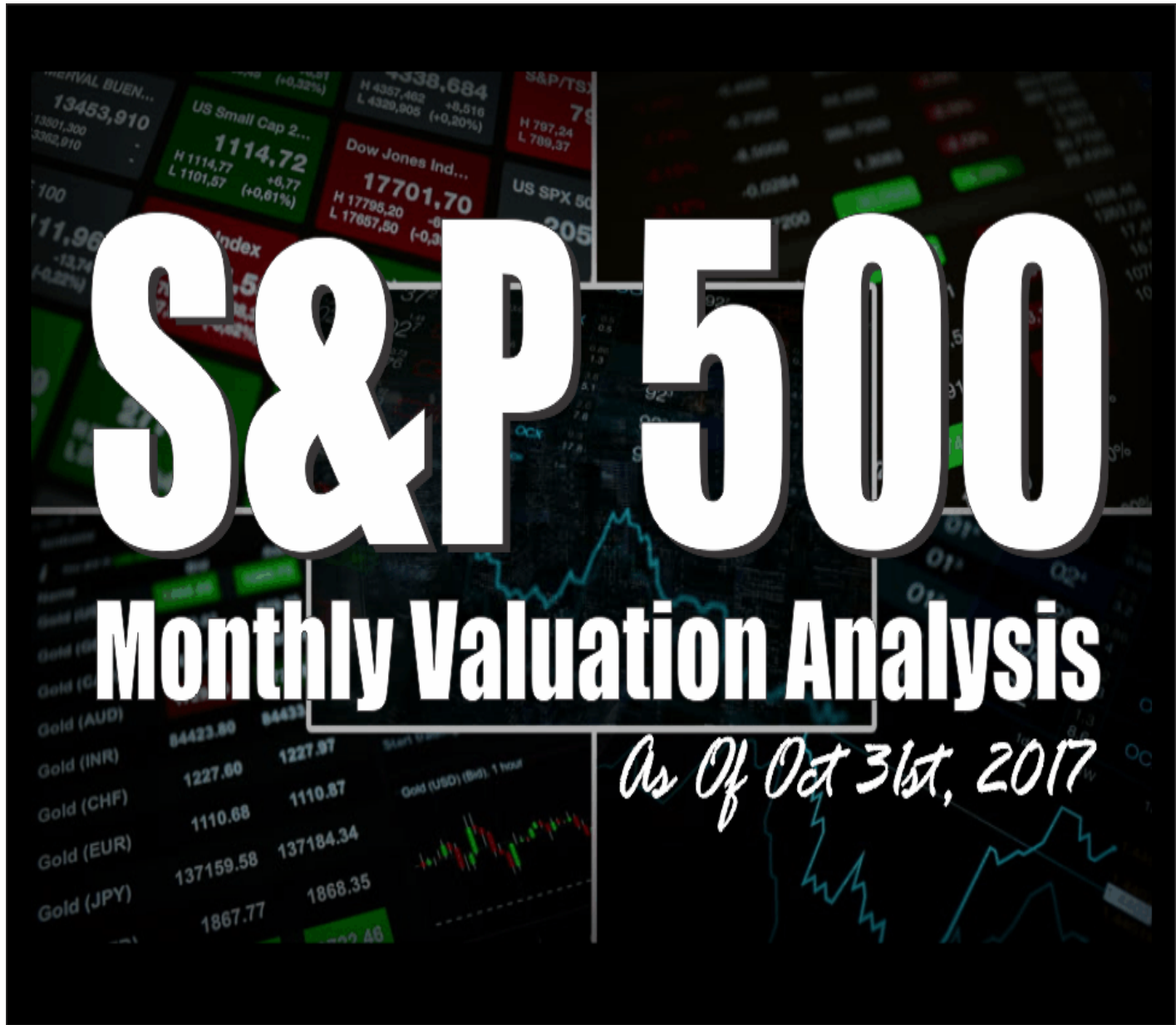




S&P 500

Monthly Valuation Analysis

As Of Oct 31st, 2017

Real Investment Advice is pleased to introduce J. Brett Freeze, CFA, founder of Global Technical Analysis. Going forward on a monthly basis we will be providing you their valuable S&P 500 Valuation Chart Book. This unique analysis provides an invaluable long term perspective of equity valuations. • If you are interested in learning more about their services, please [connect with them](#).

