

Crestmont Research Charts

Unexpected Returns

Probable Outcomes

By

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SECULAR STOCK MARKETS EXPLAINED

S&P 500 Index: 1900-2011

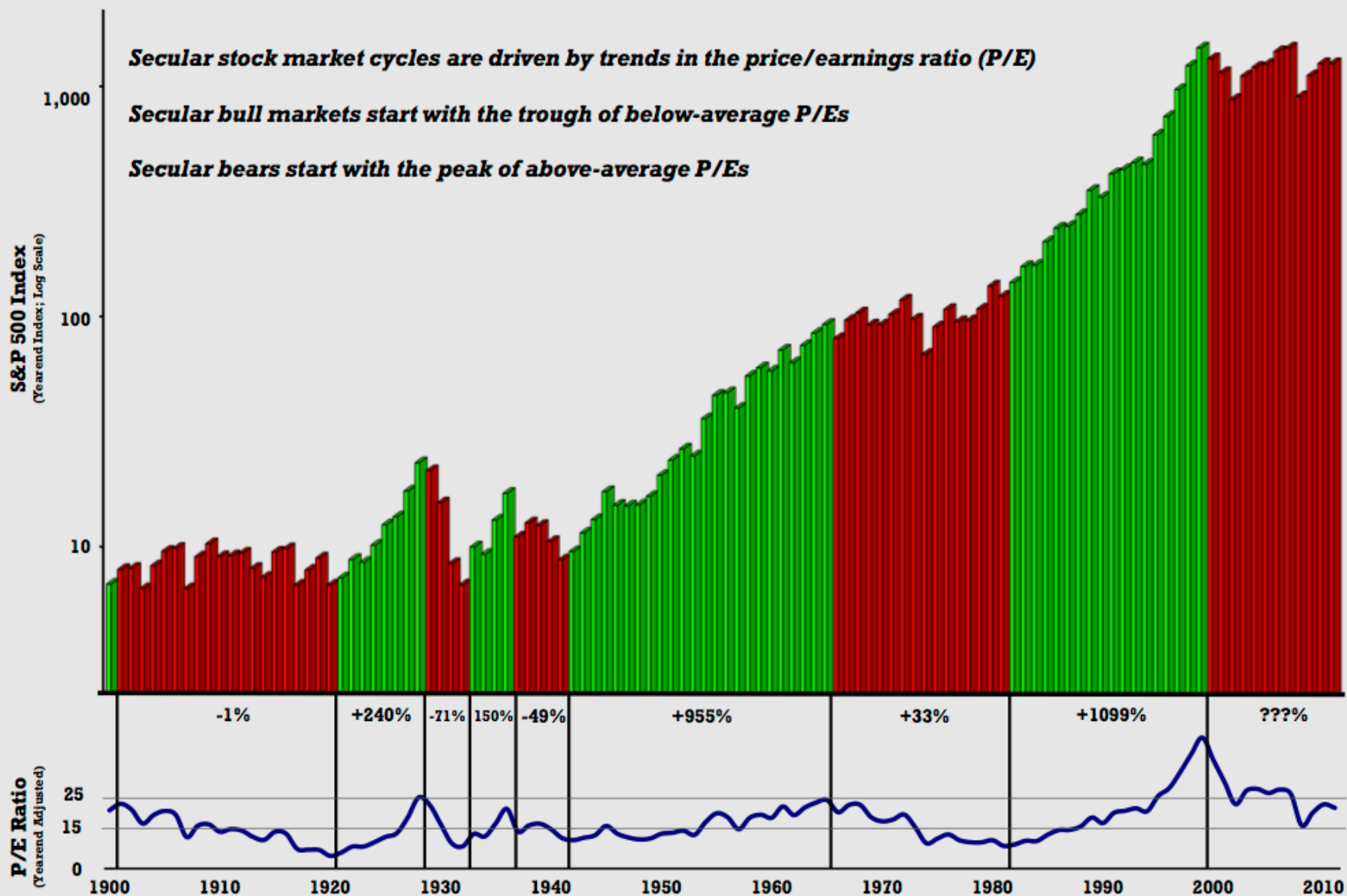


Figure 1. Secular Bull Markets

