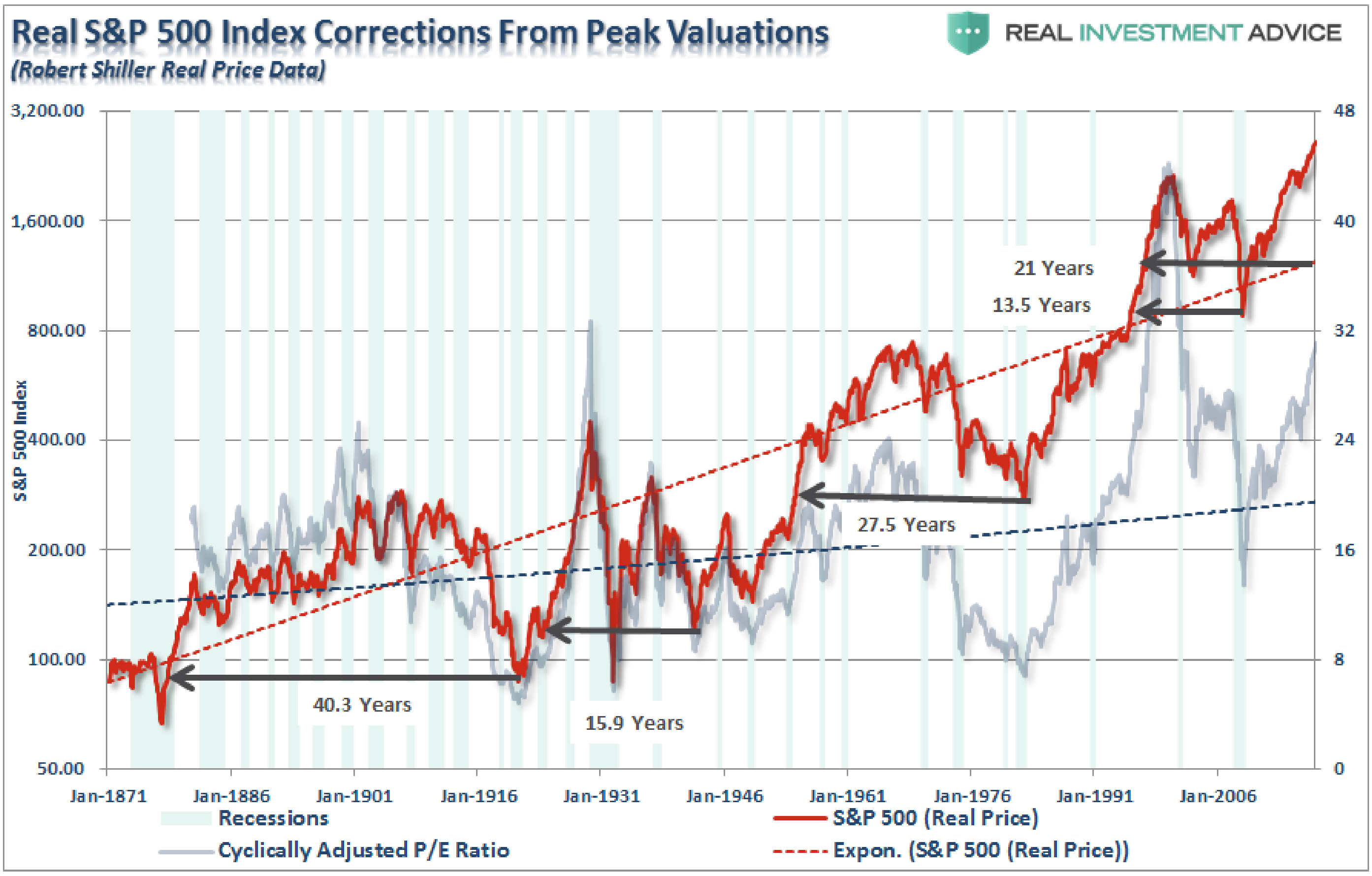
In 1992, those who are DC and Marvel-type Comics fanatics were mourning the death of Superman. I mean, how the heck can Superman die? The Man of Steel no more? In an epic clash across the United States, Superman unbelievably meets his match in a supernatural being named Doomsday. Both succumb to their wounds on the battle-worn streets of Metropolis. Superman clad in what remains of his majestic suit and bloody from confrontation, dies quietly in the arms of his love, Lois Lane. Heartbreaking. It was an epic funeral, too. The Justice League was in attendance*. Heck, even Bill and Hillary Clinton were there (in comic form).* I mean this was a big deal. A colored panel of Superman?s tattered cape as it appears to fly majestically above tawny-smoke debris •••••••••is an enduring, powerful image of graceful defiance and sacrifice. It screams - *?I?ll be back,? ?don?t count me out just yet!?* It?s during the final sprint of a stock market rise that the cyclically adjusted price-to-earnings ratio, also known as the Shiller PE Ratio or PE10, dies a slow, unspectacular death. Dutiful followers like many of the writers for Real Investment Advice, and possibly your financial partner who is unfortunate enough to give street cred to this stock valuation measure, are weary yet indefatigable in their belief in the CAPE. **Eventually, math prevails.** But until then. The Superman of valuation measures is dead. Another cycle, another CAPE fluttering aimlessly in the winds of euphoria. **The CAPE believers are just a proud bunch of dumbasses who have**