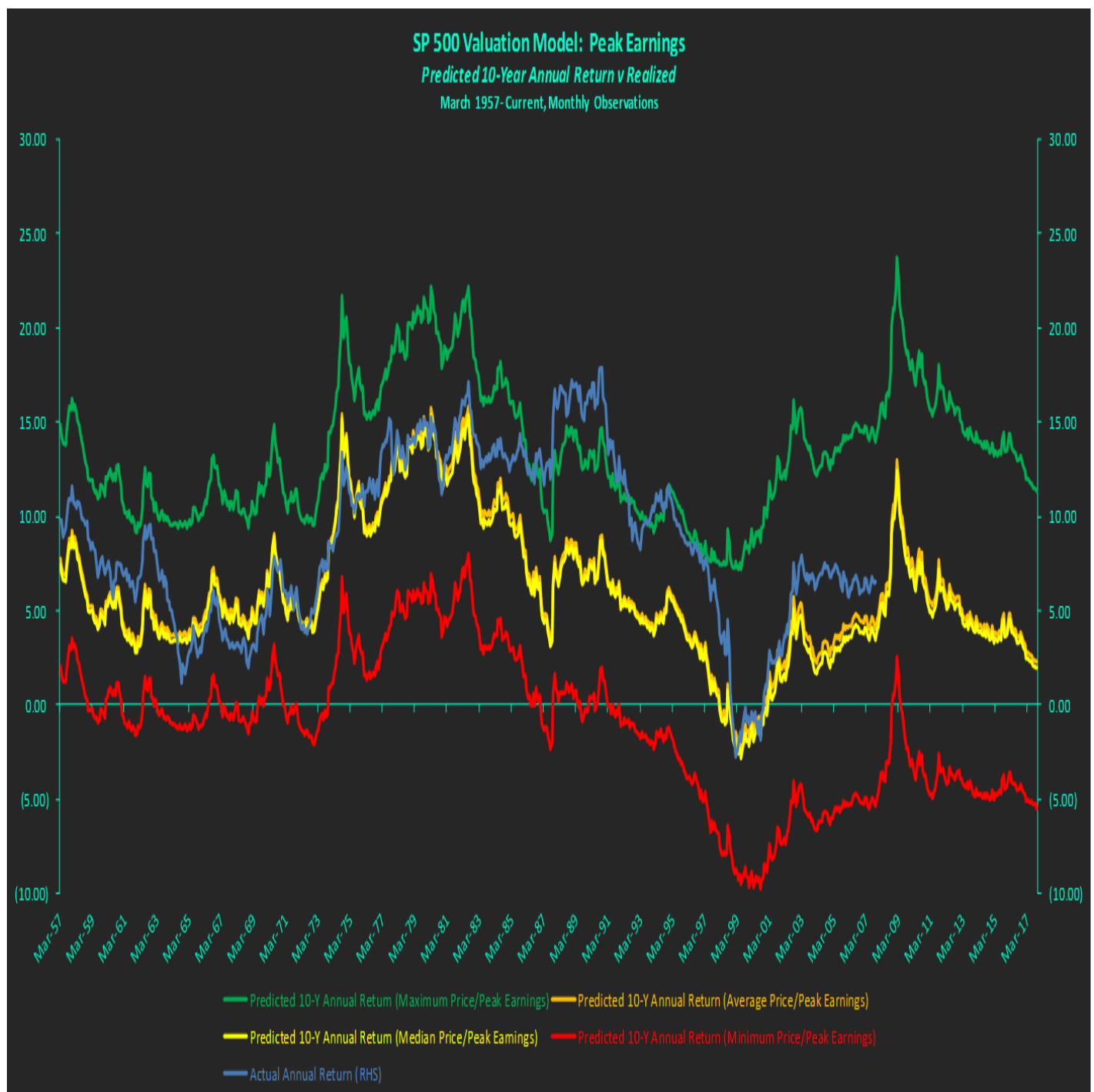
Introduction

We believe that the chief determinant of future total returns is the relative valuation of the index at the time of purchase. • We measure valuation using the PricePeak Earnings multiple as advocated by Dr. John Hussman. • We believe the main benefit of using peak earnings is the inherent *conservatism* it affords: not subject to analyst estimates, not subject to the short-term ebbs and flows of business, and not subject to short-term accounting distortions. • Annualized total returns can

be calculated over a horizon period for given scenarios of multiple expansion or contraction. Our analysis highlights expansion/contraction to the minimum, mean, average, and maximum multiples (our data-set begins in January 1900) .• The baseline assumptions for nominal growth and horizon period are 6% and 10 years, respectively. • We also provide graphical analysis of how predicted returns compare to actual returns historically. We provide sensitivity analysis to our baseline assumptions. • The first sensitivity table, ceterus paribus, shows how future returns are impacted by changing the horizon period. • The second sensitivity table, ceterus paribus, shows how future returns are impacted by changing the growth assumption. We also include the following information: duration, over(under)-valuation, inflation adjusted price/10-year real earnings, dividend yield, option-implied volatility, skew, realized volatility, historical relationships between inflation and p/e multiples, and historical relationship between p/e multiples and realized returns.

Our analysis is not intended to forecast the short-term direction of the SP500 Index. • The purpose of our analysis is to identify the relative valuation and inherent risk offered by the index currently.

