

Weekly Market Commentary

August 15, 2016

The Markets

How do you measure stock market valuation?

If you look at conventional measures – like price-to-earnings (P/E) ratios – then U.S. stock markets appear to be pricey. *The Wall Street Journal* reported trailing 12-month P/E ratios are high when compared to 10-year averages.

High P/E ratios haven't dampened investors' interest in U.S. stocks, and share prices have been moving higher. The Dow Jones Industrial Average (Dow), Standard & Poor's 500 Index, and NASDAQ all reached new highs last Thursday – the first time that has happened since 1999.

Barron's suggested investors' enthusiasm for stocks is rooted in the search for yield. "With the Treasury's 10-year note yielding 1.5 percent – near lows not seen before in modern history – there's no alternative to stocks for investors who want returns." Of course, that's a bit of hyperbole since there are many types of investments that offer income to investors. Let's focus on stocks and bonds, though.

The relationship between stock yields and bond yields may have some investors measuring market valuations in different ways. *Investopedia* reported, during the late 1990s, Wall Street professionals came up with a new method for gauging stock market valuation. It was called The Fed Model and it determined full valuation by comparing stock yields to bond yields. (Please note: 'The Fed Model' wasn't created by the Federal Reserve System, and the Federal Reserve System does not endorse it.)

The Wall Street Journal offered this analysis:

"...the so-called Fed model, which says that stocks' earnings yields – that is, expected annual earnings divided by the share price – should equal the yield on the 10-year Treasury note. With the 10-year now yielding 1.52 percent, the Dow would be fairly valued at 66 times earnings rather than the current, measly 18. Dow 68,000 anyone?"

It's an enthusiastic estimate. While some analysts are speculating the Dow could surpass 20,000 during the next 12 months, according to *CNBC*, others are suggesting investors proceed with caution.

Data as of 8/12/16	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.1%	6.9%	4.7%	8.9%	13.1%	5.6%
Dow Jones Global ex-U.S.	2.7	4.3	-2.6	-0.3	2.0	0.2
10-year Treasury Note (Yield Only)	1.5	NA	2.1	2.6	2.2	5.0
Gold (per ounce)	0.9	27.3	20.8	0.3	-4.9	8.0
Bloomberg Commodity Index	0.3	7.0	-7.5	-12.9	-11.8	-6.9

DJ Equity All REIT Total Return Index	-0.2	15.8	19.2	14.3	15.1	7.3
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S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

AN OLYMPIC MEDAL IN ANY OTHER SHAPE STILL REPRESENTS A GREAT FEAT.

In 1900, the Olympic games were part of the World's Fair in Paris. Champions received square medals! *Olympics.org* reported:

“The 1900 Olympic Games are perhaps the most unusual Olympics in modern history. They have been termed, with the 1904 Olympics, ‘The Farcical Games.’ The 1900 Olympics were poorly organized, almost chaotic. Years later many of the competitors had no idea that they had actually competed in the Olympics, but only that they had competed in an international sporting event in Paris in 1900.”

During the Paris Olympics, champions did not receive gold medals; they were given silver medals. The first time gold medals were awarded was at the 1904 Olympics in St. Louis, Missouri. While gold medals have become the standard, they haven't been made of solid gold since 1912. Instead, winners' medals have been made of a combination of gold and silver.

CNN reported gold medals in Brazil are comprised of “494 grams of silver and 6 grams of gold...a gold medal is worth about \$587 in current market prices.” The silver medal is worth about \$305, and the bronze medal has negligible monetary value, according to *CNNMoney*. Of course, once a medal has been awarded, its value may increase significantly.

U.S. Olympians receive cash rewards, in addition to medals. *CNNMoney* reported, “The U.S. Olympic Committee awards \$25,000 for gold medals, \$15,000 for silver, and \$10,000 for bronze.” Olympians owe state and federal taxes on their prize money, as well as the value of their medals.

Weekly Focus – Think About It

“...most people listen with the intent to reply, not to understand. You listen to yourself as you prepare in your mind what you are going to say, the questions you are going to ask, etc. You filter everything you hear through your life experiences, your frame of reference. You check what you hear against your autobiography and see how it measures up. And consequently, you decide prematurely what the other person means before he/she finishes communicating.”

--*Stephen Covey, American author*

Best regards,

FIDES Wealth Strategies Group

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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- * The Standard & Poor's 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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