



Pioneer Bank & Trust

Trust & Investments

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September 2016
Ask a Trust Officer

Triple record

Dear Trust Officer:

I heard that the stock market has been setting new highs. Does that mean now is a good time to invest in stocks?—*New at investing*

Dear New:

In August all three of the major stock market indices (DJIA, S&P 500, and NASDAQ) set records on the same day, the first time that has happened since December 31, 1999. Past performance does not foretell future results, but some of those who bought stocks on December 31, 1999, or shortly thereafter, were soon disappointed. The “Internet bubble” burst a few months later, and a severe bear market ensued.

On the other hand, triple records were set 148 times from 1983 through 1999, and the large majority of those record-setting days did not signal a bear market onset.

By itself, price tells us little about the value of a stock. One of the more important characteristics to look at is the price-to-earnings ratio, which tells us how much that investors are willing to pay today to receive a stream of earnings in the future.

By historical standards, the P/E ratio for the market as a whole is relatively high today, about as high as before the 2008 financial market meltdown. That doesn’t mean all stocks are overvalued, or that the market as a whole is too expensive. It may simply mean that low interest rates have driven down the demand for bonds, and the stock market benefits from that preference. Still, a high P/E ratio does suggest that the future gains from stocks may be somewhat limited. The low-hanging fruit may have been picked, as they say.

Whether it’s a good time to invest in stocks depends as much on your objectives and time horizon as it does upon the day-to-day market conditions.

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