Predicted Returns



As of 10/31/2017: If current Price/Peak Earnings of 23.6 expands or contracts to:

Maximum Price/Peak Earnings of 33.5, Predicted Return = 11.38%, Capital Gain 9.79% Dividend 1.59%
 Minimum Price/Peak Earnings of 3.0, Predicted Return = -5.48%, Capital Gain -13.85% Dividend 8.37%
 Average Price/Peak Earnings of 12.6 Predicted Return = 2.27%, Capital Gain -0.41% Dividend 2.68%
 Median Price/Peak Earnings of 12.1, Predicted Return = 1.95%, Capital Gain -0.80% Dividend 2.75%

Predicted Return: Sensitivity Analysis

Time Horizon	Price / Peak Earnings															
	3.0	7.0	9.0	11.0	12.1	12.6	14.0	16.0	18.0	21.0	23.0	25.0	27.0	29.0	31.0	33.5
10	(5.48)	(2.03)	(0.34)	1.17	1.92	2.23	3.13	4.29	5.35	6.77	7.64	8.45	9.21	9.92	10.60	11.38
9	(7.44)	(3.29)	(1.36)	0.34	1.19	1.54	2.55	3.85	5.04	6.64	7.61	8.52	9.37	10.17	10.93	11.81
8	(9.83)	(4.84)	(2.63)	(0.69)	0.28	0.68	1.83	3.31	4.65	6.47	7.58	8.61	9.57	10.49	11.35	12.35
7	(12.80)	(6.79)	(4.23)	(1.99)	(0.87)	(0.41)	0.92	2.61	4.16	6.26	7.53	8.72	9.84	10.89	11.89	13.05
6	(16.60)	(9.33)	(6.32)	(3.70)	(2.39)	(1.85)	(0.30)	1.69	3.51	5.97	7.47	8.87	10.19	11.43	12.61	13.98
5	(21.61)	(12.76)	(9.17)	(6.04)	(4.47)	(3.83)	(1.97)	0.42	2.61	5.58	7.39	9.08	10.68	12.20	13.63	15.30
4	(28.50)	(17.66)	(13.28)	(9.44)	(7.51)	(6.73)	(4.42)	(1.46)	1.26	4.98	7.26	9.40	11.43	13.35	15.18	17.32
3	(38.52)	(25.18)	(19.70)	(14.82)	(12.36)	(11.35)	(8.37)	(4.51)	(0.93)	4.00	7.05	9.94	12.68	15.30	17.81	20.75
2	(54.04)	(38.13)	(31.10)	(24.63)	(21.28)	(19.90)	(15.77)	(10.33)	(5.18)	2.07	6.63	11.02	15.23	19.31	23.25	27.93
1	(78.30)	(64.42)	(56.12)	(47.56)	(42.81)	(40.78)	(34.49)	(25.69)	(16.84)	(3.52)	5.39	14.31	23.25	32.19	41.14	52.18

Growth Rate	Price / Peak Earnings															
	3.0	7.0	9.0	11.0	12.1	12.6	14.0	16.0	18.0	21.0	23.0	25.0	27.0	29.0	31.0	33.5
0.06	(5.48)	(2.03)	(0.34)	1.17	1.92	2.23	3.13	4.29	5.35	6.77	7.64	8.45	9.21	9.92	10.60	11.38
0.05	(6.29)	(2.92)	(1.25)	0.24	0.99	1.29	2.19	3.33	4.37	5.79	6.64	7.44	8.19	8.90	9.57	10.35
0.04	(7.10)	(3.80)	(2.16)	(0.69)	0.05	0.35	1.24	2.37	3.40	4.80	5.64	6.44	7.18	7.88	8.54	9.31
0.03	(7.92)	(4.69)	(3.07)	(1.61)	(0.88)	(0.59)	0.29	1.40	2.43	3.81	4.65	5.43	6.17	6.86	7.51	8.27
0.02	(8.73)	(5.57)	(3.97)	(2.54)	(1.82)	(1.53)	(0.66)	0.44	1.45	2.82	3.65	4.42	5.15	5.84	6.49	7.24
0.01	(9.54)	(6.46)	(4.88)	(3.47)	(2.76)	(2.46)	(1.61)	(0.52)	0.48	1.83	2.65	3.42	4.14	4.82	5.46	6.20

Valuation Date	10/31/2017
Current Price / Peak Earnings	23.6
Growth Rate	0.06
Time Horizon (Years)	10
Current Dividend Yield	0.0187

