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*Where's the Bottom?*

*S&P 500 Earnings and Multiples*

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Earnings have grown pretty consistently since the bottom in 2009, which was \$60, down from \$80. The last three years earnings were ~\$160 after a nice increase in 2018 from our President's new tax policy. Earnings and earnings expectations are very important!

In 2019, earnings were a flat \$163, and 2020 estimates were in the mid \$170's, an increase of 5-10%. Enter coronavirus. Best guess 2020 earnings is \$140 or down 15%, which assumes we get back to living our lives again in the 3<sup>rd</sup> quarter. Applying a 13-14x multiple, which is typical at market bottoms, suggests a bottom is around 1900. Another typical measure is 35% off the highs – so the bottom would be ~2200. Technical analysis suggests a low of 1925, a solid support level from 2015/2016. That would unfortunately be a whopping 40% decline in 2020.

But we are in the beginning of an incredible double-barreled monetary and fiscal stimulus. The abundance of programs from an economist's perspective will indeed be effective – assuming we are not quarantined forever. That's where we can slightly smile again!

Let's say COVID-19 begins to burn out in late April, following the current course in China. As we enter autumn, the market trades off of next year's earnings estimates. Say we get \$180 in earnings which is quite an increase but much below the current \$194 (hardly imaginable). And apply a 17x multiple – not a stretch in a zero percent interest rate environment – and you are back to ~3000x, a decrease of less than 10% for 2020. Would that be nice? May even occur quickly as it did in 1987.

Many of the indicators we monitor for a birth of a bull market suggest we are close to a bottom. Fed cuts, mutual fund cash levels, sentiment and downward earnings revisions have all been triggered. Others promote patience and suggest there will be a better opportunity. For more risky investors, it smells like an opportunity to dollar cost average into risk assets.



Diversification of one's assets – Rules 1, 2 and 3 of investing – is struggling in this environment a la 2008. Credit concerns are negatively affecting fixed income, and real estate is taking big hits on a variety of concerns. Hedge fund performance is mixed as the large managers without mutual fund limitations shine and smaller managers struggle.

Nevertheless, stay in the game in a diversified fashion. Remember how bad we felt on March 9, 2009 when the S&P 500 bottomed at 666. Life will get better!!

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