

How do Spin-offs Perform?



STOCK SPIN-OFF
I N V E S T I N G

About the Author



Rich Howe, CFA, is a full-time investor and entrepreneur.

Rich graduated from Trinity College in 2006 with a BS in Economics. Following graduation, Rich began his professional investing career at Eaton Vance. As an equity research associate, he completed the Chartered Financial Analyst program. At Eaton Vance, Rich had the opportunity to cover the healthcare, financials, software, and internet sectors.

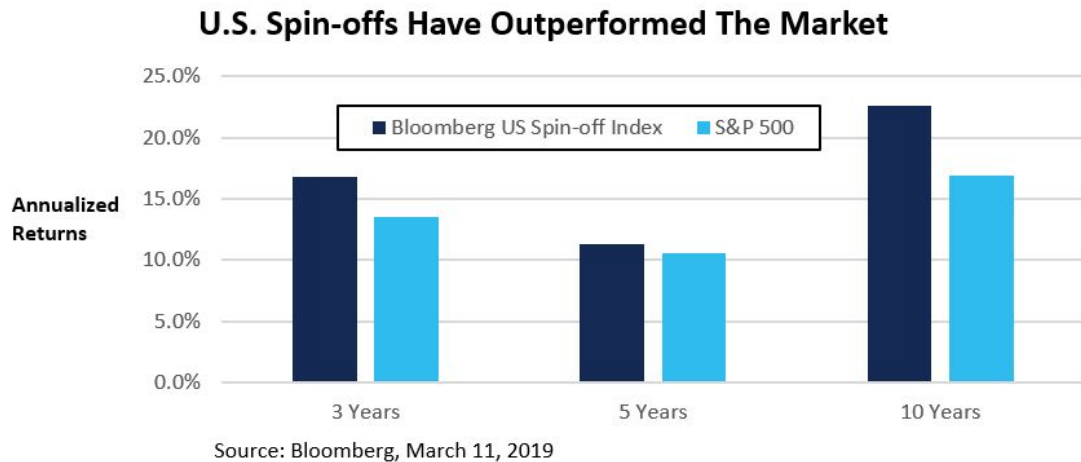
In 2013, Rich left Eaton Vance to join Citi Private Bank as a Vice President on the private equity research team where he focused on sourcing, originating, and diligencing private equity opportunities in the Americas. In 2018, Rich left Citi to found [Stock Spin-off Investing](#), an independent research firm focused exclusively on stock spin-offs.

Rich lives outside of Boston, MA, with his wife and two young children. When Rich isn't busy researching spin-offs or chasing around his kids, he enjoys CrossFit, golf and snowboarding.

The outperformance of stock spin-offs is well documented by both academics and industry practitioners. Below I've summarized the findings from studies that span from the mid 1960s to 2014.

Study #	Study Name	Author	Timeframe	Key Takeaway
1.	Restructuring Through Spin-offs: The Stock Market Evidence	Patrick J. Cusartis, James Miles, and J. Randall Woolridge	1965 to 1990	Spin-offs outperformed the market by 10% annually for three years of trading.
2.	J.P. Morgan Research	J.P. Morgan	1985 to 1998	Spin-offs outperformed the S&P 500 by 11.3% in the first 18 months of trading.
3.	Corporate Spin-offs Beat The Market	Lehman Brothers	1990 to 2006	Spin-offs outperformed the S&P 500 by 13.3% in the first 12 months of trading.
4.	Do Spin-offs Create or Destroy Value	Credit Suisse	1995 to 2012	Spin-offs outperformed the market by 13.4% in the first 12 months of trading.
5.	The Stock Price Performance of Spin-off Subsidiaries, Their Parents, and the Spin-off ETF	John McConnell, Steven Sibley, and Wei Xi	2001 to 2013	Spin-offs outperformed the market by 17.1% in the first 22 months of trading.

In recent years, spin-off performance has continued to be strong. Bloomberg tracks the performance of the U.S. stock spin-off market. As shown below, the Bloomberg Spin-off Index has outperformed the S&P 500 over the past 3, 5 and 10 years.



Because of the potential for excess returns, many famous investors have advocated investing in spin-offs. For instance, Charlie Munger, Warren Buffett's right hand man, reportedly told Mohnish Pabrai to "Carefully study spin-offs."

Value investor, Joel Greenblatt, who's hedge fund famously generated 50% annual returns for 10 years, wrote, "You can make a pile of money investing in spin-offs. The facts are overwhelming. Stocks of spin-off companies significantly and consistently outperform the market averages."

Legendary value investor, Seth Klarman, wrote, "Spin-offs often present attractive opportunities for value investors." Finally, famous Fidelity portfolio manager, Peter Lynch, wrote, "Spin-offs often result in astoundingly lucrative investments."

I (of course) agree that spin-offs are an interesting place to invest. However, my research indicates that smaller spin-offs tend to represent the biggest opportunities. Thus, that is where I focus the majority of my time.