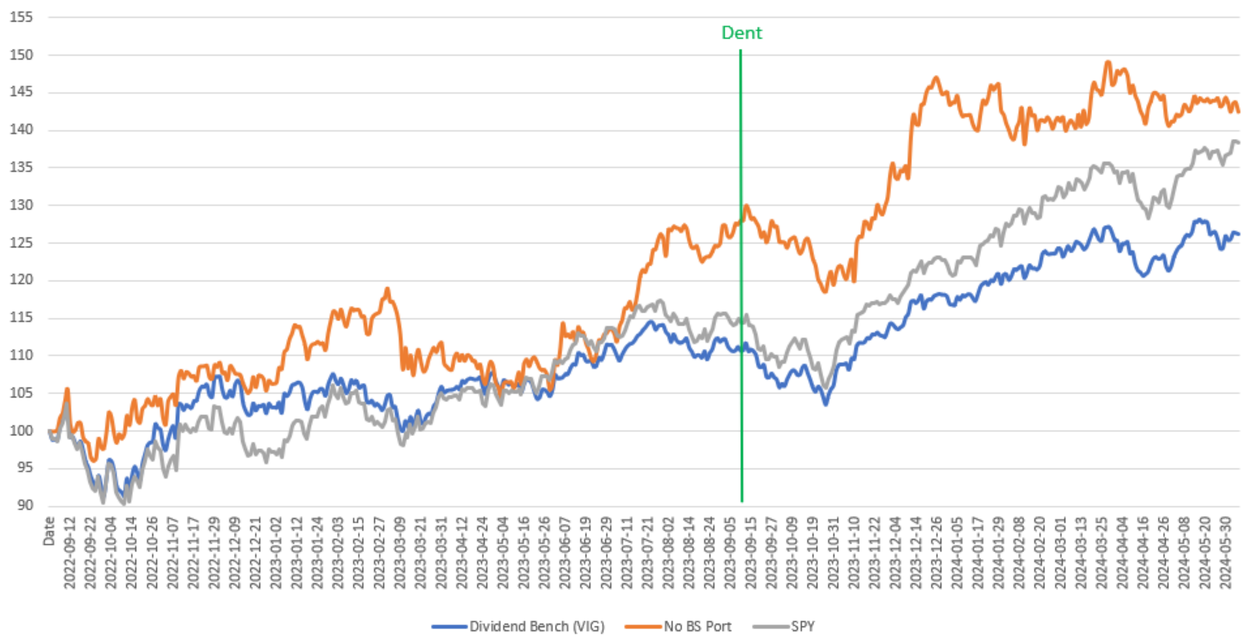
June 10, 2024

The NO BS Growth and Income Portfolio

By John Del Vecchio



New Trades this week:

No Trades

Still only 9 positions. The 10th spot remains in cash

Current Portfolio June 10, 2024

BURCA	Burnham Holdings, Inc.	-0.39%	60	Industrials
CBKM	Consumers Bancorp, Inc.	-2.47%	18	Finance
FUSB	First US Bancshares, Inc.	12.74%	67	Finance
MCEM	The Monarch Cement Co.	39.29%	270	Non-Energy Materials
PSX	Phillips 66	46.95%	396	Energy
RSKIA	George Risk Industries, Inc.	2.88%	32	Technology
THFF	First Financial Corp. (Indiana)	7.82%	374	Finance
VLO	Valero Energy Corp.	19.53%	235	Energy
WEYS	Weyco Group, Inc.	22.06%	207	Consumer Cyclicals
CASH	CASH	CASH	CASH	CASH

Top Percenter

Usually, it’s a good thing to be among the top percent of something.

The top percent of your graduating class?

Congrats, you’re hired!

Top percent of marathon runners?

Congrats, your heart is in good shape!

Top percent of I.Q.?

Congrats, you’re not a moron!

Top percent of savers?

Congrats, you’re rich!

But in the stock market, when it comes to valuations, the top percent…

Ehhh…not sooooo good.

No bueno.

Unfortunately, that’s where we are.

Last week, I showed a chart of the forward earnings yield on the S&P 500 and the 10-year Note.

It’s a measure of valuation.

The two rates have converged because interest rates have been on the rise recently, and market valuations have remained rich relative to earnings power.

You’re taking *a significant* risk for *no excess return* in owning stocks.

As I mentioned last week, that does *not* mean the market will crash.

It *does* mean risks are high relative to return potential.

But where are we relative to historical levels valuation-wise?

High.

Very high.

Look at this chart.

Exhibit 5: Forward 12-Month P/E Multiples Are in the Top Decile of Historical Range...

The forward price/earnings ratio on the S&P 500 is in the top 10 percent of the historical range at 20.5x.

This is just another way of expressing the earnings yield but upside down.

However, rather than relative to 10-year Notes, let's look at it on a cyclically adjusted basis.

The cyclically adjusted price/earnings ratio is an inflation-adjusted 10-year average.