Price to Peak Earnings



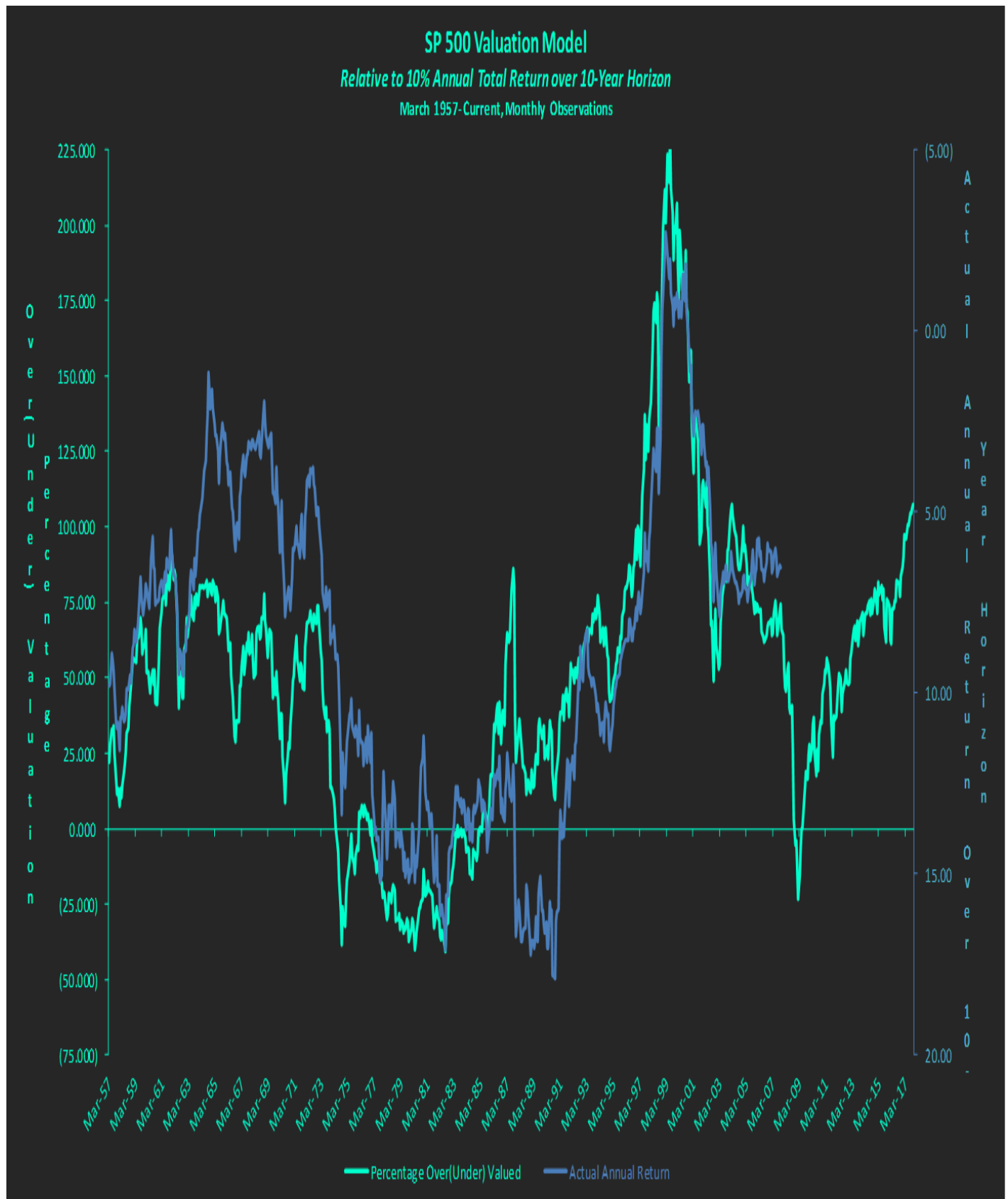
As of 10/31/2017:• Price/Peak Earnings 23.6 To get at the significance of the P/E, you have to start by understanding that stocks are not a claim to earnings anyway.• Stocks are a claim to a future stream of free cash flows ? the cash that can actually be delivered to shareholders over time after all other obligations have been satisfied, including the provision for future growth.• Knowing this already tells us a lot.• For example, price/earnings ratios based on operating earnings are inherently misleading, since that ?earnings? figure does not deduct interest owed to bondholders nor taxes owed to the government.• This isn't to say that P/E ratios are useless*but it's important for the ?E? chosen by an investor to have a reasonably stable relationship to what matters, which is the long-term stream of free cash flows.*• For that reason, our favored earnings measure for market valuation (though it can't be used for individual stocks) is ?peak earnings? - the highest level of net earnings achieved to date.•(Excerpted from Dr. John Hussman)

Duration



As of 10/31/2017:• Duration 53.5 years In the case of equities,duration measures the percentage change in stock prices in response to a 1% change in the long-term return that stocks are priced to deliver. So we have a basic financial planning concept.• If a buy-and-hold investor with no particular view about market conditions or future returns wishes to have a fairly predictable amount of wealth at some future date, that investor should hold a portfolio with a duration that is roughly equal to the investment horizon.•(Excerpted from Dr. John Hussman)