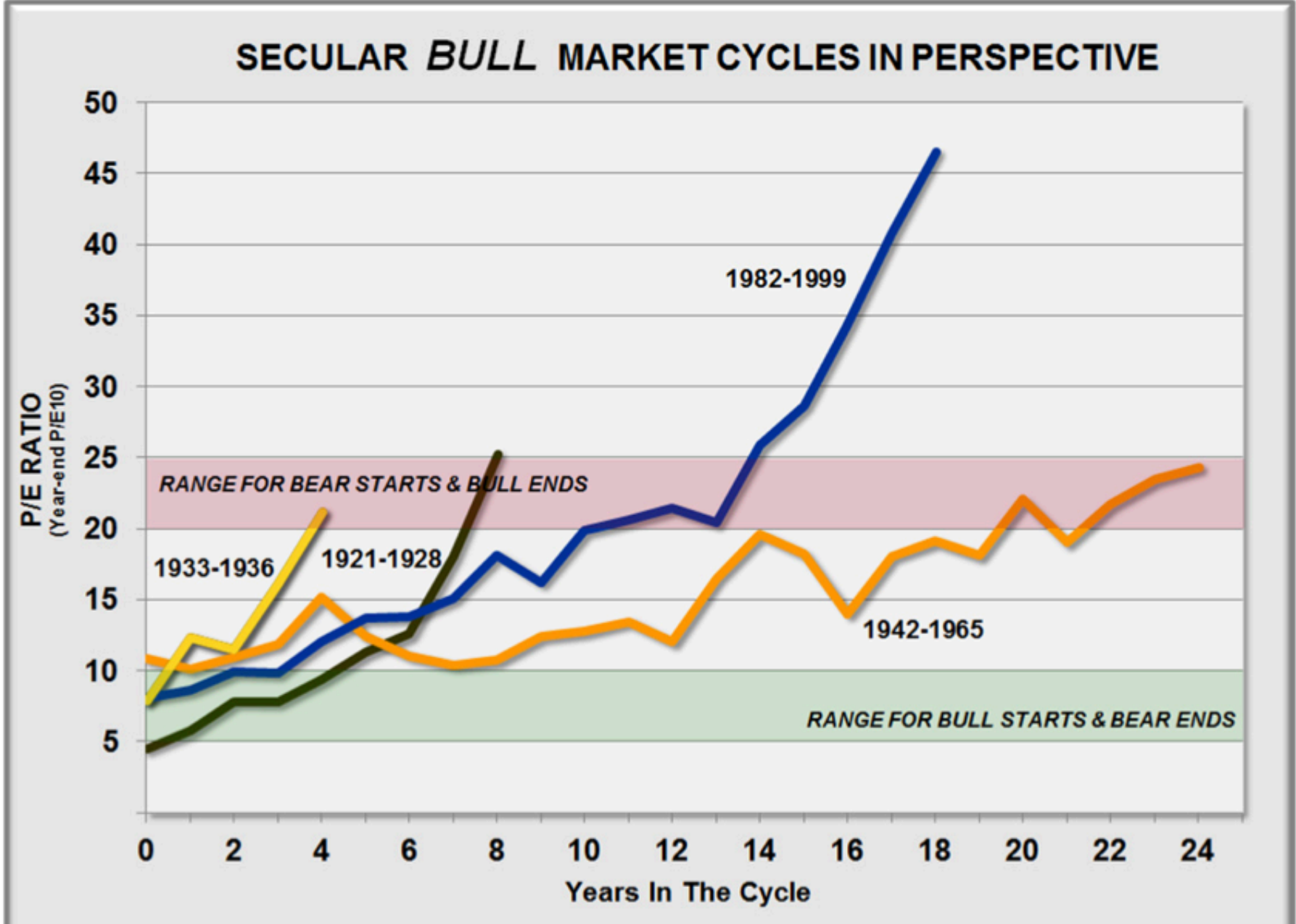


Figure 2. Secular Bear Markets

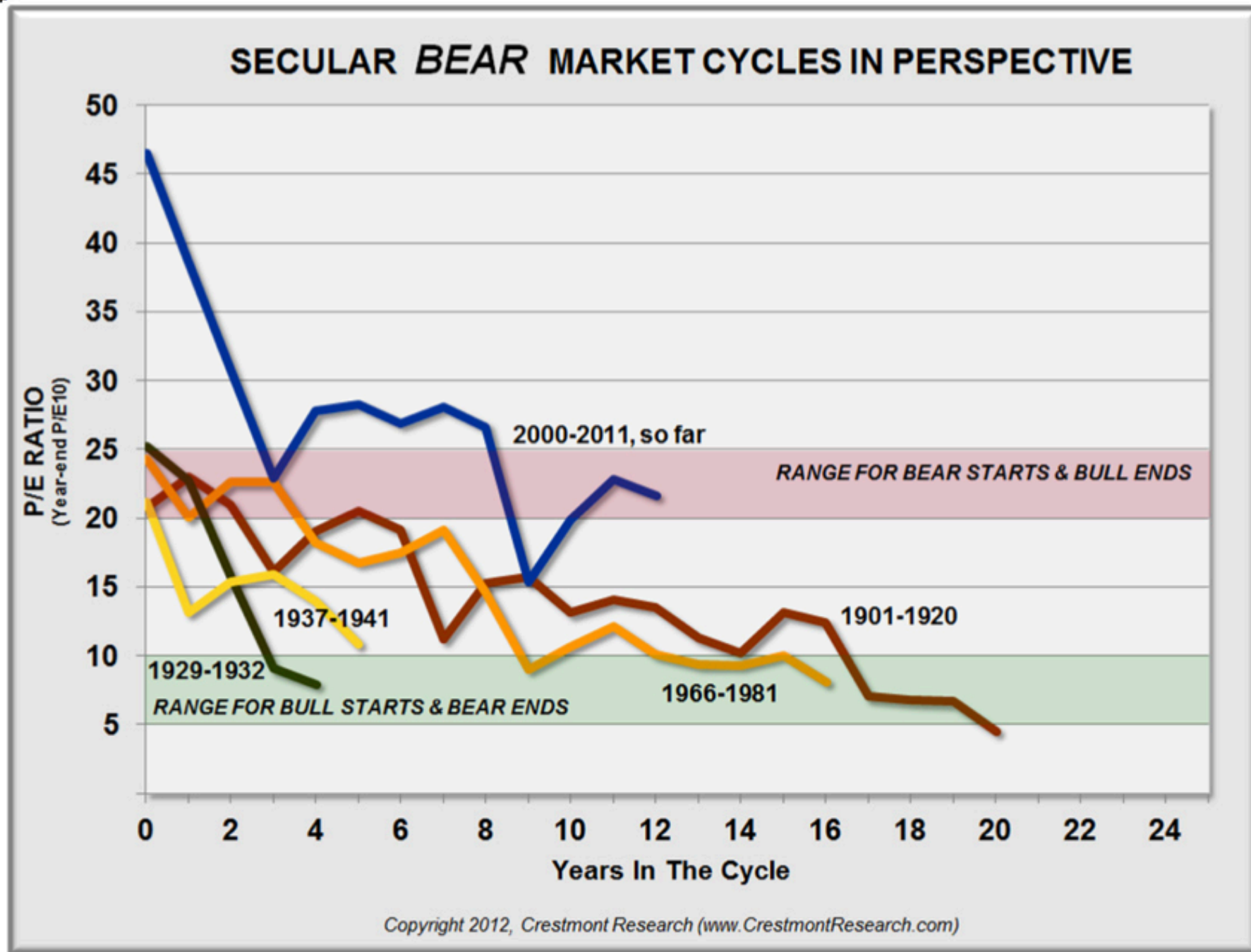
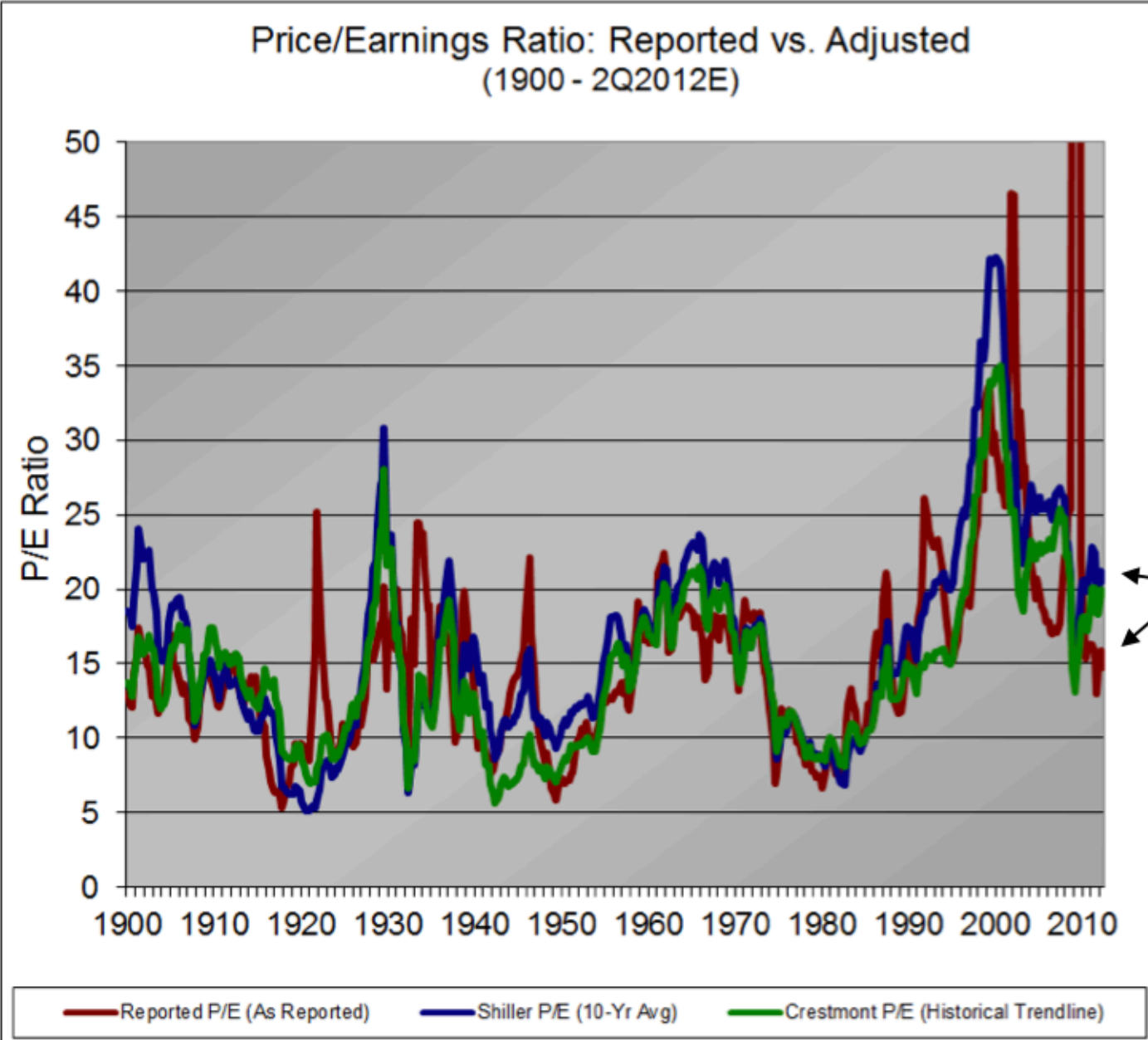