***?been there, done that.?* We?re willing to accept that we?re the financial pros babbling gibberish in the corner of a dark room. Crying wolf, causing distress.** Bring it on. We can handle it. I?m comfortable with the flow outside the mainstream. Through two major stock market bears, I?ve proudly felt stupid while market pundits concomitantly spewed their *?this time is different,?* commentary. Both occasions, thanks to the seminal book editions of *?Irrational Exuberance*,? (on Real Investment Advice?s must-read book list), written by Robert Shiller, I have been able to keep my head and not be seduced by the flavor-of-the-day market narrative. At this point in the cycle, the creator of the CAPE, Yale professor, Nobel Prize winner Robert Shiller (again), is as popular as Doomsday. Tenured professionals of market analysis like Rob Arnott, the founder and chairman of Research Affiliates who to me has become one of the finest investment voices of our industry, writes repeatedly about how those who minimize the value of the CAPE are destined to eat crow. Most important, advisers who allow their egos, popular market personalities with clever tweets and employers? biased research departments, to convince themselves that valuations don?t matter are going to wreak havoc on client time frames and financial goals yet again. Those who believe in the obfuscation embedded within analysts? shiny forward earnings estimate fairy tales are just as guilty. As markets continue to melt-up, it?s easy to get swept up in the gale ?wind in the sails,? thus casting valuation metrics out as no longer relevant. I?ve witnessed fear of missing out tempt disciplined investors to throw in the towel, take on more risk just at the time when restraint is warranted. Buy and sell disciplines are cast aside because you know - we?re in a new paradigm (haven?t you heard?), a Goldilocks scenario, or economic *escape velocity*. Listen, you?re in this business long enough you hear them all, roll your eyes, shake your head and sit back. Envision what the aftermath is going to be like as each market run up and implosion differs. Pundit sound bites straddle the fence at this juncture in a market?s rise; the bloviators cheerlead the current environment on Monday. Yet on Wednesday the same crowd warns that inevitably bear markets arise but not to sweat them as holding on and waiting years to break even is a smart move or something to be proud of. **Sorry, we are not buying it.** The current narrative is pushed, pulled, yanked until the herd is seduced into the story as truth. I?m sorry, you can?t argue with me on this point. It?s not different now than any other time in market history. Eventually, tides go out. •I don?t care who the president is, how great a tax bill is, what CEOs are saying; the market is one big story-book guessing game. By the way, there?s nothing wrong with participating in a market that?s trending positively. You don?t require rationalization outside of sheer opportunity to do it. It?s normal to say to yourself ? *?I want in on this action!?* However, unless there?s a hardcore risk minimization strategy you?re willing to adhere to, be prepared to lose precious time, perhaps years, to recover wealth you?ll inevitably lose. Remember, Wall Street cares nothing about time. Well, your time anyway. It?s a perpetual *?hey, a decade later we?re at new highs!?* party over there. For you, it?s precious years gone. Many investors we meet with spend at least half their investment lifetime striving to get back to even.