Valuation



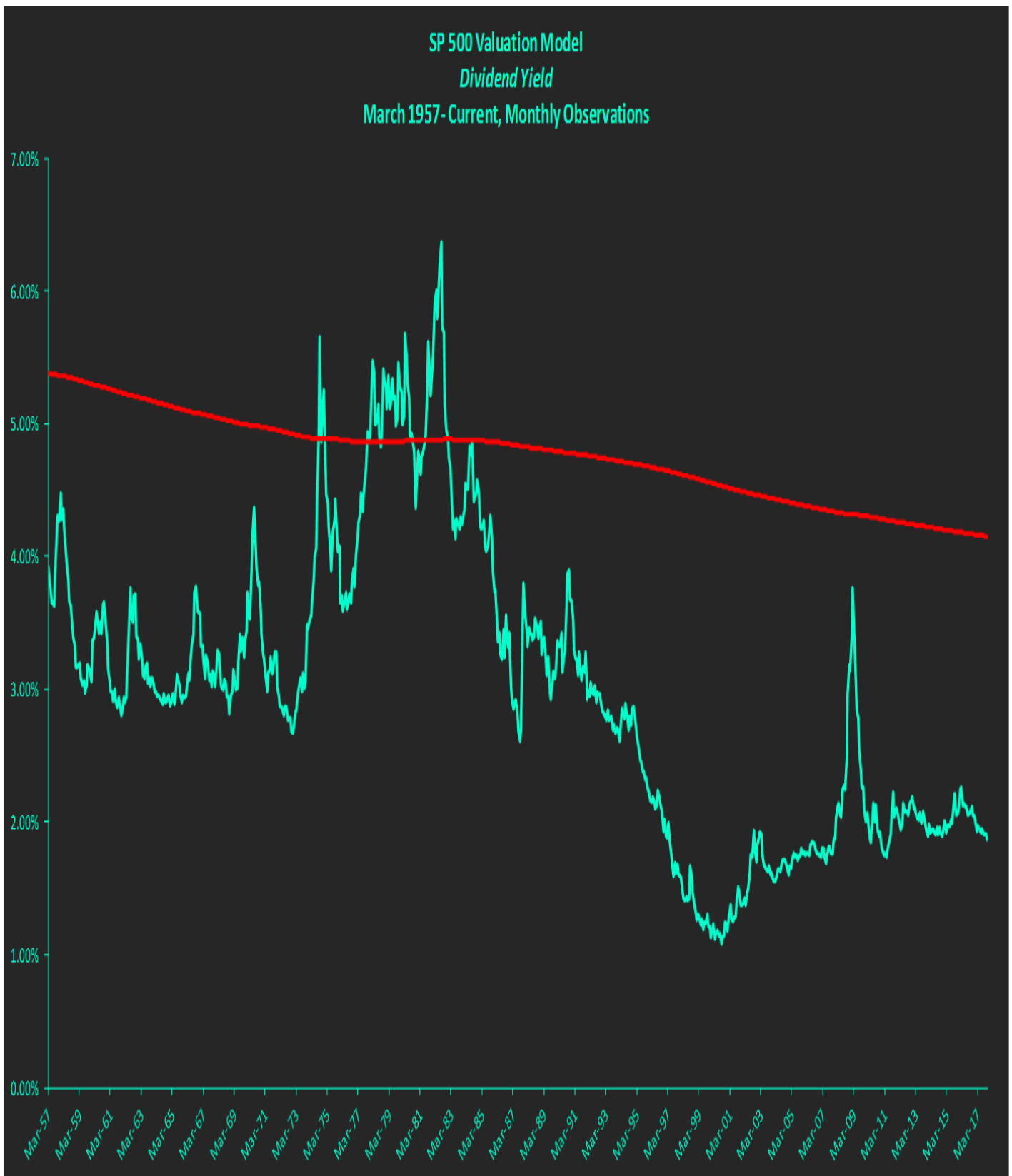
As of 10/31/2017:• Overvalued by 107.2%

Inflation Adjusted PE



As of 10/31/2017:• Real Price to 10-Year Real Earnings 31.1x

Dividend Yield

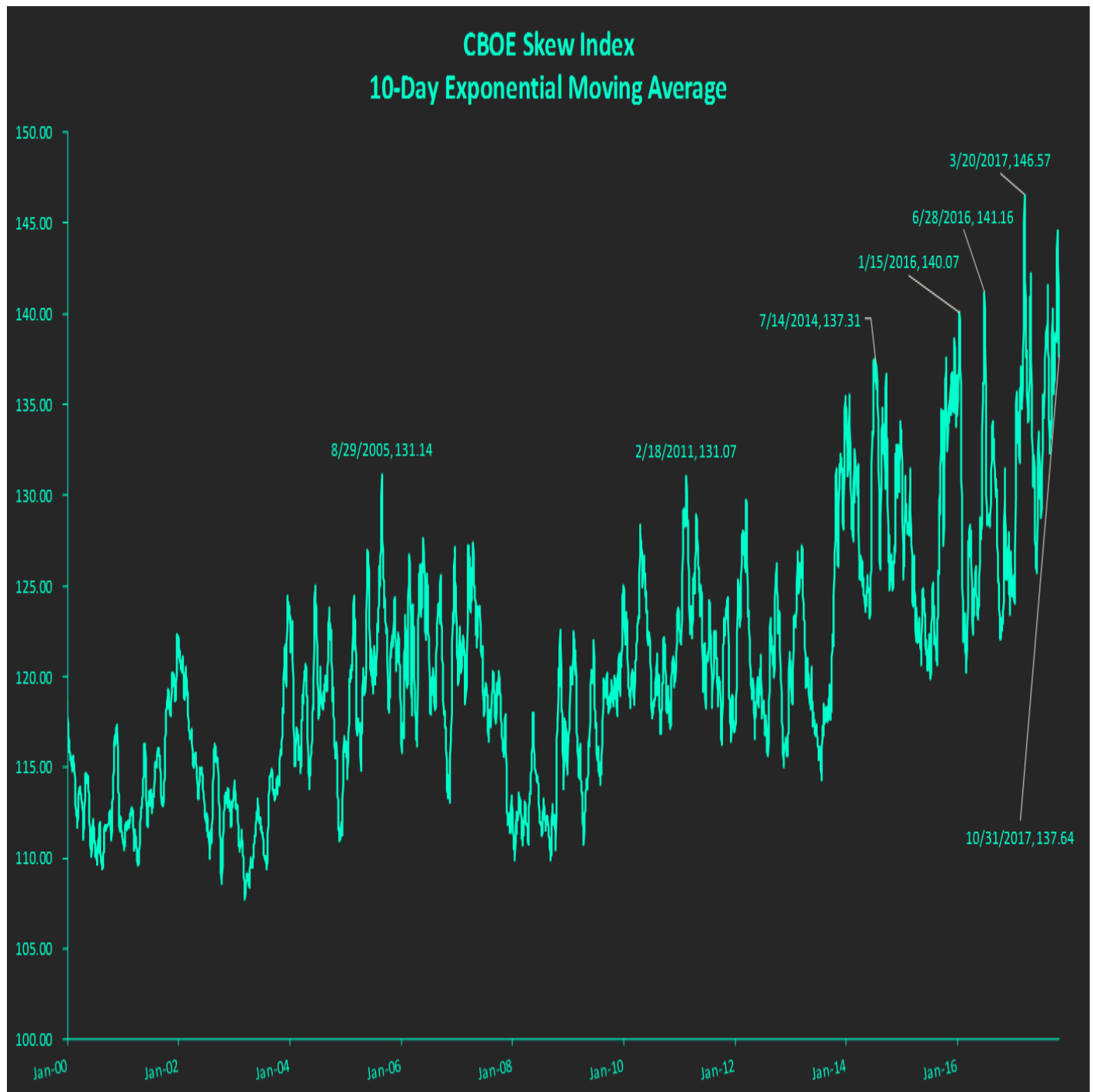


Option Implied Volatility



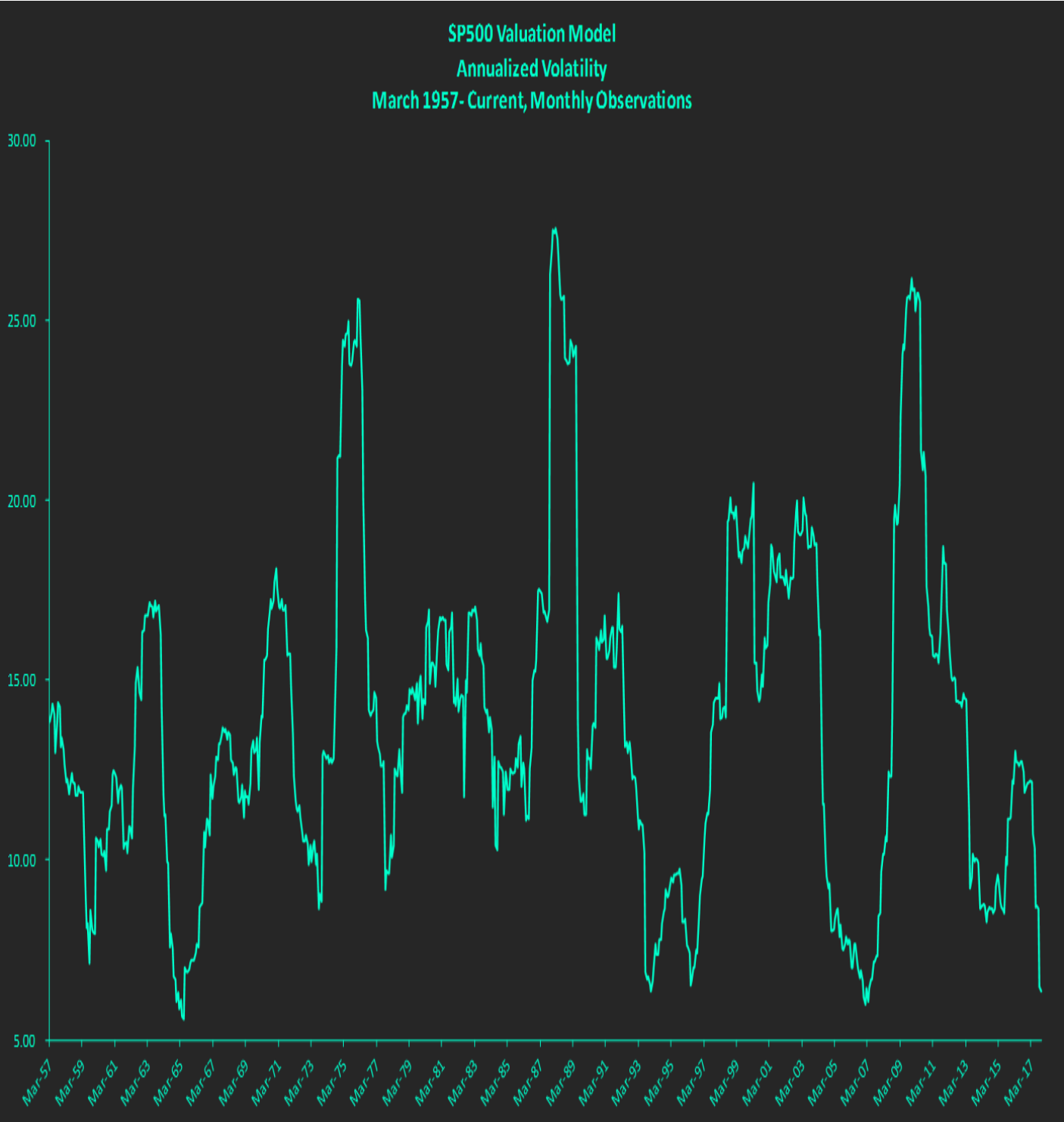
VIX measures 30-day expected volatility of the S&P 500 Index. • The components of VIX are near- and next-term put and call options, usually in the first and second SPX contract months. • ?Near-term? options must have at least one week to expiration; a requirement intended to minimize pricing anomalies that might occur close to expiration. As of 10/31/2017: • 10-Day EMA 10.44

