



Growth Investing

in Times of Market Volatility

April 2018

Executive Summary

Many investors may be dismayed by the volatile nature of high-flying growth stocks. While, by definition, growth stocks have faster earnings growth and, therefore, higher valuations, certain growth companies can offer less price volatility and smoother returns over time, resulting in a more consistent pattern of growth. Historically, many of these steady growth stocks have outperformed peers over the long term.

In a more volatile market, we believe investors benefit by further refining the degree of volatility and focusing on companies with a long track record of demonstrated growth.

GROWTH VS. VALUE

When pursuing capital appreciation, equities fit many investors' needs. In general, stocks fall into two broad categories:

1. Growth stocks: Companies that exhibit above-average growth
2. Value stocks: Companies that are priced at a discount

Historical returns demonstrate the importance of holding both types of stocks in a portfolio. Throughout varying economic cycles, growth and value stocks often switch performance leadership. A review of the annual performance of growth and value stocks within the overall market since 2000 reveals long periods when growth stocks outperformed as well as years when value stocks provided outstanding returns.

Specifically, from 2000 through 2006, the S&P 500 Value Index outperformed the S&P 500 Growth Index. In 2007, the styles switched leadership, with growth stocks regaining the top title, outperforming their value peers in eight of the eleven years through 2017.

It's interesting to note that during value stocks' seven-year reign, the U.S. economy grew at a rate of more than 2% in five of those years. Conversely, nearly every year that growth stocks outperformed, the GDP growth rate was below 2%. Growth stocks are often sought for their superior growth potential particularly in years in which the economy is growing slowly.

Growth vs. Value Leadership

Annual Returns of S&P 500 Growth vs. S&P 500 Value Indices

Style	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Top Performing	V	V	V	V	V	V	V	G	G	G	V	G	V	G	G	G	V	G
Bottom Performing	G	G	G	G	G	G	G	V	V	V	G	V	G	V	V	V	G	V
U.S. GDP Growth (%)	4.1	1.0	1.8	2.8	3.8	3.3	2.7	1.8	-0.3	-2.8	2.5	1.6	2.2	1.7	2.6	2.9	1.5	2.3

G = Growth V = Value Source: Morningstar Principia; Bureau of Economic Analysis

SPECTRUM OF GROWTH STYLES

Among the variety of strategies implemented by growth investors, ranging from aggressive growth stocks to steady growers, there are benefits and drawbacks.

Aggressive Growth

These companies tend to be the fastest growers of the market, exhibiting a high level of earnings and revenue growth compared to their peers. In return, an investor must accept more price volatility. In seeking maximum returns, an investment strategy focused on aggressive growth anticipates this greater volatility.

These stocks frequently attract the media’s attention, as earnings can fluctuate from quarter to quarter or differ from analysts’ expectations, resulting in rising or falling stock prices based on earnings, product or service developments, or investor sentiment.

Many aggressive growth companies are in cyclical businesses, as consumers increase their discretionary spending when the economy is growing and restrict spending in a downturn. As a result, aggressive growth stocks tend to perform well in economic upswings, but poorly during economic downturns.

Momentum Growth

Investors who apply the momentum growth strategy seek to take advantage of market volatility and investor sentiment. Based on the idea that “what goes up will keep rising,” these investors generally attempt to boost alpha by taking a

short-term position in stronger performing stocks and selling shares when they show signs of price weakness.

Many momentum investors calculate the relative strength over a set time frame to find the strongest performers compared to the overall market. Because buy/sell timing is critical, the momentum growth investor needs to accept the risk of incorrect timing as well as costly high turnover.

In general, momentum growth works best in a bull market and when investors are exhibiting more herding behavior.

Consistent, Steady Growth

In general, many companies that grow at a consistent pace tend to be under investors’ radar because they do not necessarily attract the most attention relative to faster growing stocks. In a strong market, these stocks are likely to underperform, yet over longer time periods, superior and more stable growth may be achieved.

