Investment Forum Program for Wednesday, June 20 at 10:00

Perspective: How to assess the value of the stock market? Mark Hulbert writing the Sunday, June 10 edition of *The New York Times* offers an unfamiliar perspective. The conventional measure is the price-to-earnings ratio (P/E) of the S&P 500 index. Using trailing 12-month reported earnings; the ratio is now about 18. This is slightly higher than the 80-year average market P/E value of 16. However, students of market history place little faith in the P/E ratio based on data for the past 12 months because earnings are so volatile. Instead, studies reveal that broad index P/E ratios based on 10-year average earnings adjusted for inflation have a much better track record of identifying overvalued markets. Using this measure, the current P/E for the S&P 500 index is about 27. This is lower than the value of 46 in March 2000, but still higher than any 10-year period for the broad market since 1929. So, from this perspective, the market doesn't look as cheap as it appears at first glance.

Follow-Up: At the forum's last meeting, moderator emeritus Garrett Ruhl spoke on a number of topics, including wind power. On June 1, *The New York Times* published an article entitled "Where Now, for the Wind?" The article is based upon the involvement of FPL Group (FPL) in wind energy. FPL is the nation's largest wind power operator and the second-largest in the world. Wind power is growing rapidly, but faces many challenges.

Strategies: Two columnists, Donald Luskin writing for *SmartMoney.com* and James Glassman writing for *Kiplinger's*, each warn investors to avoid focusing excessively on safety and yield. This means don't overweight bonds, despite their seemingly greater appeal as rates rise. However, Glassman also shares a bit of conventional wisdom, namely a stock-and-bond portfolio that includes 30% bonds can offer nearly as much total return as a portfolio consisting of 100% stocks with significantly lower volatility. (*Dow Theory Forecasts* has a graphic that quantitatively illustrates this trade-off.) Those who are persuaded by these arguments may wish to read "Five Dandy Dividend Plays" on the forum website at www.olligmu@org/~finforum/. Also, Burton Malkeil, author of the classic investment guide *A Random Walk Down Wall Street*, has some advice for investors in volatile markets during a period of rising interest rates: (1) Buy and hold because there's no way to know how to play interest rate fluctuations and (2) don't react to each turn of events in financial markets because you'll simply end up paying unnecessary commissions and taxes.

Stock Talk: On June 11, *Morningstar.com* posted an article entitled "Medical Device Firms on Sale." The article noted that Johnson & Johnson (JNJ) and Medtronic (MDT) were featured in a similar article a year ago and have languished. However, *Morningstar* continues to recommend the two stocks for *patient* investors. Also, Wells Fargo (WFC) appears rather attractive in the current market.