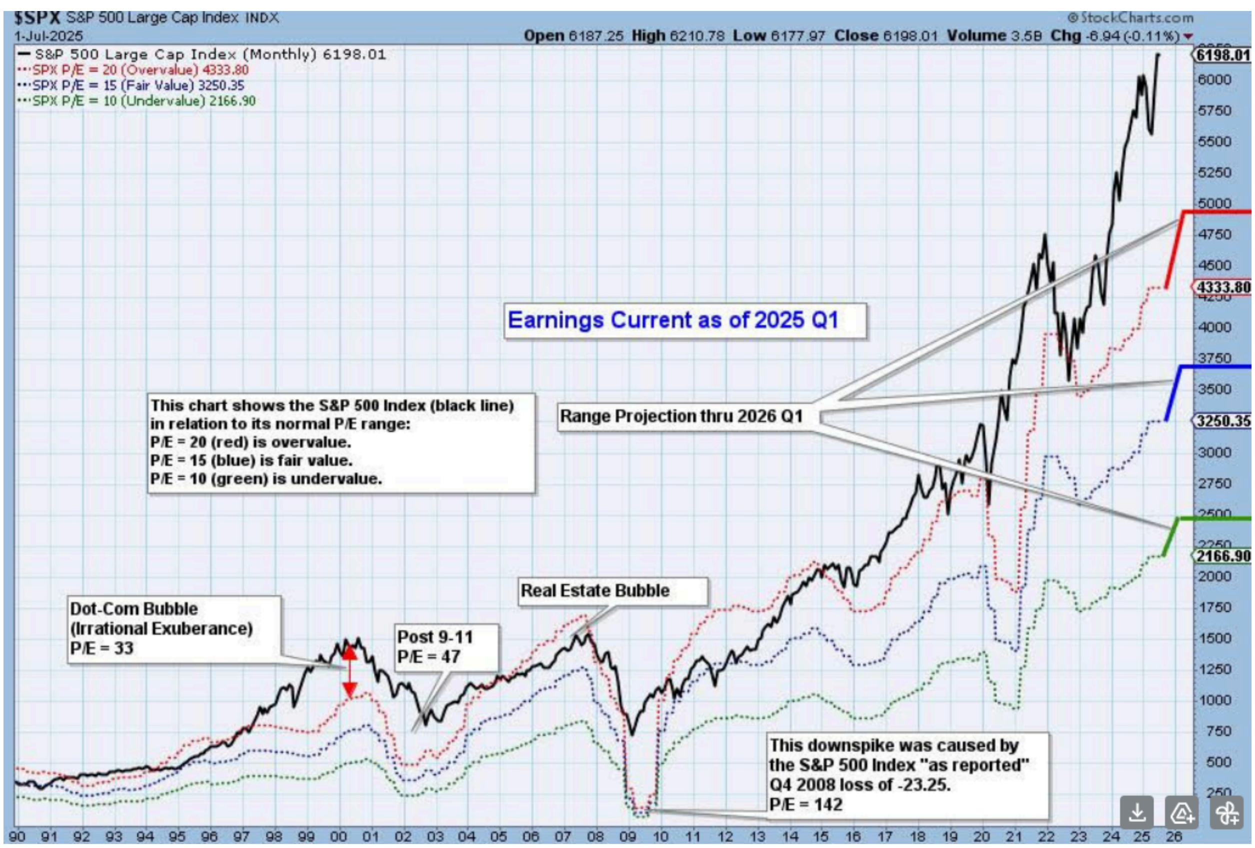
Will The Stock Market Ever Get Cheap Again?

I have an ongoing dialogue with one of my subscribers who sent me a chart that got me thinking. Will the stock market ever get cheap again?

Based on valuations, the market is at least 44% overvalued. Here's a look at the chart:



Given current P/E ratios, the market has the potential for a significant fall. Will it crash?

I'm not sure for a couple of reasons. First, companies massage their numbers. Generally Accepted Accounting Principles (GAAP) provide considerable leeway for management to manipulate the numbers. Often, GAAP is so far from reality that you could drive a bus through it.

In my book, *What's Behind the Numbers?* I illustrated various ways that management could deceive investors. The case studies were real, conducted in real-time for our clients who manage over $2 trillion.

I take the "E" in the P/E ratio with a grain of salt. Instead, I created a price/earnings *quality* ratio to account for management shenanigans.

Therefore, based on my experience, looking at the stated P/E ratio is useless.

Second, and more importantly, the powers that be won't let the market slide. Inflation hurts poor people. Deflation hurts rich people. Therefore, central bankers and politicians will prioritize protecting the interests of the wealthy at all costs.

Poor people don't fund election campaigns.

Ever since the 2008 real estate bust, which took the stock market with it, central bankers have flooded the market with liquidity whenever there's even a hint that a painful decline could occur. The money flows into riskier assets, and the wealthy become even wealthier.

COVID is an excellent example, as the liquidity infusion was many times what was provided in 2008. And, it happened in days, not months.

I was an aggressive buyer during the COVID-19 surge for various reasons. It's the easiest 200% you'll ever make.

Rather than focusing on the imperfect P/E ratio, I prefer the method I used most recently to buy stocks aggressively during the Tariff meltdown.

Wait until the market is deeply oversold.

Wait until market sentiment is so bearish you can see the whites of their eyes.

Then start buying.

At that point, the risk is to the upside, so "they" will do everything they can to lift the market. Most recently, that was pausing the tariffs. Stocks took off like a rocket ship.

Only now, after the easy money has been made, are investors cramming back into stocks. It's a bit late.

Now we have all the makings of a blow-off top and a big ass kicking coming because the market is overbought and Joe Sixpack is way too bullish.

Markets change. Human nature does not.

The cycle will repeat.

Measuring human nature is far easier than relying on an imperfect valuation metric.