



Why is PE so Important?

PE stands for Price Earnings ratio. It is the standard for measuring valuation of the stock market. Simply put, it is the relationship between earnings and the price of the stock market. The higher the PE Ratio, the more an investor is paying for each dollar of earnings. The lower the PE, the less an investor pays for each dollar of earnings.

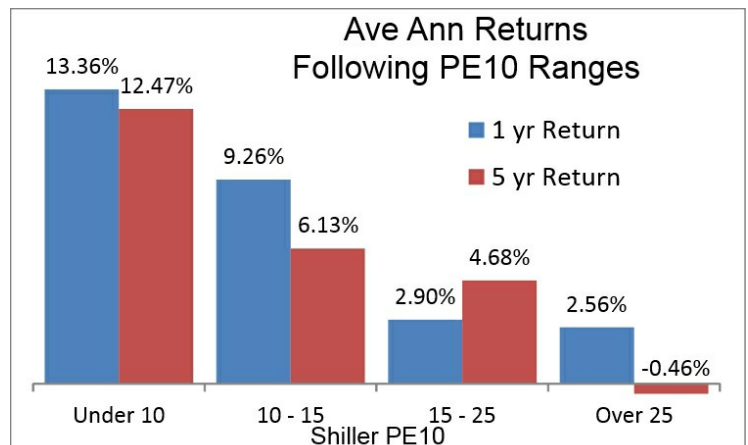
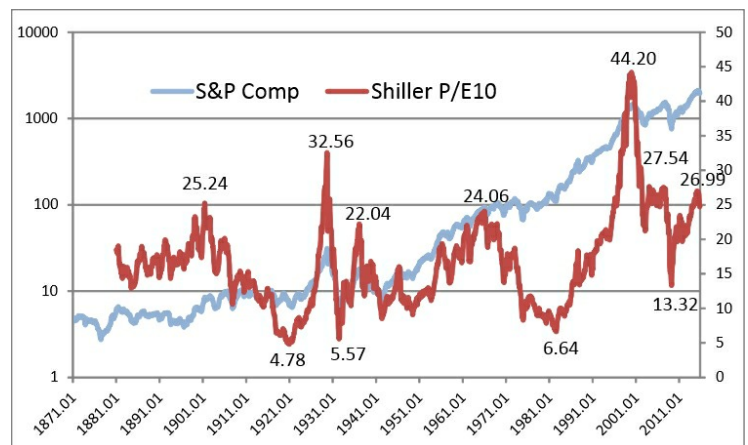
High PE Ratios are considered overvalued, low PE Ratios are considered undervalued. This is important because there is a relationship between the future performance of the stock market and PE Ratios. Stock markets tends to top out when PE Ratios are high and bottom when they are low. (The 2 charts utilize data from Shiller's online data. PE10 refers to cyclically adjusted PE Ratio developed by Robert Shiller. It is also known as CAPE and Shiller's PE.)

The first chart illustrates just how important PE's are to the market. Peak PE10's tend to correspond to peaks in the market. Low PE10's tend to correspond with market lows.

Just how important are PE's to performance? The second chart gives the average rate of return 1 year after various PE10s and 5 years after various PE10s. (Data is from 1881 to the present.) PE10's under 10 have averaged double digit returns. PE10's over 15 have averaged low single digit returns.

Historically, market lows have had PE10s well below 10. The low in 2009 was only 13.32, more than double previous PE10 lows. This is one main reason we have been cautious for the past 6 years, the market never went down to a typical low valuation.

Before the crash in 2008, the PE10 was just over 27.00. Why are we at Cornerstone so concerned about the market today? Because the PE10 recently hit 26.99. This is not a good sign. This is why we are especially cautious now. PE10's at this level have usually lead to significant market declines. Since the low in 2009 never really got to historically "cheap" levels, we are concerned the market will do what it failed to do in 2009, drop to PE10 levels below 10. (This translates to deep declines for the market and long term under-performance for those that try to ride it out.)





245 Waterman St. Ste. 301
Providence, RI 02906

info@cornerstoneri.com
www.cornerstoneri.com

Tel: 1 (888) 277. 5968

Disclosures/Disclaimers:

Opinions, estimates, forecasts and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. This material is for information purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. Past performance does not guarantee future results.

Consult your financial professional before making any investment decision. Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. Please consult your financial advisor for further information. These are the views of Cornerstone Investment Services LLC, and not necessarily those of the named representative, Broker dealer or Investment Advisor, and should not be construed as investment advice. Neither the named representative nor the named Broker dealer or Investment Advisor gives tax or legal advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. Please consult your financial advisor for further information.

Fee based money management and Financial Planning offered through Cornerstone Investment Services, LLC's RIA.
Securities offered through Cantella & Co. Inc., Member FINRA/SIPC.
Accounts carried by National Financial Services LLC, Member NYSE/SIPC. Accounts carried by Pershing LLC,
a BNY Securities Group Co., and subsidiary of the Bank of New York Company, Inc.

Past performance is no guarantee of future results.