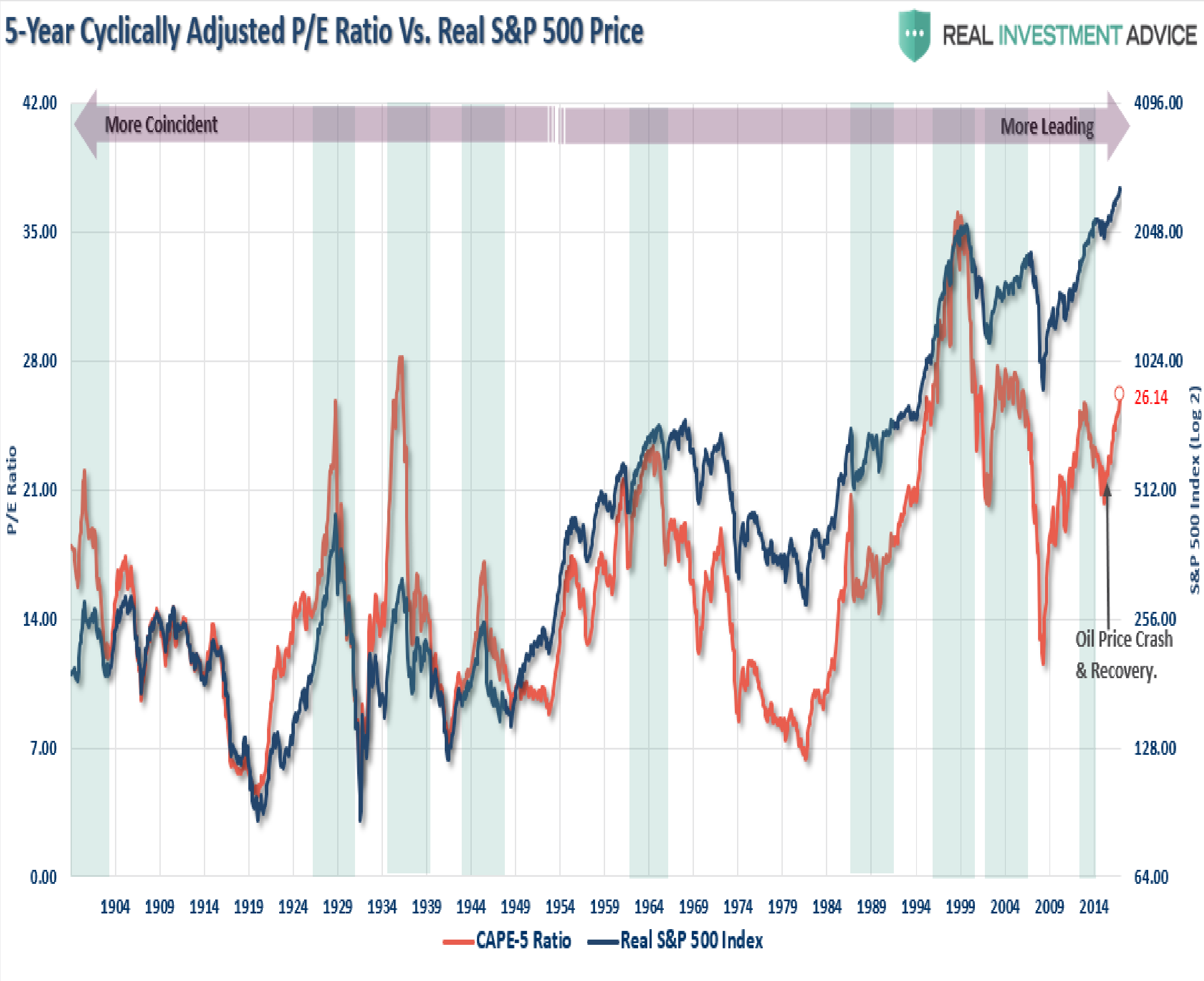
40 years, 15.9 years, 27.5 years, 13.5 years, 21 years. How much time on Earth you got? I mean even Superman died for gosh sakes and he?s the Man of Steel.

