Look Abroad For Better Stock Values

In any area other than the stock market, rising prices would reduce demand. But as the Dow climbs, so does investors' interest. This makes no sense to me, and should make no sense to you.

The best of times to make new commitments is when prices are low, really low. But in 2001-2002 or in early 2009, when stock bargains abounded, only the calmest investors had the fortitude to take action. Now, with prices several times higher than they were, the cocktail party crowd has again focused on Wall Street. Big mistake.

The price-earnings of the Standard & Poor's 500 stands at 24.9 times trailing 12-month "as reported" earnings. That's way up on the range of historical valuations, which strongly suggests that advances over the next few years will be more moderate than what we've experienced since the Great Recession. In this case, more moderate may well mean gains in the middle single digits.

More astute investors should turn their attentions abroad, where values are far more reasonable. Indeed, the price-earnings ratio of FEZ, the SPDR Euro Stoxx 50 ETF, is only 14.7 times. That's a 40% discount from the S&P.

Emerging markets stocks are even cheaper. Their recent price-earnings ratios for issues in these countries were in the low teens.

Not only are these other markets more reasonably priced, but their stocks have handily whipped the S&P so far in 2017. Since early March, both FEZ and VWO (Vanguard's emerging market ETF) have blown away the performance of the S&P. For the year to date, FEZ is up 22.3% and VWO has climbed 25.8%.

These, of course, are not the only ways to participate in international markets, but they are representative of current valuations and the typical constituency of companies in these parts of the world.

Although it's often believed that money goes where it's best treated, that seems to be wishful thinking at the moment. With some of the most popular stocks commanding price-earnings multiples in the triple-digit range, I have little doubt that the path of least resistance is down. They may linger for a while, but when stocks are priced for perfection, the only question is when, not if, the bubble will burst.

That's all the more reason to take a deep breath, pare holdings that are richly priced, and reposition into more reasonably priced opportunities. Even though the U.S. market, on average, is fetching fat prices, there are still a few pockets of promise for those willing to dig deep. The easier route, however, is to look abroad where prices are reasonable and stocks are on the move.

Part of the reason for the improving price action abroad is ongoing weakness in the dollar. Despite the possibility of further interest rate hikes by the Fed, there may be more slippage. The combination of improving international economies and favorable currency exchange rates should continue to bear fruit for investors willing to make commitments beyond these shores.

Back in 1851, John Babsone Soule, in an 1851 editorial in the Terre Haute Express, said "Go west young man, and grow up with the country." For investors, it's time to look in the other direction.