At a certain level, everyone understands the concept of style. Growth stocks are those forecast to have relatively high future growth potential, while value stocks are those priced relatively inexpensively compared to their cohort and are thus expected to increase in value.

The growth column, the value column... and the both column

So far, so good. But how does an index “decide” which stock goes in which category? And what if a stock exhibits characteristics of both growth and value? That's where the Russell methodology steps in.

**Russell Style Indexes Methodology**

1. **Rank by style variable**
   Russell ranks every stock using a multivariable approach including book-to-price ratio; I/B/E/S two-year forecast growth; and five-year sales-per-share growth.

2. **Calculate Composite Value Score (CVS)**
   The three style variable rankings are combined to create the stock’s CVS. Large cap, small cap and microcap are calculated separately.

3. **Re-rank by CVS**
   Stocks are then re-ranked based on their CVS. A non-linear probability algorithm is applied to the ranking to determine which style index the stock belongs in.

4. **Calculate index weight**
   When a stock’s characteristics don’t allow for absolute style distinction, a portion of the market capitalization is allocated to both growth and value stocks.

In the Russell 1000® Growth, approximately 30% of stocks are included in both growth and value indexes. Note that the growth and value allocations always add up to 100% of the stock’s market capitalization. To put it another way: The Russell 1000 Value + Russell 1000 Growth Index = Russell 1000 Index.
Know your index: How Russell style methodology helps you capture your strategy more precisely

**Pursuing a pure style strategy**
When a style strategy calls for pure value or pure growth, there’s a Russell Style Index for that as well. The Russell Pure Style Indexes provide focused exposure to those segments. Built on the same methodology, these indexes simply represent stocks at the growth and value ends of the spectrum that are 100% in one category or the other, with no overlap.

**The power of reconstitution**
Keeping equities – and portions of equities – in the proper style bucket is handled largely, although not exclusively, at Russell® reconstitution, the annual rebalancing of the indexes based on market factors. For the style as well as all Russell Indexes, reconstitution is the Russell methodology operationalized, when stocks may be added to or dropped from the indexes and, in the case of the Russell Style Indexes, stocks are assigned either to growth or value or a portion to each.

**Why your style index matters**
A style strategy is only as good as the index it’s based on. If an index isn’t rigorously constructed, transparent in its rules and precise in following its methodology, then that can affect performance – which, in turn, can have a direct impact on anything built on, or benchmarked to, that index.

Learn more about Russell Indexes on our website.
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Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

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