Figure 1. P/E Ratio: 1900-2Q2012E (EPS estimate from S&P)

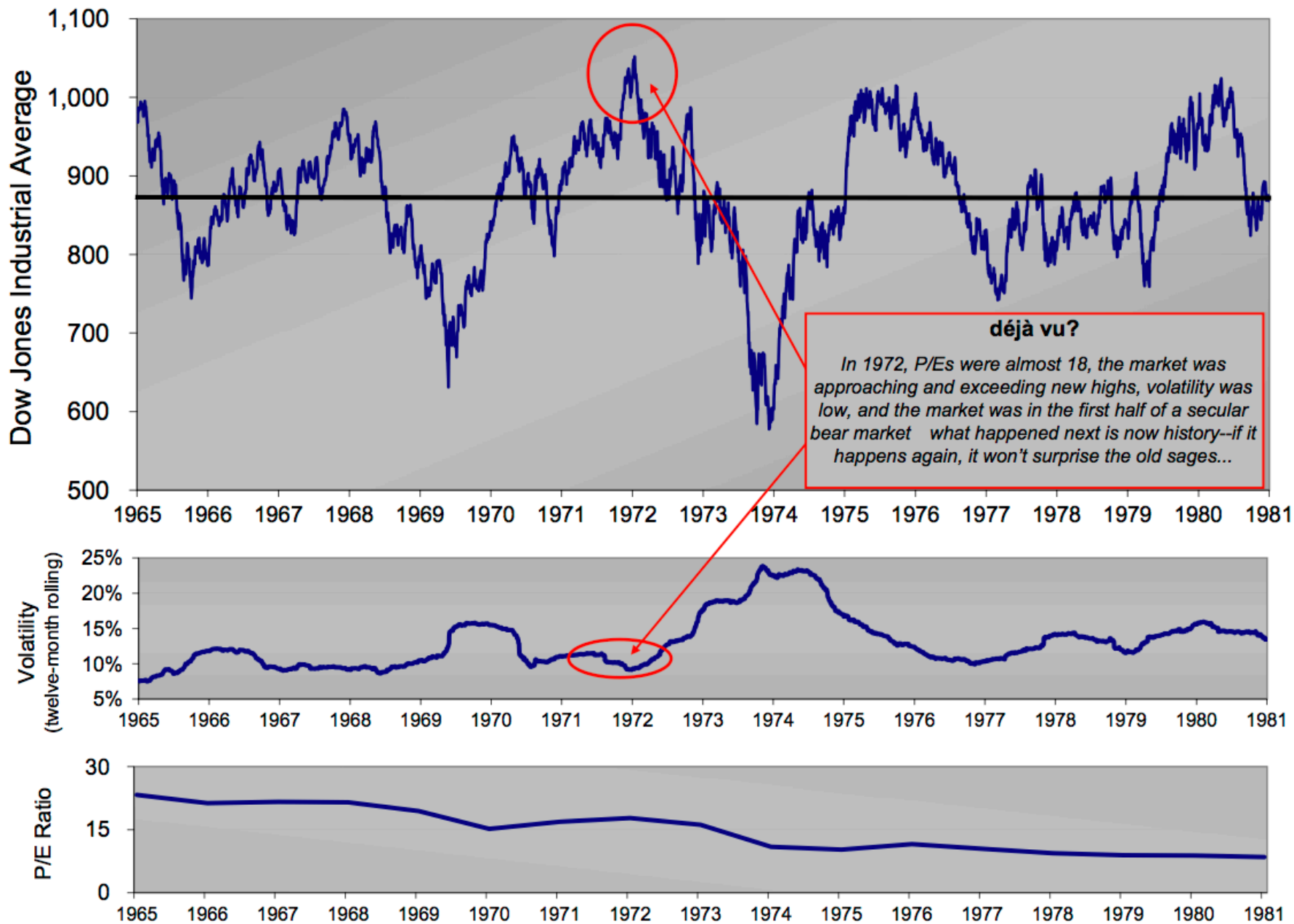


Note the significant business cycle divergence in P/E.

