Singer Wealth

Are Stocks Overvalued?

Oaktree Capital's Howard Marks recently underscored a powerful observation about markets: the valuation you pay determines the returns you are likely to receive. His observation is rooted in decades of historical data, and it carries significant implications for investors navigating today's environment. Marks noted that whenever investors purchased the S&P 500 at a 23x price-to-earnings ratio (P/E), the index's 10-year annualized return has always fallen between +2% and -2%. To date, there has not been an exception to that pattern. This is a striking statement because it underscores how whenever there have been high valuations, stocks performed poorly over the next decade.

Today the market is not merely at a 23x P/E—it is sitting even higher, closer to 25x earnings. This means investors are paying more for each dollar of earnings than they did at levels historically associated with muted long-term returns. While expensive markets do not automatically imply an imminent downturn, they do suggest that the next decade is unlikely to deliver the outsized returns that occurred during the bull markets of the past fifteen years. Elevated valuations simply leave less room for upside, especially if earnings growth slows.

A major factor behind this inflated P/E is the extraordinary concentration of returns within the mega-cap technology names. Companies such as Apple, Microsoft, Alphabet, Amazon, NVIDIA, Meta, and Tesla have grown so large and so valuable that they disproportionately influence the valuation of the entire S&P 500. Their premium pricing pulls the index's P/E higher, even though the "average" company in the index trades at far more reasonable levels. This concentration magnifies risk: if these companies stumble, the entire index becomes vulnerable.

During times when stocks are relatively expensive, it makes sense to explore alternative investments that are not necessarily correlated to the stock market. Debt instruments like private credit and private mortgages can offer 8-10% returns that can be much more predictable than stocks, especially if stocks are overvalued.

Marks' message is clear: when valuations stretch, investors must pivot. Investors who acknowledge this reality will be better positioned for the years ahead.

Have you heard about our Vision Quest Process? Watch the video below to learn more!

We are committed to helping you achieve your financial goals. Please feel free to contact us with any questions, comments, or a more in-depth discussion.

Sincerely,
Keith Singer

Singer Wealth
1515 S Federal Highway Suite 302
Boca Raton, FL 33432
(561) 998-9985
www.singerwealth.com