Focus On The Fundamentals And Persevere

View from the Observation Deck

1. A lot can happen in 13½ years. Investors can expect to encounter recessions, bear markets, war(s), the formulation and bursting of asset bubbles, Ponzi schemes, insider trading scandals and so on.
2. Despite having endured all of those events since 2000, the S&P 500 has managed to persevere and establish new all-time highs in 2013.
3. We believe that, over time, stock valuations are driven primarily by earnings. S&P 500 earnings have grown from $54.65 in 2000 to $101.21 in 2012, according to data from Bloomberg.
4. Bloomberg's estimated earnings targets for 2013 and 2014 are $110.54 and $123.36, respectively. If so, that would mean that 2013 earnings would have more than doubled from the $54.65 registered in 2000.
5. The S&P 500, however, posted a price-only return of just 9.33% (41.99% including reinvested dividends) from 12/99-6/13. We, and others, believe that stocks have further upside.
6. Brian Wesbury, Chief Economist at First Trust Advisors L.P., noted today that his models indicate that stocks are undervalued by as much as 32%.
7. David Kostin, chief U.S. equity strategist at Goldman Sachs, told CNBC today that he expects the S&P 500 to appreciate 6.0% by year-end and then post high single-digit gains annually through 2015.
8. We encourage investors to consider allocating more capital to equities, especially those individuals who purposely underweighted stocks in recent years. Focus on the fundamentals!

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance.