book-to-price ratios also exists by the book-to-price ratio for all Europe stock markets, except for Scandinavia. However, during the recession period, all value-growth strategies based on various sorting criteria work poorly in all regions.

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