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NASDAQ 5,000

After 15 years the tech-heavy NASDAQ Composite index again crossed the threshold of 5,000 as March began. The last time that the index was at this level, in March 2000, the Internet bubble was about to burst. In those heady days, many companies in the NASDAQ had not yet had a year with earnings, which made calculating a price/earnings ratio a challenge (division by zero is not allowed).

Both the S&P 500-stock index and the Dow Jones Industrial Average returned to and exceeded their highs of the Internet bubble long ago. What took the NASDAQ so long? It fell much farther. In the 19 months following the 5,000 high-water mark, the index dropped a gut-wrenching 78%. As recently as six years ago, it stood at 1,268.64.

Does the establishment of a new NASDAQ record suggest that the bull market is nearing its end? Probably not. Today's NASDAQ is not showing the signs of speculative excess that we saw 15 years ago. For example:

- The forward p/e is at 21, less than a third of what it was in 2000;
- In 2000 the dividend on the NASDAQ was one-tenth that of the S&P 500, while today it is about half;
- The valuation premium for the NASDAQ over the S&P 500 is 20% today, compared to 200% at the top of the Internet bubble.

Today the NASDAQ is being powered by companies that are making large profits making things, such as Apple, the most important recent contributor to the rise in the index. What's more, other firms in the NASDAQ are suppliers to Apple and also benefit from that firm's success. That's not "irrational exuberance."

Still, there are new firms coming on board all the time, and some almost certainly will fail. Venture capitalists reportedly have invested \$52.1 billion in new companies in 2014, up 47% from a year earlier. They are looking for a big payoff from the "next big thing." Perhaps that is simply "rational exuberance."

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