

Methods differ in tracking market ups and downs

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For instance, traditionally the price-earnings (P/E) ratio of 15 has indicated that the market is fully priced.

The current P/E ratio is 18.7. Another factor of major concern is that the current bull market has lasted 5.3 years. Compare that to the longest bull market of this century which died in September 1929, just shy of six years of age. No one needs to be reminded of the Great Crash which soon followed that bull market.

Another indicator of major concern is the dividend yield, which is the ratio of dividend

The gloomy picture painted above dramatically changes when the dividend yield is adjusted for inflation, known as the real dividend yield. The real yield is close to the historical average of 0.2%. Viewed this way, the market looks both normal and healthy.

Smart Money, a financial journal, makes another important observation. The predictive power of the real dividend yield is far superior to the power associated with the nominal yield. For instance, the unadjusted or nominal yield was well above the average during the recessions of 1980 and 1982.

See MITTRA page C12

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