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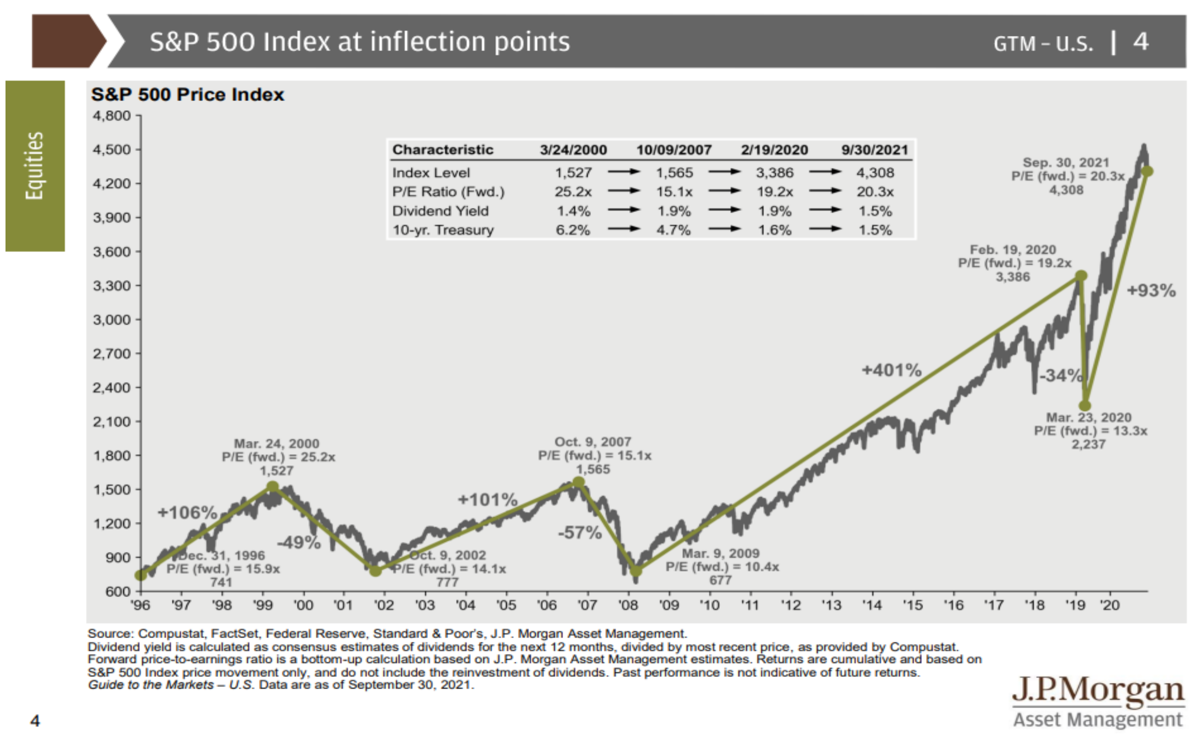
Dear Friends and Financial Advisor Clients:

So, here we are. It is, believe it or not, already the fall season of a year in which all of us have had to confront multiple Covid virus related challenges, uncertainties, conflicts, questions – you name it – something connected to our health, safety, school openings, business or employment disruption, to mask up or not, to vaccinate or not….to raise the U.S. government debt limit or not. Frankly, there is just so much on our plates. I think we are all a bit tired of this vibe we are in. In fact, it doesn't currently matter what your political views are either. Because despite which party is in power, apparently nobody really likes what is happening. And that mood plays into how we approach most everything, including our outlook on financial markets.

Naturally, in this atmosphere, we're seeing signs of investors bracing for a decline – which is always possible. In fact, it would be easy and understandable for us to even act on these fears and questions. But before we do get caught up in the worry, let's just park it all on the side for a moment and get a useful reference point on how fairly or unfairly valued general market prices are today.

Let's take a look at some historical data courtesy of J.P. Morgan going back over two decades:



Consider the following. Over 21 years ago, in March of 2000, the U.S. stock market's S&P 500 Index was trading at a forward price-earnings ratio (P/E Ratio) of over 25. That means a $25 stock only had one dollar in earnings. Such a multiple of earnings was pretty high, particularly when you consider what your other options were. Consider this incredibly important and compelling alternative. At the same point in time, U.S. Government guaranteed 10-year Treasury Notes were paying over six percent. And your local bank was often offering even more. And that means without any risk to principal, you could get over six percent from the U.S. Government and possibly even more from a bank. So, why bother with stocks? Of course, there were many other economic and speculative challenges at the time, but it was still not that surprising that stocks soon went down.

So, now let's consider where we are in the present. Right now, as of quarter end, stocks are trading at 20 times forward earnings. That's 20 percent lower than over 21 years ago. Yes, the broad stock market is cheaper than it was 21 years ago. But of course, just because it's cheaper by one metric doesn't make it cheap. We still have to ask what our other choices might be. What would compel an investor to dump their stocks and put their money someplace else? Well, are interest rates in the same place as March of 2000? Can you get over 6 percent in a U.S. Treasury note or even more from a local bank? No... you can't. Right now, the 10-year U.S. Treasury Note doesn't pay 6.2%. It pays 1.5%. Short term Treasuries offer less than one percent. And banks accounts pay virtually nothing. Yes, your principal is considered safe or stable. But the trade-off is you get nothing.

And here is where our sense of fair stock market valuations become a bit more sanguine. Being offered nothing is not compelling incentive to sell what you own, unless you're really scared. And even though there are many unpleasant factors in play right now, corporate earnings, despite all of our challenges, are still rising. Our economic outlook, despite all the headwinds, is pretty good. And that means if stock market prices don't rise…and earnings do, markets will become even cheaper. That's basic math.

The point to take away here is that while this is only one of many factors a sound investor considers, it plays an important role. It's part of a competition, a "tug of war" game that greatly influences how we invest. On one side of the figurative rope, the opportunity and risk of stocks pulling at you with the hope of great returns. On the other side, fixed income markets like the U.S. Government, businesses or banks offering an interest rate that might pull you away from all that stock nonsense. How we feel about the world, our economy, prospects going forward…all those issues play into how much we are pulled *to* or *away* from risk investments. So, sure when we are more concerned – like right now – about what's happening, and questioning what might come next, we don't need to be offered that high of an interest rate to abandon our stock investments and head elsewhere. But when the current offer is basically nothing…. that might not be enough to get investors to jump ship or pull out. In fact, if some of the issues we've mentioned resolve themselves more positively, thus reducing investor concerns, some of the $19 trillion sitting on the sideline in various forms of cash could get pulled into markets as opposed to stockholders pulling out. Stay tuned. We'll see. By the way. We're always here.

Stay safe and well everyone,

Jeffrey C. Vahanian

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