It is also known as the Shiller P/E, named after the guy who popularized the measure.

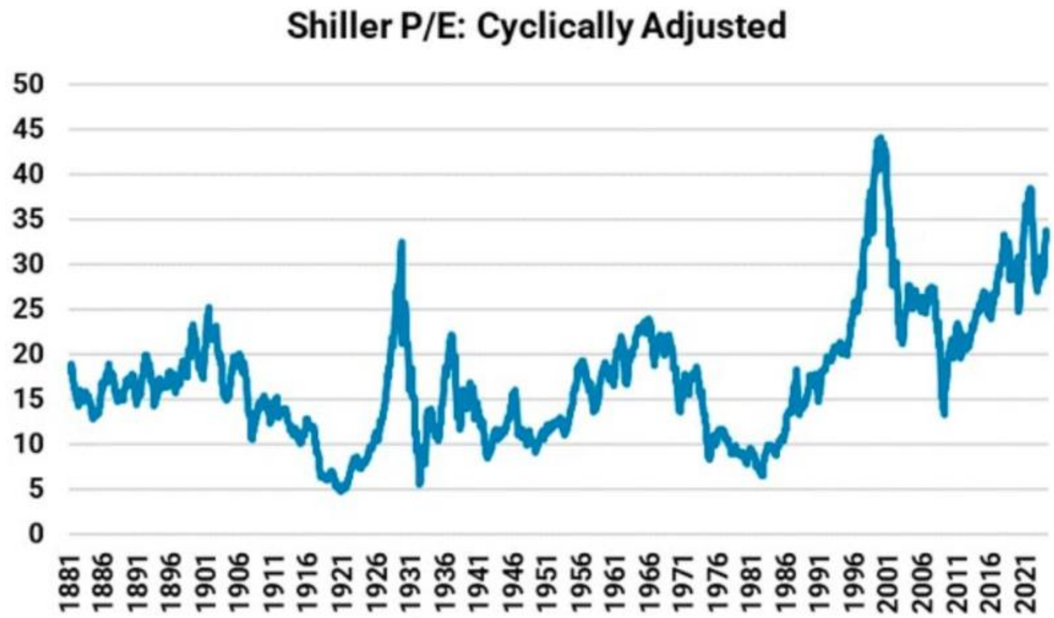
The Shiller P/E is in the top 4% of its historical range going back to ***1881***.

The only times the Shiller P/E has been higher have been 1929, 2000, and 2021.

We know how those periods fared poorly.

The chart below puts this in perspective.

Exhibit 6: ...While Cyclically Adjusted P/Es Are in the Top 4th Percentile



Source: Robert Shiller, Bloomberg, Factset, Morgan Stanley Research

What to do?

First, recognize where we are on the path to prosperity.

We are in a high-risk / low-reward period.

It’s probably not best to go in both guns blazing like John Wayne and buy stocks with reckless abandon with fresh capital.

Manage risk, and the returns will take care of themselves.

So, I continue to sit tight.

The best thing to do is step away and go on Summer holiday.

That's precisely what I am going to do.

I will prepare next week's issue beforehand and then be off to Spain and Portugal.

Off means *off.*

No computer.

No email.

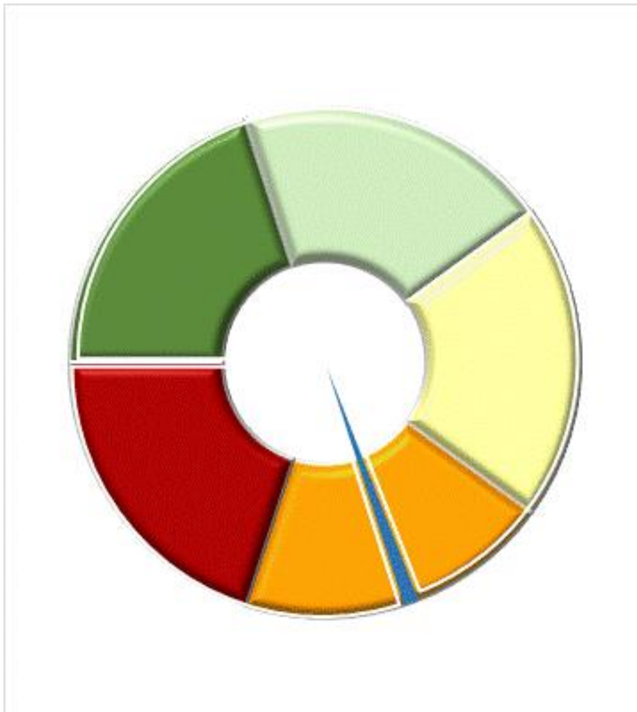
For the June 24th issue, the good folks who support me will handle the basics.

There will be no commentary on the 24th.

But you'll get any trades and be current on the portfolios.

Until then…

Buen dia!



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