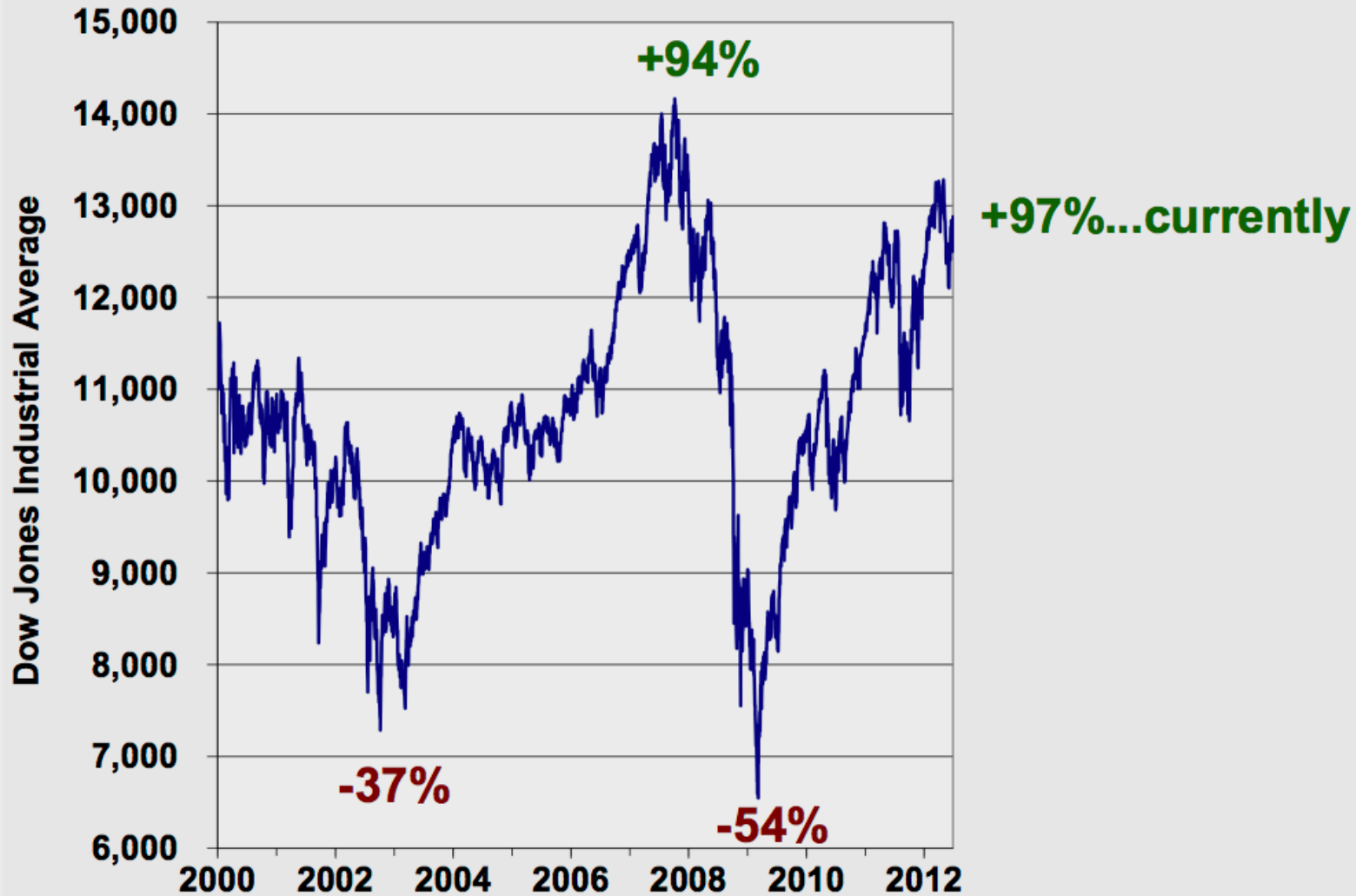
P/E can send a false signal of undervaluation, even when it is overvalued or fairly-valued.

EPS now exceeds the baseline trend; reported P/E is distorted low and likely to distort further.

