

# THE VALUE AND QUALITY OPPORTUNITY

## *The Meb Faber Show*

*Ben Inker and Tom Hancock with Meb Faber* | June 21, 2023

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“

If there was a single bias I was going to have to my equity portfolios under every circumstance – if I was just going to do one thing for the next 100 years – I’d have a quality bias because it’s less risky. And unless the world changes, it’s not going to underperform.”

Ben Inker on quality investing ([10:11](#))

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Our deep value actually has a reasonable amount of quality in it. So these are not sectorally declining, going-out-of-business companies we’re talking about. There’s actually some reasonable overlap with Quality Strategy holdings.”

Tom Hancock on deep value ([31:32](#))

## OVERVIEW

GMO co-Head of Asset Allocation Ben Inker and Head of Focused Equity Tom Hancock recently joined Meb Faber to offer their take on markets so far in 2023 and why they find quality and deep value so compelling. They also touch on AI, growth traps, and dealing with the complexities of career risk.

You can listen to the full podcast here: [The Meb Faber Show Episode #486: Ben Inker & Tom Hancock, GMO – The Value and Quality Opportunity](#)

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## HIGHLIGHTS FROM THE DISCUSSION INCLUDE

- **The quality spectrum and the backwardization of risk.** The expectation is that achieving higher returns requires taking more risk. But higher-quality stocks have outperformed lower quality stocks by a considerable margin despite being less risky ([15:51](#)). We believe this is due to career risk – or that a lot of money is managed by professional money managers with different motivations ([17:05](#)).
  - **U.S. deep value stocks are unusually cheap.** In the U.S. market in particular, the cheapest 20% looks cheaper than it has been 98% of time through history ([27:55](#)).
  - **Growth traps, like value traps, cause underperformance.** Value stocks are not the only ones that disappoint, and growth stocks that disappoint can be death in your portfolio. Growth traps, which are at least as prevalent as value traps, have underperformed their universe by nearly 23% per year versus 15% for value traps ([32:08](#)).
  - **Exciting Opportunities.** AI is a uniquely nice area to invest in because you don’t have to buy the headline stocks or household names – companies in the supply chain are equally important and will reap the same benefits ([41:43](#)).
  - **Dealing with the complexities of career risk.** Managers are almost always fired after a period of underperformance, and yet tend to outperform after they have been fired. Having a battle plan in place and playing out some scenarios in advance can help to prevent emotional decision making ([54:01](#)).
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**Tom Hancock**

Dr. Hancock is the head of the Focused Equity team and a portfolio manager for GMO's Quality Strategies. Previously at GMO, he was co-head of the Global

Equity team. He is a partner of the firm. Prior to joining GMO in 1995, he was a research scientist at Siemens and a software engineer at IBM. Dr. Hancock holds a Ph.D. in Computer Science from Harvard University and B.S. and M.S. degrees from Rensselaer Polytechnic Institute.

**Ben Inker**

Mr. Inker is co-head of GMO's Asset Allocation team, a member of the GMO Board of Directors and a partner of the firm. He joined GMO in 1992

following the completion of his bachelor's degree in Economics from Yale University. In his years at GMO, Mr. Inker has served as an analyst for the Quantitative Equity and Asset Allocation teams, as a portfolio manager of several equity and asset allocation portfolios, as co-head of International Quantitative Equities, and as CIO of Quantitative Developed Equities. He is a CFA charterholder.

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- [Quality Strategy](#)
- [Quality Spectrum Strategy](#)
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- [International Opportunistic Value Strategy](#)

## RELATED RESEARCH

Please click on the links below to access research related to this event.

- [The Quality Spectrum: Stability in an Unstable World](#)
- [Value Does Just Fine in Recessions](#)
- [Value Traps vs. Growth Traps: Value Traps Exist, But Growth Traps Are More Insidious](#)
- [Reinvesting When Terrified](#)