While aggressive stocks tend to be cyclical, many steadily growing companies tend to be in more defensive areas of the market, such as consumer staples, industrials and materials. Due to the nature of many of these less cyclical businesses, earnings and stock price tend to be much more consistent, and therefore, often experience lower volatility.

Investment strategies focused on steady growth, such as those employed by the Value Line Funds, tend to emphasize companies that have demonstrated an ability to increase earnings and stock price consistently over full market cycles.

GROWTH PATTERNS WITHIN SECTORS

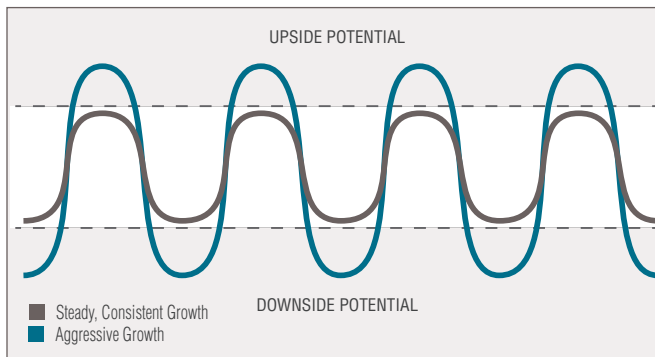
Different types of growth among stocks lead to certain sectors being overemphasized while other sectors are underemphasized. Those companies that are more likely to have steady earnings tend to be in the consumer staples, industrials and materials sectors.

Regardless of the economic environment, many of these companies possess products and services needed by their customers, including proprietary cleaning, chemicals or pesticides.

While exceptions exist, technology and consumer discretionary companies tend to have less consistent earnings.

More Likely to Have Consistency of Earnings	Sub-Sector Dependent	Less Likely to Have Consistency of Earnings
<ul style="list-style-type: none"> > Consumer Staples > Industrials > Materials 	<ul style="list-style-type: none"> > Health Care 	<ul style="list-style-type: none"> > Technology > Consumer Discretionary

VOLATILITY BANDS OF GROWTH STOCKS



The illustration above shows how bands of volatility for growth stocks differ. Similar to sound traveling through matter in the form of a wave, stocks have their own wave pattern within a certain bandwidth of volatility.

Aggressive growth stocks have a higher degree of volatility, with the price volatility “wave” moving dramatically up or down within a wide band.

Steady growth stocks also experience an up and down movement, but within a much tighter band. This hypothetical illustration shows how these securities do not generally capture all of the upside compared to their more volatile growth peers, especially in an expanding market. In a falling market, however, they usually capture considerably less of the downside.

THE CASE FOR CONSISTENCY IN GROWTH INVESTING

Many of the Value Line Funds seek steadily growing companies that have experienced a long track record of growth, which is defined as companies with more than 10 years of history of consistent earnings and stock price growth. Among the family of eight equity, fixed income and hybrid mutual funds, the Value Line Premier Growth Fund (VALSX) can be used as an example as it exemplifies the firm’s time-tested investment process. With its approach

of purchasing proven mid-cap growth companies that meet its growth criteria and steering away from the high-flying, aggressive stocks, the Fund has historically provided shareholders with lower volatility and greater capital protection while still outperforming the Morningstar Mid-Cap Growth Funds Category Average.

Lower Volatility

The Premier Growth Fund has exhibited lower volatility, as measured by standard deviation, over the past three, five, and 10 years compared to its Morningstar Mid-Cap Growth peers as of March 31, 2018.