LIVING THROUGH THE LAST SECULAR BEAR MARKET

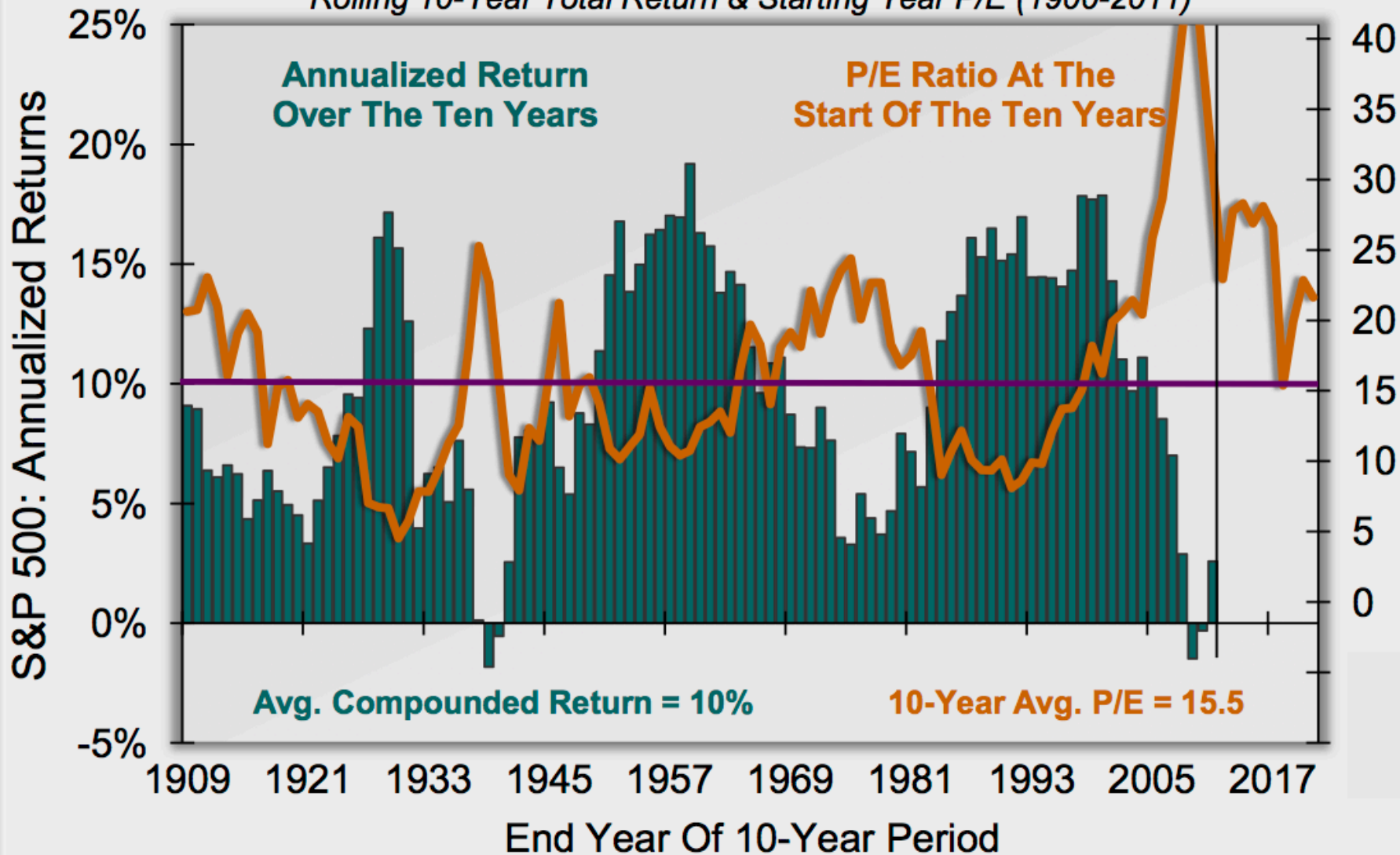


LIVING THROUGH THIS SECULAR BEAR MARKET, SO FAR...
(2000 - Jun 30, 2012)



