

For Size and Value Tilts, Simple Is Better

Evidence suggests investors targeting size and value premiums may achieve stronger long-term results by using one small-value fund instead of managing separate factor sleeves.



Larry Swedroe • Sep 25, 2026

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Investors who want to tilt their equity portfolios toward the size and value factors have a decision to make. Should they use a single fund that blends small-cap and value characteristics together, or should they build two separate satellite positions—one for small-cap stocks and one for value stocks—and set their own weightings between them? **Javier Estrada**, author of the “Small, Value, or Small/Value?” study, published in the June 2026 issue of *The Journal of Investing*, tackles this question.

What the Small, Value Study Examined

Estrada starts with an investor with a 60% core allocation to the broad stock market who wants to carve out a 40% satellite allocation to capture the size and value premiums. He

compares two ways of doing this:

- **One satellite:** Put the full 40% into a combined small/value fund.
- **Two satellites:** Split the 40% between a small-cap fund and a value fund, using five different small/value weighting combinations (20/80, 40/60, 50/50, 60/40, and 80/20).

He tests these six portfolios across two datasets: the long-run Fama-French factor data going back to July 1926 and a more practical, fee-inclusive sample built from iShares exchange-traded funds starting in August 2000—both running through December 2024. All strategies are rebalanced annually, and the iShares sample explicitly accounts for real-world transaction costs and fund fees.

Key Findings

The Single Small/Value Satellite Wins Consistently

Across both datasets and every two-satellite weighting scheme tested, the combined small/value fund delivered higher returns. In the long Fama-French sample, the outperformance ranged from 58 to 88 basis points per year; in the ETF-based iShares sample, it ranged from 23 to 54 basis points. Over the full 1926–2024 period, that return gap compounded into a dramatic difference in terminal wealth: \$100 invested in the one-satellite strategy grew to roughly \$7.9 million versus \$4.76 million for the best-performing two-satellite mix—a 66% advantage.

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The Edge Isn't Free, but It's Worth It

The combined satellite carries slightly higher volatility than the two-satellite alternatives. Even so, it produced a higher Sharpe ratio in both samples, and in the Fama-French data, that risk-adjusted edge was statistically significant against four of the five two-satellite combinations.

The Likely Explanation: Bigger Factor Exposure

Three-factor regressions show why the combined fund wins. Summing the size (small minus big) and value (high minus low) betas, the small/value satellite delivers a larger combined factor exposure (0.72 in the Fama-French sample, 0.48 in the iShares sample) than any of the two-satellite combinations achieve. In other words, blending the two factors into one fund captures more of both premiums simultaneously than splitting them apart does—likely because stocks that are both small and cheap have characteristics that get diluted when they are averaged in two separately constructed funds.

The Result Holds Up Over Time, Even Though Year-to-Year Performance Bounces Around

Looking only at annual returns, the one-satellite strategy underperformed the two-satellite blend in 53% of individual years. But the compounding advantage was persistent: The combined strategy pulled ahead for good in October 1942 and never fell behind again through the end of the sample.

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It's Not Just a Function of the Long Sample Period

Running the Fama-French data over the shorter iShares window (2000–24) to isolate the effect of portfolio construction from sample-period length, the one-satellite advantage held up: 52 to 60 basis points per year, with terminal wealth 12% to 14% higher than the two-satellite alternatives.

Key Takeaways for Investors and Advisors

1. **Simplicity and performance point in the same direction here.** A single small/value fund is easier to monitor and rebalance than managing two separate satellite positions, and the evidence suggests investors are not sacrificing return or risk-adjusted return to get that simplicity.
2. **Combining factors in one vehicle can be more efficient than holding them separately.** The mechanism appears to be that a true small/value fund concentrates on stocks with both characteristics together, generating a larger aggregate factor loading than averaging two funds that were each built around just one factor.
3. **The trade-off is control over relative weighting.** With two satellites, investors can dial in their preferred mix of size versus value exposure. With one combined fund, the asset manager has already made that call. Investors with strong, well-grounded views on weighting one factor more heavily than the other may still prefer the two-fund approach despite the modest performance cost.
4. **This isn't a case for or against tilting at all.** Estrada is explicit that his paper doesn't address whether tilting toward small-cap and value has been—or will be—rewarded going forward. It addresses implementation only, conditional on an investor having already decided to tilt.
5. **Persistence matters more than annual win rate.** The one-satellite approach lost to the two-satellite blend in the majority of individual years, which is a useful reminder that relative outperformance between reasonable strategies is rarely linear; it's the long-run compounding that separates them.

For advisors building or recommending factor-tilted portfolios, this research offers a clean, evidence-based answer to a question that often gets resolved by manager preference or product availability rather than data: When size and value are both targets, one well-constructed combined fund tends to beat the do-it-yourself two-fund split. 

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