Premier Growth Fund Had Lower Risk, as Measured by Standard Deviation, Compared to Peers

As of March 31, 2018	3 Year	5 Year	10 Year
Value Line Premier Growth Fund	9.38	9.53	15.73
Mid-Cap Growth Category	11.81	11.70	17.78
% Less Risk	21% Less	19% Less	12% Less

Source: Morningstar

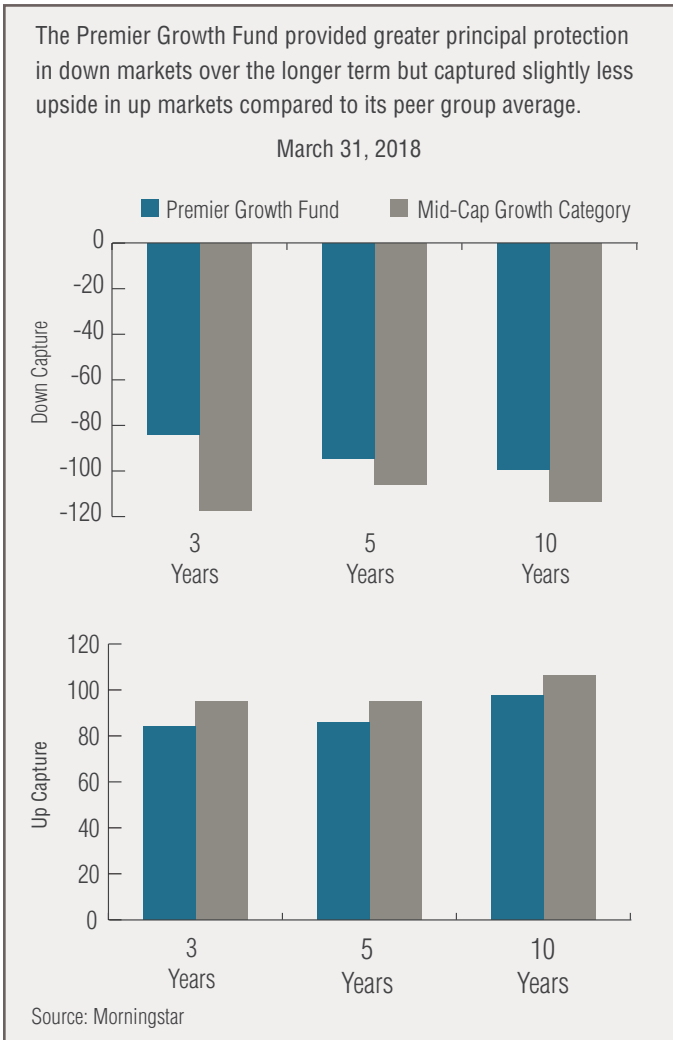
Greater Principal Protection

Another way to express lower risk is to analyze the capture ratio, which is a measure of how a strategy performs in up or down markets compared to the broader market as defined by the S&P 500 Index. A value of 100% means the investment matched the S&P 500 Index return. In an up market, a figure of greater than 100% indicates the investment captured more return than the S&P; conversely, a figure of less than 100% in a down market means the investment protected on the downside and outperformed the index.

When examining the three, five and 10 year periods, the Premier Growth Fund provided better principal protection than its mid-cap growth peers, as demonstrated by the favorable downside capture ratio.

However, in up markets, the Fund did not capture as much upside as its peers. In fact, it lagged in every time frame.

UPSIDE/DOWNSIDE CAPTURE RATIOS



Yet, historical annual returns show the underperformance was limited to very strong markets. Over the past 10 years ended December 31, 2017, the Fund underperformed during years when the returns of the mid-cap growth funds averaged more than 20% for that calendar year. More importantly, during the more “normal market” periods from 2008 through 2017, the Fund outperformed the category five out of six years.

While the Fund may have underwhelmed investors in unusually strong markets, it provided downside protection when stocks were falling in value. This combination of downside protection and competitive relative performance in normalized markets has been a key to its long-term track record.

CONCLUSION

Even during times of higher market volatility, there is good reason for growth stocks to be a core component of an investor’s portfolio and a basic building block from an equity diversification perspective. When choosing a growth fund, it’s important to understand the varying degrees of volatility among growth stocks. While some companies exhibit faster growth and others are slower growers, consistency of returns is the key for investors looking for smoother returns without compromising longer-term results.