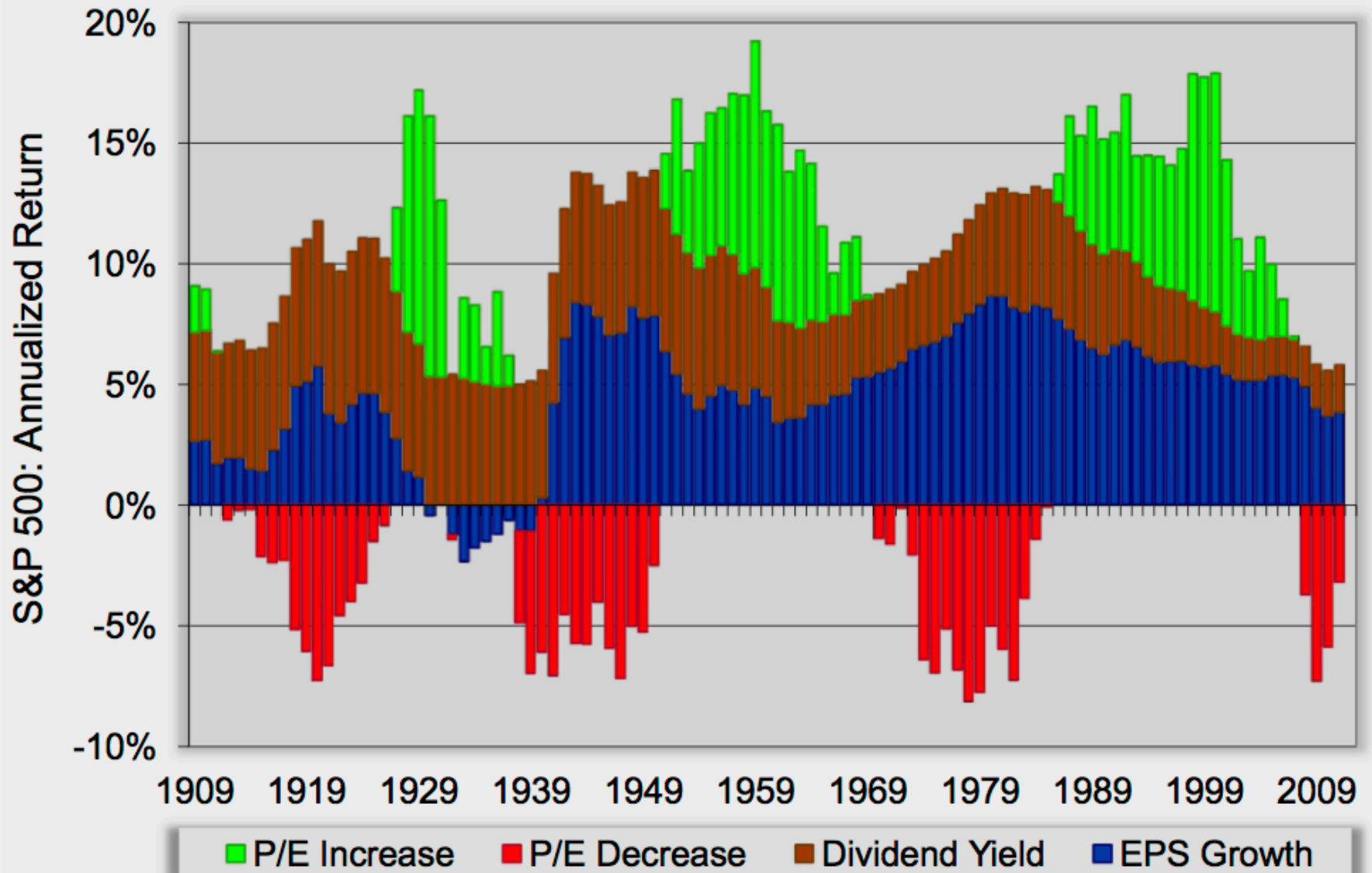
GAZING AT THE FUTURE: WHY STOCKS ARE UNDERPERFORMING

Rolling 10-Year Total Return & Starting Year P/E (1900-2011)



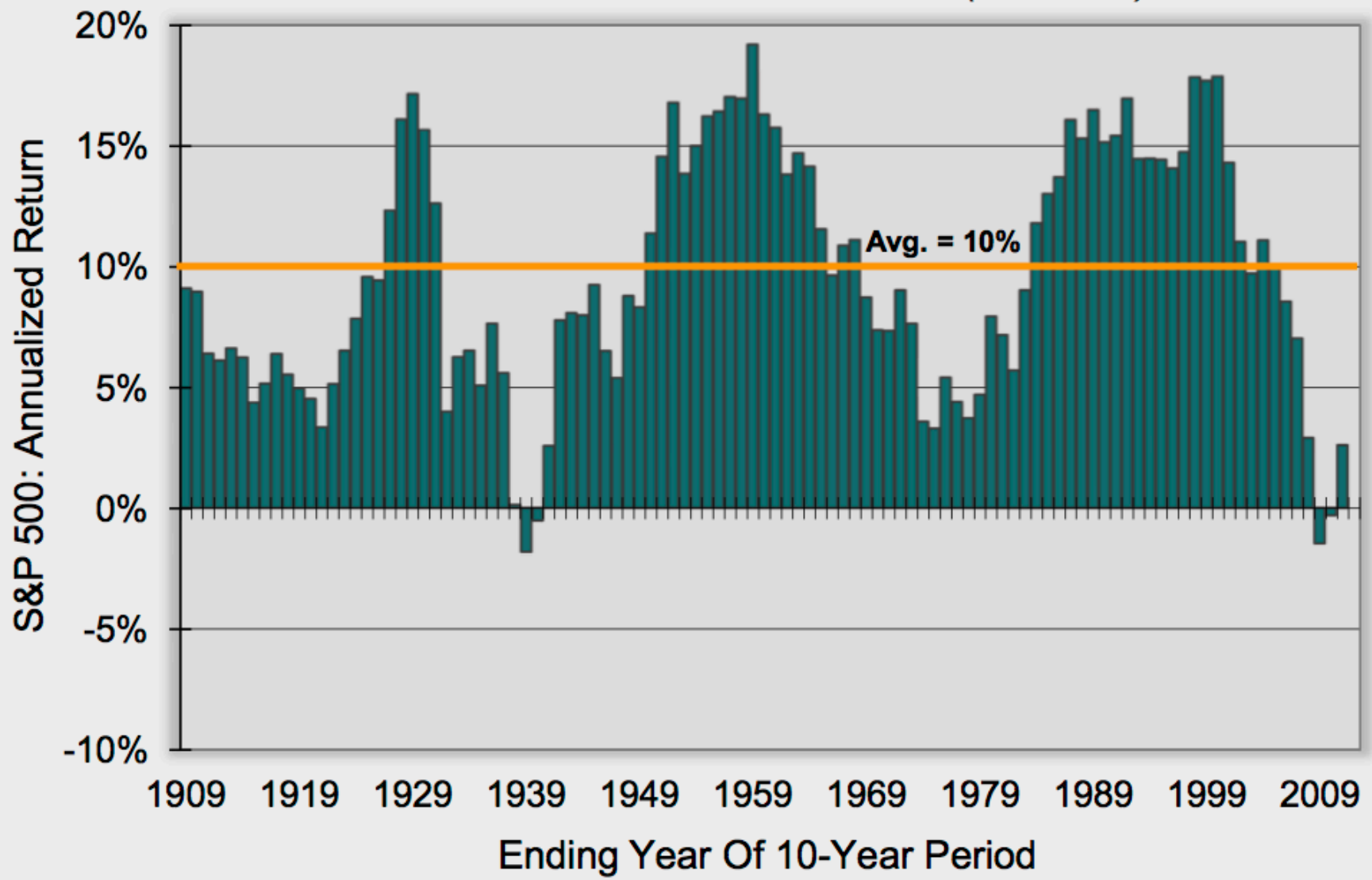
10-YEAR STOCK MARKET RETURN (COMPONENTS)

