NATURAL PINNACLE TO P/Es: THE PEAK AT PRICE STABILITY

		Scenario A	Scenario B	Scenario C	Scenario D	Scenario E
INFLATION: Start with the inflation rate		**-3.0%**	**1.0%**	**2.0%**	**3.0%**	**5.0%**

		Scenario A	Scenario B	Scenario C	Scenario D	Scenario E
SHORT-TERM RISK-FREE YIELDS Investors will require that short-term Treasury Bills yield at least the inflation rate; although in deflation, the yield would not be less than zero.		0.10%	1.10%	2.10%	3.10%	5.10%
LONG-TERM RISK-FREE YIELDS Longer-term Treasury Bonds have time risk and require higher yields; historically ~1% higher.	Spread	1.00%	1.00%	1.00%	1.00%	1.00%
	Yield	1.10%	2.10%	3.10%	4.10%	6.10%
CORPORATE BOND YIELDS Corporate bonds have credit risk and require higher yields than Treasury Bonds; the spreads historically are higher with higher interest rates. In deflation, the spread could increase due to increased credit risks; the assumption is conservative at the same rate as price stability.	Spread	0.75%	0.50%	0.63%	0.75%	1.00%
	Yield	1.85%	2.60%	3.73%	4.85%	7.10%
STOCK MARKET RETURNS Stocks have more risk and are junior in priority to corporate bonds and thus require higher returns; the equity risk premium has historically been higher with the higher uncertainties of inflation or deflation; the spread assumption is conservative at the same rate as price stability.	Spread	3.50%	3.00%	3.25%	3.50%	4.00%
	Gross Return	**5.35%**	**5.60%**	**6.98%**	**8.35%**	**11.10%**

		Scenario A	Scenario B	Scenario C	Scenario D	Scenario E
ECONOMIC GROWTH The economy (GDP) has historically grown at 3% before inflation on a fairly consistent basis; the level of inflation determines the nominal (actual) growth rate.	Real GDP	3.0%	3.0%	3.0%	3.0%	3.0%
	Nominal GDP	0.0%	4.0%	5.0%	6.0%	8.0%
EARNINGS GROWTH Earnings per share for the overall stock market has historically grown at a rate that is just below the nominal growth rate in the economy.	EPS Growth	**0.0%**	**3.6%**	**4.5%**	**5.4%**	**7.2%**

		Scenario A	Scenario B	Scenario C	Scenario D	Scenario E
STOCK MARKET VALUATION (P/E RATIOS) Accepted academic and financial industry principles use the "Dividend Discount Model" to value stocks and the market; the P/E ratio is based upon the formula of 1 / (GR - EG); thus, one divided by the difference between the 'Gross Return' and the 'EPS Growth' rate.	Example EPS	$50	$50	$50	$50	$50
	Dividend Payout Ratio	50%	50%	50%	50%	50%
	Dividends Per Share	$25	$25	$25	$25	$25
	Required Return	5.35%	5.60%	6.98%	8.35%	11.10%
	Expected Growth Rate	0.0%	3.6%	4.5%	5.4%	7.2%
	DDM Value: Price $Div/(Return - Growth)	$467	$1,250	$1,010	$847	$641
	P/E Ratio	9	25	20	17	13

P/E's PEAK AT PRICE STABILITY OF NEAR 1% INFLATION

The deflation scenario (A) has deflation of -3% and a P/E of 9; the low inflation scenario (B) has inflation of 1% and a P/E of 25; the below average inflation scenario (C) has inflation of 2% and a P/E of 20; the average inflation scenario (D) has average inflation of 3% and an average P/E of 17; and the above average inflation scenario (E) has inflation of 5% and a below average P/E of 13.