Option Skew



The CBOE SKEW Index ("SKEW") is an index derived from the price of S&P 500 tail risk. • The price of S&P 500 tail risk is calculated from the prices of S&P 500 out-of-the-money options. SKEW typically ranges from 100 to 150. • A SKEW value of 100 means that the perceived distribution of S&P 500 log-returns is normal, and the probability of outlier returns is therefore negligible. • As SKEW rises above 100, the left tail of the S&P 500 distribution acquires more weight, and the probabilities of outlier returns become more significant. As of 10/31/2017: • 10-Day EMA 137.64

Realized Volatility

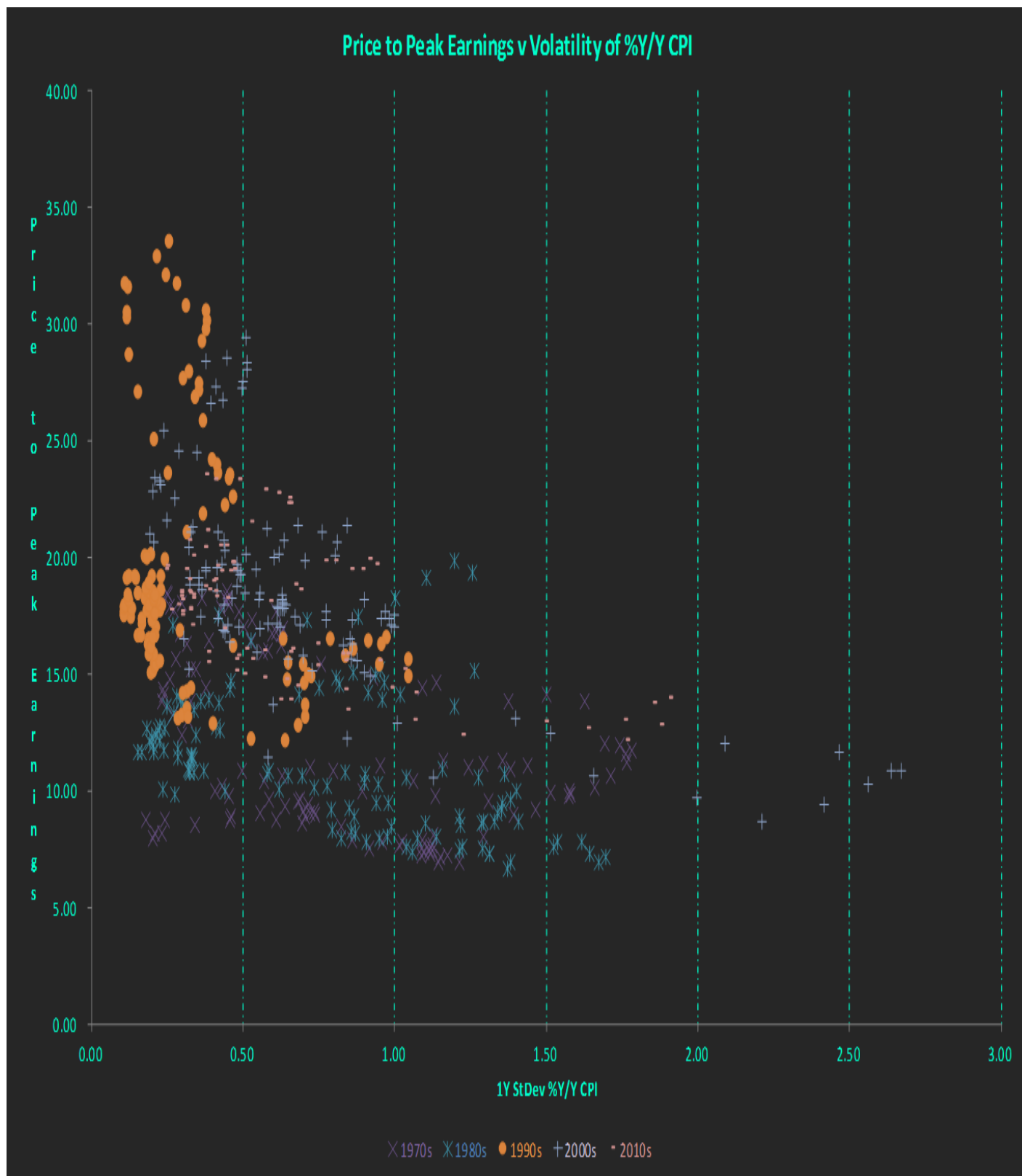