Total Return Before Transaction Costs (1900-2011)



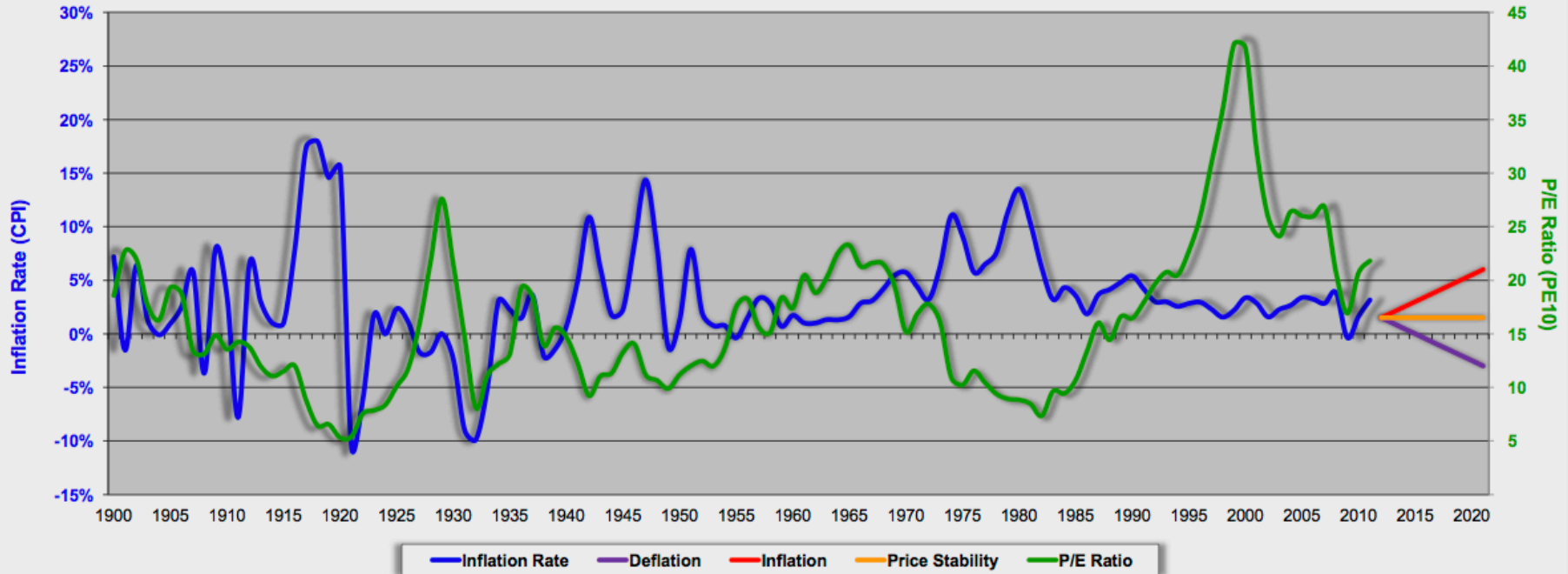
ROLLING 10-YEAR STOCK MARKET RETURN

Total Return Before Transaction Costs (1900-2011)



RELATIONSHIP OF INFLATION & PRICE/EARNINGS RATIOS (1900 - 2011)

HISTORY OF INFLATION TRENDS (CPI; left scale) AND THE PRICE/EARNINGS RATIO (right scale)



AVERAGE P/E RATIO BY RANGE OF INFLATION

CPI RANGE		ALL PERIODS (1900-2011)		EXCL. LATE 1990s+ (1900-1994)	
BEG	END	AVG CPI	AVG P/E	AVG CPI	AVG P/E
less than	0.00%	-3.8%	14	-4.0%	14
0.00%	0.99%	0.6%	16	0.6%	16
1.00%	1.99%	1.4%	18	1.4%	16
2.00%	2.99%	2.6%	22	2.6%	16
3.00%	3.99%	3.4%	19	3.3%	16
4.00%	4.99%	4.3%	16	4.3%	16
5.00%	5.99%	5.5%	15	5.5%	15
6.00%	9.99%	7.3%	13	7.3%	13
10.0%	and more	13.7%	8	13.7%	8

SCATTER PLOT: P/E RATIO AND INFLATION (1900 - 2011)

