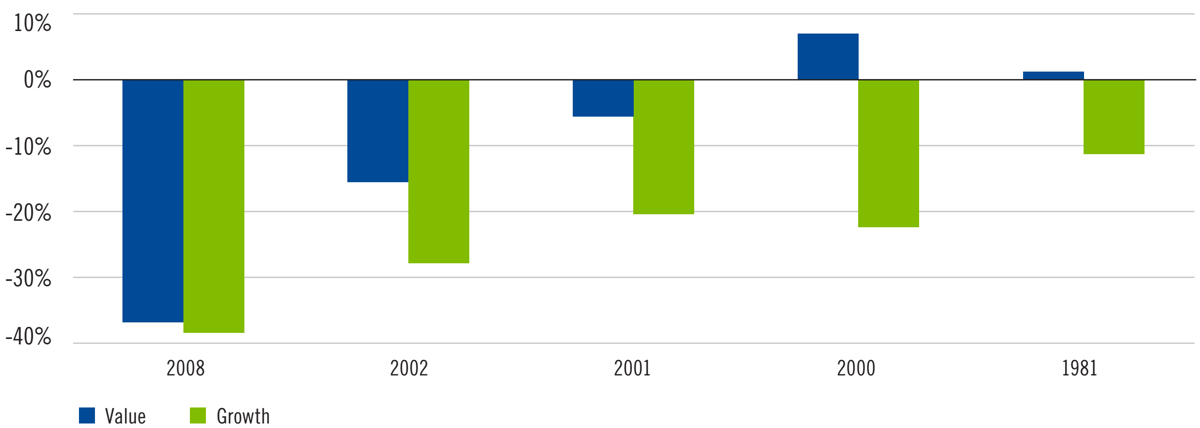
3 | VALUE HAS DELIVERED BETTER RETURNS IN DOWN MARKETS.

The Pain Index

Standard deviation is often used to illustrate risk, but another way to look at risk that may better measure the pain of loss investors feel focuses on annual returns in down markets. By this measure, value has a leg up on growth. In 2008, the financial crisis wreaked havoc on all types of investments and marked the worst year in the last 37 for both value and growth stocks. But with the exception of that year, value has performed substantially better in years the S&P 500 Index declined the most.

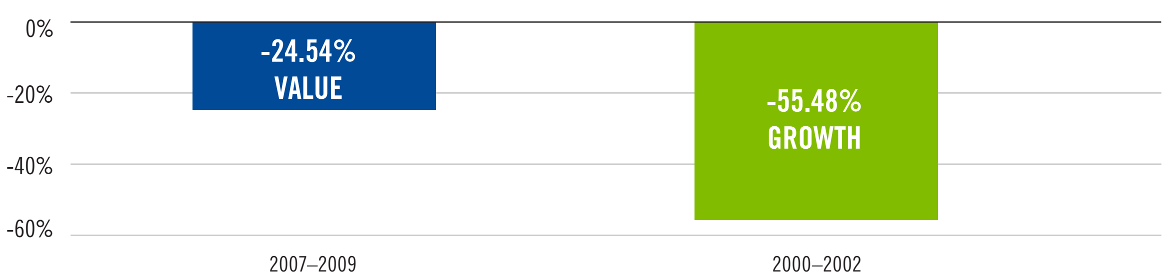
Growth vs. Value in the Five Worst Years for the Stock Market Since 1979 As Determined by S&P 500 Index Performance[5]



The Capitulation Effect

What actually drives investors out of their investments depends on the investor, but often a persistent, substantial decline can push individuals out of their best laid plans. As measured by worst three-year cumulative total return, value again trumped growth, which showed a loss of well more than half its value over its worst three-year period.

Worst Cumulative Total Return over Three Calendar Years 1979–2017[6]



5. Source: Morningstar, Inc. 12/31/2017. Growth is represented by Russell 1000 Growth Index and Value is represented by Russell 1000 Value Index.

6. Source: Morningstar, Inc. 12/31/2017. The Russell 1000 Growth Index reflects the three-year period ending 12/31/2002. The Russell 1000 Value Index reflects the three-year period ending 12/31/2009.

Indexes are unmanaged and one cannot invest directly in an index. Index returns do not reflect any fees, expenses or sales charges. **Past performance does not guarantee future results.** Charts and tables are for illustrative purposes only and do not reflect the performance of any Franklin Templeton fund.