Inflation and PE Multiples



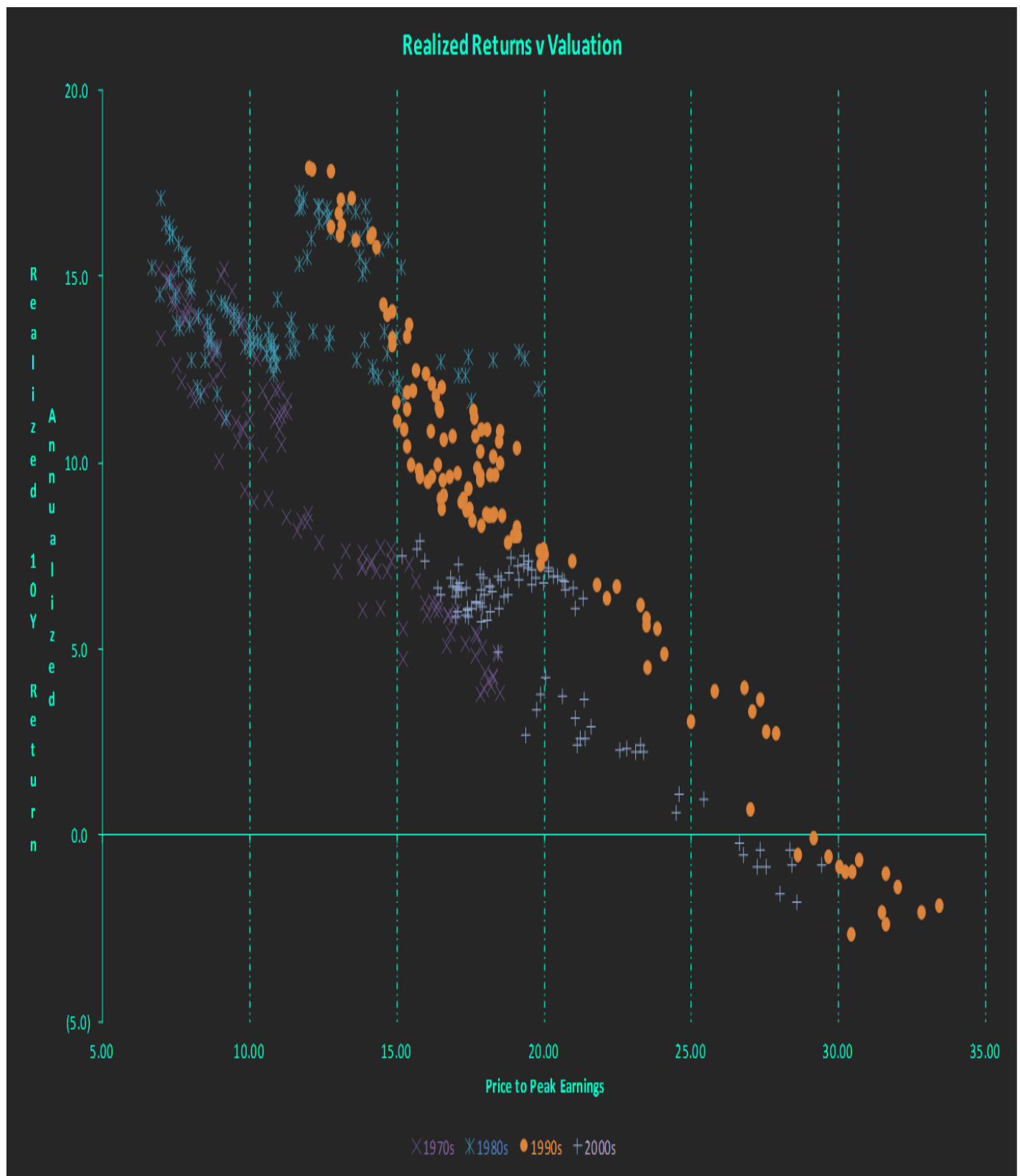
Lower levels of inflation are rewarded with *higher* earnings multiples. *Higher* levels of inflation are punished with *lower* earnings multiples.

Inflation and PE Multiples



Lower levels of volatility are rewarded with *higher* earnings multiples. *Higher* levels of volatility are punished with *lower* earnings multiples.

PE Multiples and Realized Returns



Lower valuations are rewarded with *higher* realized returns. *Higher* valuations are punished with *lower* realized returns. As of 10/31/2017:

- Price to Peak Earnings 23.6x
- Average: 12.6x