

# Retail Investors Think U.S. Stocks Are Overpriced

Pull up a financial website these days and you probably won't have to look far for an article discussing the current valuation of the U.S. stock market. As I am writing this blog post, a non-financial website that I frequent has no less than four links to articles about the current "bubble" in stocks and the bearish signals that are lurking below the surface (these are the headlines, not my own sentiment).

You certainly can't argue with the run U.S. stocks have been on since November's election, though. This, in turn, has pushed individual stock valuations and the value of U.S. indexes to above-average levels. The current crop of corporate earnings has also been strong, adding to the upward momentum of stocks.

One measure of overall market value is the Cyclically Adjusted PE Ratio (CAPE Ratio) popularized by Robert Shiller. This is an earnings ratio based on average inflation-adjusted earnings from the previous 10 years. It is one of the components of the **CI Market Dashboard** and last Friday, the CAPE closed at 30.29, according to **multpl.com**. This is the highest week- or month-ending value for the CAPE since March 2002. The long-term median value of the CAPE is 16.2

To see whether or not our readers feel U.S. stocks are overvalued, last week's survey asked:

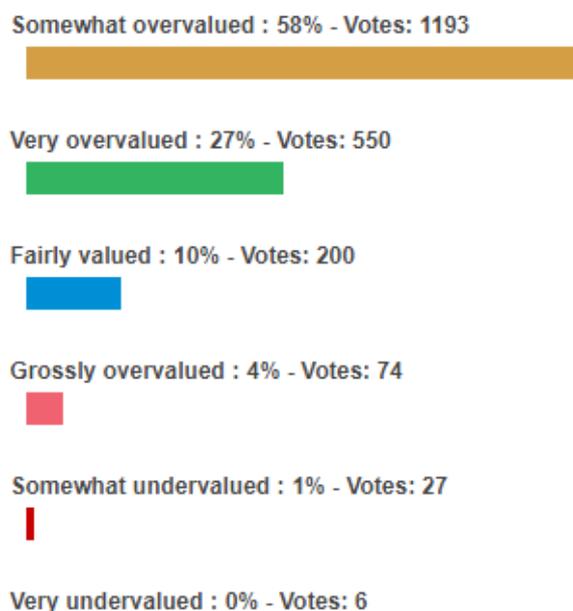
## AAll Weekly Survey Question

To see whether or not our readers feel U.S. stocks are overvalued, last week's survey asked:

Based on several widely followed measures, U.S. stocks appear overpriced. Personally, how overvalued or undervalued do you think U.S. stocks are?

Here are the results:

**Based on several widely followed measures, U.S. stocks appear overpriced. Personally, how overvalued or undervalued do you think U.S. stocks are?**



In all, 2,050 readers participated.

Overall, 88.6% of respondents believe U.S. stocks are overvalued. Within this group, slightly more than one-third believe U.S. stocks are very or grossly overvalued. The rest see U.S. stocks as being somewhat overvalued.

Ten percent of readers believe that U.S. stocks are fairly valued.

Only 33 respondents in all-1.6%-see U.S. stocks as being *undervalued*.

## Weekly Special Question

The survey question then got me thinking, how do our readers go about valuing individual stocks and the overall market? This led me to pose this special question last week:

How do you go about deciding whether the stock market and/or individual stocks are under-, over- or fairly-valued?

In all, 213 readers responded to this question.

Not surprising, the vast majority of our readers use price multiples to value stocks and the overall market. The most popular measures cited are price-earnings (PE) ratio, Shiller's CAPE, forward P/E, dividend yield and the price-earning to growth or PEG ratio.

A number of our readers also use historical trends to get a feel for whether a stock or the market is under- or overvalued. This includes relative valuations-how the current P/E ratio, CAPE, etc.-compares to historical levels-as well as using moving averages.

I had to smile at the nine readers who rely on their gut to determine how stocks or the market are valued.

Here is a sampling of the responses:

- "Almost a gut feeling but I follow the PE of blue chip stocks and I find the PE's slightly rich."
- "Compare the dividend yield of the S&P 500 to the current 10-year bond rate."
- "Compare the p/e ratio to historical numbers and compare the dividend yield to historical values."
- "Relative to what? Bonds, dollar, gold, etc.? The only way to answer that question is GDP to market cap ratio, which doesn't take into account the other bubbles out there."
- "I don't pay a lot of attention to over/under value when buying stocks."
- "I look at the 200-day simple moving average and also the general trend over the past year."
- "When the common man starts to buy/rush in, the market is at the peak."

Everybody has an opinion! Why not give us yours? Participate in our weekly member poll, updated every Monday, and see the results online at <http://www.aaii.com/memberquestion>.