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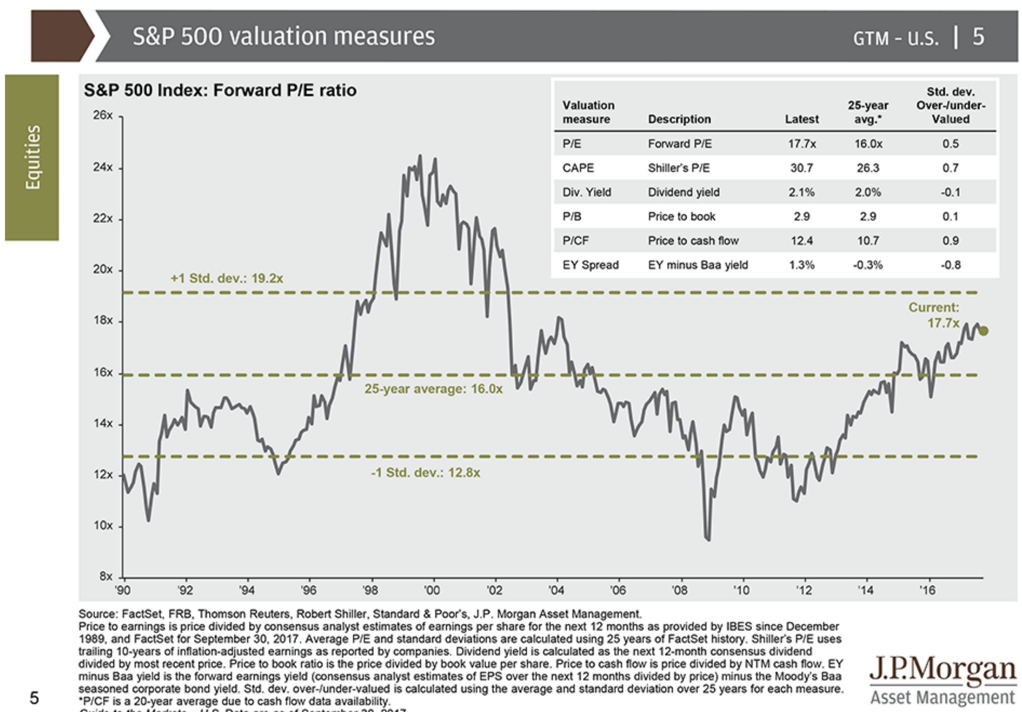
And the Beat Goes On… and On…

Market correction or collapse? For the past 3 – 4 years market "experts" (usually someone with a blog living in their mom's basement) have been predicting the next bear market. Usually, their reasoning is "it's time" or "just because". They also tend to forget that we did have a 11% correction in January and early February last year, but that is brushed off as a "flash crash".

Savvy investors know that the "serious money" doesn't pay any attention to these amateurs. Bear markets don't sound alarms… but it give's hints! And the biggest hint is earnings. We have mentioned here several times that the P/E or price/earnings ratio is probably our best tool in this area. At the current level of around 17.7 (see Chart #1) we do appear to be higher than average – but NOT enough to be concerned about. Markets usually get into extreme areas (well above dotted line) between corrections.

Chart #1



Ironically, we are almost identically at the same number that we were at a year ago – before the election and corresponding market rally. And the corporate earning (the denominator of the P/E ratio) is growing at a faster rate than last year (see Chart #2)!

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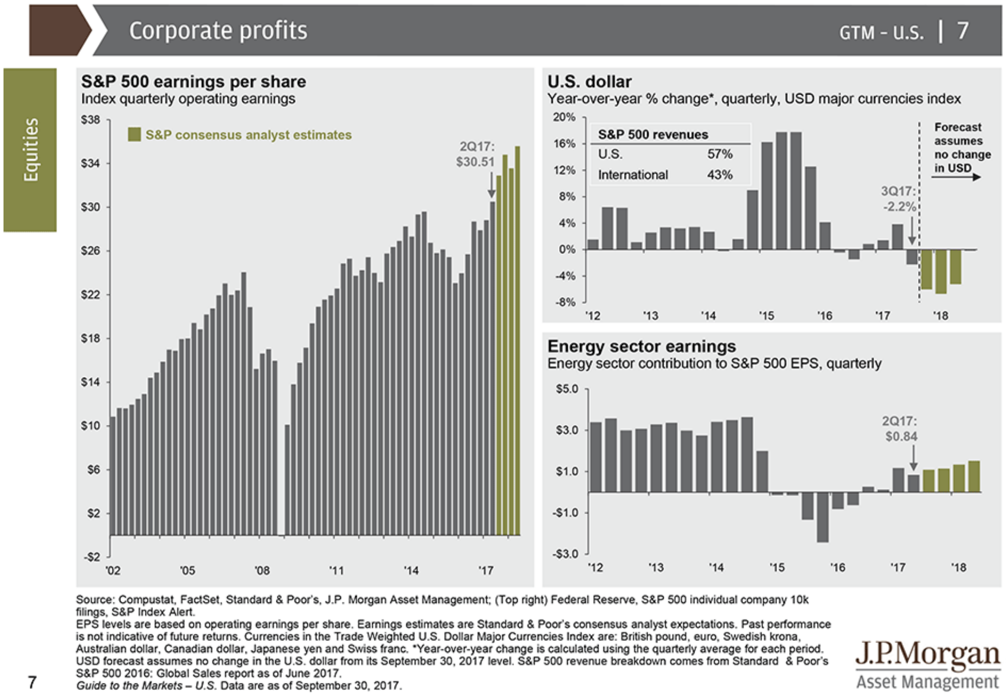
Chart #2



Of course, there are wild cards that could change things: North Korea, Federal Reserve raising rates too fast, etc. But not all wild cards are bad. A reduction in corporate and personal income tax rates could provide this market with GIANT boost next year.

And the beat goes on…

If you would like to discuss the market and/or your account(s), please call me at 713.428.2050, x2 or via email to josborn@houcap.com.

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