Concomitant with a decision to increase market participation (buy high, sell higher), must be an unwavering belief in valuation measures as beacons of rationality. Reversions beyond the averages will occur. The focus on a metric like the CAPE can assuage euphoria and as an investor, keep the seductive pull of animal spirits at a respectable distance. So, what else should a savvy investor know about the cyclically adjusted price-to-earnings ratio? **It?s a grounding mechanism, not a timing one.** Per Rob Arnott, Vitali Kalesnik PhD, and Jim Masturzo, CFA in a recent research paper "CAPE Fear: Why CAPE Naysayers Are Wrong," the CAPE is not a market timing tool but is a powerful predictor of future returns. We agree that the current richness of the CAPE is going to generate headwinds for traditional portfolio allocations of stocks and bonds. That?s why Lance Roberts and I recently adjusted downward future asset class returns especially for domestic stocks and bonds, in our financial planning software programs. Rob Arnott and crew outline that a reversion to the historical CAPE ratio of 16.6 would result in a loss of -2.8% a year for stocks (net of inflation but including dividends). A return to the median (middle) valuation level since 1990 would take stocks to a real return of close to zero. Legendary value investor Ben Graham outlined in his writings how the market was a ?voting machine? in the short term and a ?weighing machine? long term. The phrase remains timeless and relevant. Markets are emotional orgies of trader and investor limbic cortexes motivated to buy and sell in short, by hope or hopelessness. It?s a manic-depressive commitment (or lack thereof), of capital which seeks to channel current macro-economic events into a future reality that may or may not come to fruition. **In the long run as a weighing machine, valuation measures ? sales, earnings, profit margins, take precedent. In other words, the weight of numbers eventually commandeers the driver?s seat.** Just because the CAPE is not applicable to the voting machine mentality doesn?t make it outdated or ineffective. It makes it what it is. Think of CAPE as a grounding mechanism; it?s a formula of reason that can prevent investors from blowing up their asset allocations with risk assets, motivates them to rebalance and take profits, create and adhere to a sell discipline. It?s a way to remain humble when the herd is headed to slaughter. Per Lance

Roberts:

> *?Valuation measures are simply that ? a measure of current valuation. If you ?overpay? for something today, the future net return will be lower than if you had paid a discount for it.* ***Valuation models are not, and were never meant to be, ?market timing indicators.'?***

Is there a better way to adjust the CAPE for a faster moving market environment?



We created the CAPE-5 which uses a five year vs. ten-year average. There is a high correlation between the movements of the CAPE-5 and the S&P 500 index. Interestingly, prior to 1950 the movements of valuations were coincident with the overall index as price movement was a primary driver of the valuation metric. As earnings growth began to advance much more quickly post-1950, price movement became less of a dominating factor. *Therefore, you can see that the CAPE-5 ratio began to lead overall price changes and now, the lead is greatly concerning.* A smart investor would *?mind the gap?* that exists today between the S&P 500 Index and the CAPE-5. In some form, this divide will narrow: Earnings must either increase robustly or stock prices adjust through correction or remain stagnant or sluggish over an extended period. Think Elvis jogging after downing 10 fried peanut butter and jelly sandwiches. Get the picture? We?re talking sluggish, here! Unfortunately, nobody knows the catalyst to price correction. Personally, based on the dramatic move of the two-year Treasury yield (now higher than its been in a decade), which is perceived as a proxy for Federal Reserve interest rate move expectations, along with recent hawkish comments by Fed officials like Eric Rosengren, I believe the Fed has a good chance of raising rates too often and derailing the positive momentum in stocks. The market has been shrugging off negative commentary about interest rates for now. A ?must follow? on Twitter is Charlie Bilello, the Director of Research at Pension Partners. His recent tweet about the S&P 500 CAPE Ratio at the start of bear markets is worth printing and positioned in a place you see it every day. I have it attached to the door of my refrigerator. It?s all about that pesky grounding thing.

Except for 1980, CAPE ratios above the median of 16.6 have preceded some bloody bears. Now at 34, the CAPE should remain in the forefront of investor awareness. *I believe in you Robert Shiller!* So, before you contact your broker to add indiscriminately to stocks or complain how your portfolio returns are nowhere near the dizzying highs you?re reading about in the media, I implore you to re-think the decision and understand where valuations are compared to the past. If you relent and feel you must add to stocks, make sure to employ a sell, stop-loss, or stop-limit strategy to protect profits and contain losses. Keep in mind, I?m (we) are not bearish. We are fully invested at Clarity. We are cautious. The professionals who make portfolio decisions in our shop have lived through multiple cycles. Back in May 2017 I wrote - "The Genesis of the Bubble's Bubble." which outlines why I think this market has a good chance to exceed tech-bubble valuations. For comic and science-fiction freaks like me, it was a relief when four new ?Superman-like? heroes emerged from Superman?s soul (allegedly). •His death wasn?t for nothing. Superman lost his life to save humanity. Those who believe in the CAPE and other measures of valuation will eventually be vindicated. The pariahs are destined to re-emerge from the rubble of those who mock them. **Market history proves it time and time again.** Unfortunately, portfolios managed by those who ignore valuations won?t be so lucky. They may stay buried for a very long time.