



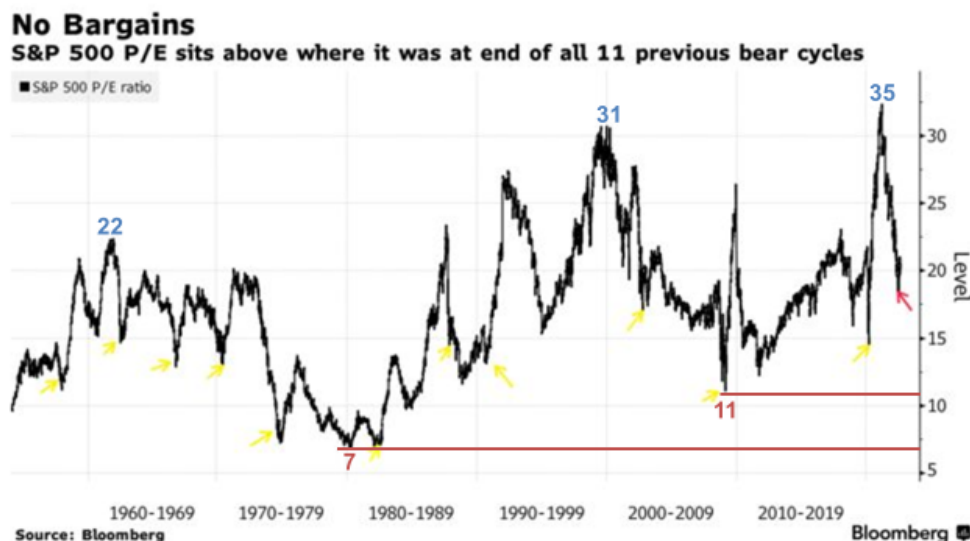
Harry's Take

September 13, 2022

What the Price-to-Earnings Ratio Is Telling Us Now

Always, one of the classic indicators of a major top is an extreme price-to-earnings (P/E) ratio on stocks. Of course, profits are high at the top of a major boom, which tends to be less and less sustainable. But the greatest sign of a top is that investors are valuing those earnings so highly. It means they think that the rise is going to continue for a long time and go even higher... That is delusional. And it is the everyday investors, the dumb money, who pile in the most as the bull market gets frothy and irresistible. Note that the P/E ratios have climbed at each successive peak, from 22 in 1962 to 31 in 2000 and now to 35 at present. That is really the kiss of death!

Stock P/E Ratios Far From Past 7 – 11 Lows: Much Bigger Crash Ahead



Source: <https://www.bloomberg.com/news/articles/2022-08-29/panic-button-is-nowhere-in-sight-as-memory-of-7th-s-p-rout-fades>

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Now that stocks have corrected by 34% at worst on the Nasdaq and by 24% on the S&P 500, investors are hoping that was it, just a larger-than-average correction. But the Nasdaq falling that much in just the first crash qualifies as a major bubble top, and there are two more large downward waves to come in the five-wave sequence I predict is happening now. We already look to be starting the third wave down after the bounce into mid-August from the first-wave bottom.

So, how low will this go?

Very low P/E ratios are the best sign that a major crash is finally bottoming—and we are nowhere near that. We got a P/E ratio of 11 at the early 2009 low, and we're at 16 currently. But the 1982 low, with a P/E ratio of 7, was a generational low that repeats every 40 years, like I expect more to happen again now. And, don't forget, the larger 90-year financial cycle is coming in for a bottom that will rival the bottom in 1932.

I will be looking for a P/E ratio closer to 7 as a sign that this once-in-a-lifetime crash is finally over. That sign would indicate that the markets are going a lot lower, likely into at least late next year.

Subscribers will be getting a Harry's Subscriber Update on TLT and Treasury bonds today as well.

Harry

Got a question or comment? You can contact us at info@hsdent.com.