Since 1950, Value Line has been using its proprietary ranking analytics to help guide their investment decisions. By emphasizing its time-tested approach to find steadily growing growth stocks, Value Line Funds has rewarded long-term-oriented shareholders with above average performance and a lower risk profile over full market cycles.

Outperformance in Five of Six “Normal Market” Years When Mid-Cap Growth Funds Averaged 20% or Less

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Premier Growth Fund	-40.13%	32.29%	21.66%	4.59%	17.80%	26.56%	6.75%	0.25%	7.00%	22.32%
Mid-Cap Growth Category	-43.77	39.11	24.61	-3.96	14.07	34.93	7.00	-0.95	6.03	23.91

Source: Morningstar

ABOUT VALUE LINE FUNDS

In 1950, Value Line started its first mutual fund. Since then, knowledgeable investors have been relying on the Value Line Funds to help them build their financial future. Over the years, Value Line Funds have evolved into what we are today – a diversified family of no-load mutual funds with a wide range of investment objectives.

Uniquely positioned among our mutual fund industry competitors, the Value Line family of funds utilize Value Line’s proprietary research, enabling our portfolio managers access to the famed Value Line Ranking System as part of their portfolio stock selection and asset allocation process.

Value Line Premier Growth Fund Performance

As of 03/31/18

	Average Annual Return			
	1 Year	3 Year	5 Year	10 Year
Premier Growth Fund (VALSX)	16.11%	9.09%	10.58%	9.04%
S&P 500 Index	13.99	10.78	13.31	9.49
Morningstar Mid-Cap Growth Category Average	18.34	8.28	11.94	9.39
Morningstar Category Rank %	64	38	79	63
# of Funds in Category	613	549	485	352
Morningstar Risk		Low	Low	Below Average
Gross Expense ratio: 1.21%				

Morningstar rates funds based on enhanced Morningstar risk-adjusted returns.

The performance data quoted herein represents past performance and does not guarantee future results. Market volatility can dramatically impact the fund’s short term performance. Current performance may be lower or higher than figures shown. The investment return and principal value will fluctuate so that an investor’s shares, when redeemed may be worth more or less than their original cost. Past performance data through the most recent month end is available at vlfunds.com or by calling 800.243.2729. You should carefully consider investment objectives, risks, charges and expenses of Value Line Mutual Funds before investing. This and other information can be found in the fund’s prospectus and summary prospectus, which can be obtained free of charge from your investment representative, calling 800.243.2729, or by clicking on the applicable fund at www.vlfunds.com. Please read it carefully before you invest or send money.

The average annual returns shown above are historical and reflect changes in share price, reinvested dividends and are net of expenses. Investment results and the principal value of an investment will vary. There are risks associated with investing in small and mid-cap stocks, which tend to be more volatile and less liquid than stocks of large companies, including the risk of price fluctuations. Standard Deviation Statistical measure that shows the likelihood of an investment to yield above- or below-average returns over a period of time. For example, if hypothetical XYZ Fund has an average annual total return of 11% and a standard deviation of 6.00, that means XYZ Fund’s performance is likely to vary from a low of 5% to a high of 17%. The S&P 500 Index consists of 500 stocks traded on the New York Stock Exchange, American Stock Exchange and the NASDAQ National Market System and is representative of the broad stock market. This is an unmanaged index and does not reflect charges, expenses or taxes, and it is not possible to directly invest in this index. The S&P Growth Index is a market-capitalization-weighted index developed by Standard and Poor’s consisting of those stocks within the S&P 500 Index that exhibit strong growth characteristics. The S&P 500 Value Index is a market-capitalization-weighted index developed by Standard and Poor’s consisting of those stocks within the S&P 500 Index that exhibit strong value characteristics.

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