

Cheap Isn't Enough: Why Excess Capital Yield Is a Better Measure of Value

The biggest risk in many portfolios right now isn't volatility; it's that everything is moving together.

How ECY stacks up next to other value metrics*

0.51

ECY's Sharpe ratio—strongest of any value factor tested, at lower volatility. Book yield and dividend yield both posted negative annualized returns over the same period.

7 out of 8

Sectors in which ECY outperformed. Its edge holds across the market, not just in one corner of it.

-0.57

ECY's correlation to leverage. High-ECY companies tend to carry less debt and generate stronger profits—a combination that filters out value traps before they become portfolio problems.

*Factor performance since 2007 based on the Russell 1000 Value Index.

A handful of mega-cap growth stocks have driven most of the market's returns for the better part of the last decade. When concentration unwinds, it can happen fast. Advisors whose clients are heavily indexed to the S&P 500 are more exposed to that risk than many of them realize.

Adding value exposure is one of the oldest answers to large cap growth equity concentration risk. **Not all value approaches, though, capture what matters.** The ones still relying on price-to-book, dividend yield, or earnings yield are working with metrics designed for a market that no longer exists—built for factories and inventory, not for the capital-efficient businesses that now dominate large cap indexes.

A modern framework for value

Excess capital yield (ECY) is a proprietary factor in our value investment process, designed to evaluate value where traditional metrics fall short. Those metrics measure outputs: what a company paid and what it owns. ECY measures potential. It captures how much capital a company generates beyond what it needs to operate, and how much flexibility management has to deploy it through dividends, buybacks, acquisitions, and reinvestment.

There's a quality dimension built into that. High-ECY companies carry lower debt relative to peers and generate stronger profits—so ECY doesn't just identify value; it filters out the companies that look cheap for a reason. In six of the eight sectors we examined, no other value factor came close.

What this means for your clients

Concentration risk doesn't require a dramatic portfolio overhaul. A large cap value allocation focused on companies with real capital flexibility and disciplined management can reduce concentration significantly, without rebuilding the whole portfolio. When growth leadership falters, these are the companies built to hold.

Want to go deeper? Talk to your Voya wholesaler about how ECY works—and whether a large cap value allocation makes sense for your clients right now.

A note about risk

All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. You could lose money on your investment and any of the following risks, among others, could affect investment performance. The following principal risks are presented in alphabetical order which does not imply order of importance or likelihood: Company; Convertible Securities; Credit; Currency; Dividend; Environmental, Social, and Governance (Equity); Foreign (Non-U.S.) Investments/ Developing and Emerging Markets; Interest Rate; Investment Model; Liquidity; Market; Market Capitalization; Market Disruption and Geopolitical; Mid-Capitalization Company; Other Investment Companies; Portfolio Turnover; Preferred Stocks; Real Estate Companies and Real Estate Investment Trusts; Securities Lending; Small-Capitalization Company; Value Investing; Warrants.

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