# Executive Summary <br> CRESTMONT'S RESEARCH: PUTTING IT TOGETHER <br> January 31, 2024 

1. Average Rarely Happens: returns from the stock market over decade-long periods have rarely averaged 10\%, the historical average. Most often, total returns are well above average or below average. No single factor has as much impact on the variability of total returns from the stock market over decade-long periods as the change in the level of valuation (P/E ratios).
https://www.crestmontresearch.com/docs/Stock-Rolling-Components.pdf
2. The financial markets are much more volatile than most investors realize.
3. Almost half of the time, over the past 100+ years, the annual change in stocks has been either up or down more than $16 \%$. https://www.crestmontresearch.com/docs/Stock-Dispersion.pdf
4. For more than 50 years (when interest rates began responding to changes in the inflation rate), over six-month periods, interest rates somewhere on the yield curve rise or fall more than 50 bps approximately $96 \%$ of the time and more than $1 \%$ (100 bps) approximately $66 \%$ of the time. https://www.crestmontresearch.com/docs/i-rate-6-mo-changes.pdf
5. When P/E ratios trend upward, the volatility is almost always on the upside. When P/E's are trending down from historically high levels, the volatility is more often on the downside.
6. Historically, real growth in the economy and earnings per share grew at almost the same rate from (1) the mid 1960's through the early 1980's as it did from (2) the early 1980's through 1999--yet the stock market was flat in the first period and soared ten times in the later period.
https://www.crestmontresearch.com/docs/Financial-Physics-Presentation.pdf
7.Financial Physics explains why this occurs. Financial Physics is the combination of well-respected principles of economics and recognized principles of finance.
7. The economy has grown at a fairly constant rate, averaging just above 3\% over the previous century, and near $3 \%$ during the 1970s, 1980s, and 1990s (real GDP grew near $2 \%$ in the 2000s, 2010s, and 2020s). The earnings of public companies grow at a rate just below the economy due to new start-ups, entrepreneurial companies, etc.
8. The major driver to stock market returns above or below economic growth is due to the direction and trend in P/E ratios. The trend in P/E is driven by the trend in the inflation rate. When inflation moves away from price stability (near 1\%), P/Es fall. When inflation is moves toward 1\%, P/E's rise.
https://www.crestmontresearch.com/docs/Stock-Secular-Chart.pdf

## Executive Summary <br> CRESTMONT'S RESEARCH: PUTTING IT TOGETHER (continued)

10. Today, the economy is beginning to trend back toward low inflation. The market P/E is trending upward toward historically high levels. As a result, the current market condition is a relatively highly valued market.
11. In the current environment (a generally non-directional and highly valued market condition), actively managed and diversified strategies can be beneficial. Crestmont refers to these as "Rowing" strategies.
12. Investors may want to consider including more active investment management, more frequent rebalancing, option writing, higher-yielding securities, and other diversified strategies.
https://www.crestmontresearch.com/docs/Stocks-Rebalancing.pdf
13. For more information about Crestmont's research, please see:

Outlook: How Crestmont Research Forecasts<br>https://www.crestmontresearch.com/docs/Stock-Crestmont-Outlook.pdf

Reconciliation Principle: Returns \& Forecasts Must Add Up https://www.crestmontresearch.com/docs/Stock-Reconciliation-Principle.pdf

Unexpected Returns: Understanding Secular Stock Market Cycles https://unexpectedreturns.com/

The P/E Report
https://www.crestmontresearch.com/docs/Stock-PE-Report.pdf
Waiting For Average https://www.crestmontresearch.com/docs/Stock-Waiting-For-Avg.pdf

Portfolio Mismanagement https://www.crestmontresearch.com/docs/Article-Mismanagement.pdf

Markowitz Misunderstood
https://www.crestmontresearch.com/docs/Article-Markowitz.pdf
The Truth About P/Es
https://www.crestmontresearch.com/docs/Stock-Truth-PEs.pdf

