

Using StockVal to Monitor the Valuation and Discount Rate of the Market

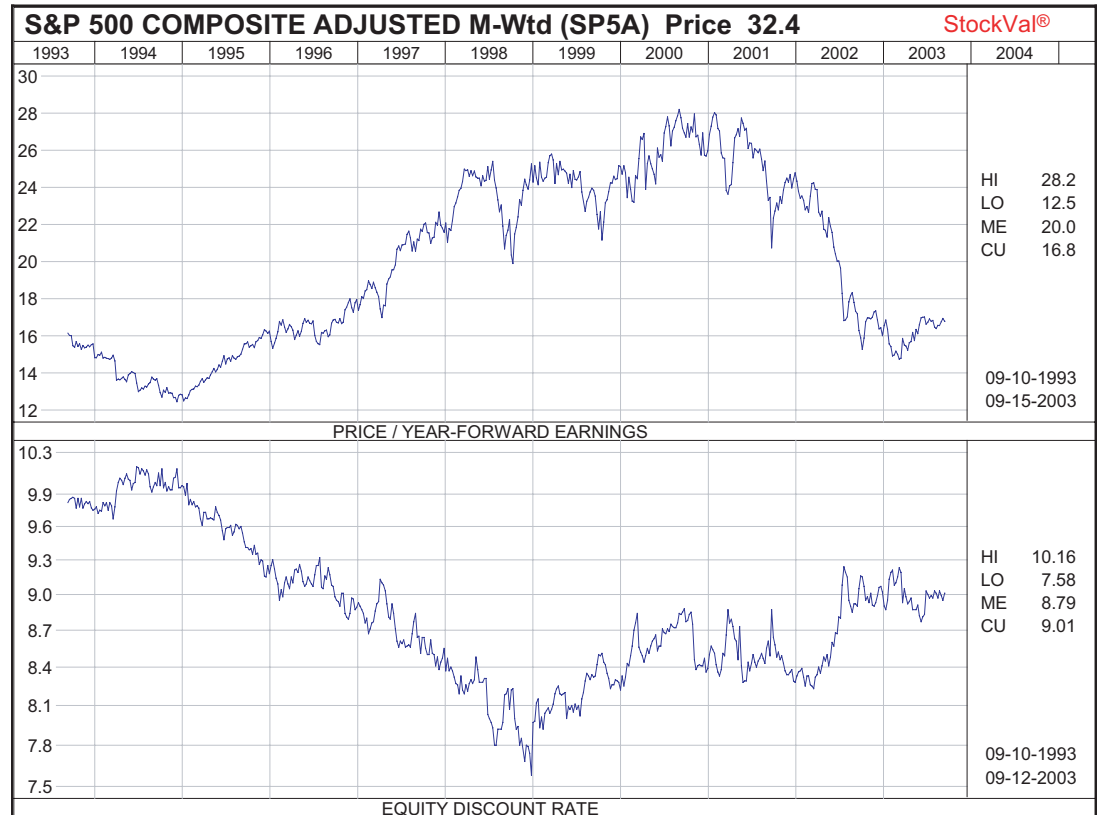


ABOUT STOCKVAL

Since 1985, StockVal has offered comprehensive equity analysis and portfolio management tools to the investment management community through distinctive software and database products.

StockVal's adjusted market proxy, the S&P 500 Composite Adjusted (SP5A), shows that the market's valuation is still very reasonable. The current forward 12 month PE is 16.8 versus a 10-year median of 20.0. Most "overvalued" commentary over the last several months has been based on trailing reported earnings.

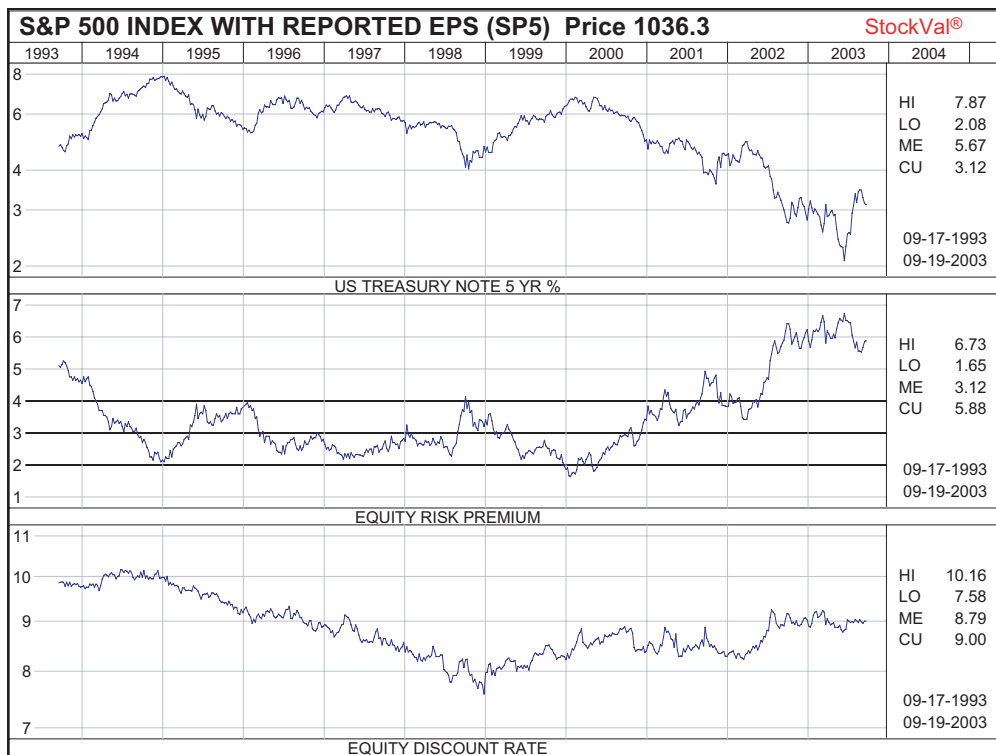
In addition to viewing forward valuation compared to central values, it is important to view the discount rate level for the market. Higher multiples are justified by lower discount rates. The current discount rate of 9.01% is close to the 10-year average and still much lower than that experienced in the 1970s and 80s.



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Interest rates are the most often quoted discount rate proxy for equity analysts and portfolio managers, but the prospective equity risk premium is the other half of the overall discount rate equation that is often overlooked.

Currently, the 5-year Treasury is 3.12%, a jump from the 2.08% reached a few months ago. The current rate is still significantly below the 10-year median of 5.67%. StockVal's proprietary equity risk premium stands at 5.88%, a decline from the 10-year high of 6.73% reached in June. The average risk premium is 3.12%.



Combining the 5-year Treasury and the risk premium results in a total market discount rate of 9.00%, which is in line with the 10-year average of 8.79%. In most cases, the interest rate and risk premium tend to move in opposite directions, but not with equal magnitude. For the last 3 months, the rising interest rate has more than offset the decline in the risk premium resulting in a rising but modest total discount rate environment.

Again, when making judgments about the attractiveness of market valuation, it is important to view the total discount rate versus historical averages. Currently, the market's forward PE of 16.8 is lower than average coupled with a rising but close to average discount rate. The modest discount rate justifies an even higher multiple for the market.



StockVal

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