One Small Step . . .

It seems like only yesterday that Neil Armstrong and Buzz Aldrin set foot on the moon, but yesterday really was a half century ago. Since then, this country's pace of space exploration has slowed dramatically. Over the same period, the rate of progress on Wall Street has taken off.

It's hard to believe that back then the Dow Jones Industrial Average was flirting with the area of 800, compared with a lusty 27,000 now. That's a gain of well over 30 times.

In addition to the enormous advance in this index, there have been numerous changes in the nuts of bolts of this industry. In those days, stocks were traded in fractions of a point; now trading is always penny by penny. At that time, the world of mutual funds was dominated by load funds, most of which had sales charges ranging between 5% and 8%. These days, no load funds (i.e., no sales charges) are the rule, not the exception. Even more interesting, however, has been the rise of exchange-traded funds (ETFs), which are first cousins of mutual funds with several critical differences. Both vehicles hold baskets of equities and each of the baskets focus on distinct market segments, either by capitalization, geographic region, asset class or investment approach.

The differences are important. Mutual funds are bought and sold daily, but only after the 4 p.m. market close each day. Exchange-traded funds, on the other hand, trade from the time the market opens each morning until it closes each afternoon. More important, however, is the fact that the expense ratios for ETFs are substantially lower than the typical expense ratios for mutual funds. Lower expenses mean higher returns, which is a main reason for the massive movement from mutual funds to ETFs.

The availability of investment information has exploded. There are numerous websites, including, for starters, fundamental data, all kinds of charting, and stock screening. For those who are either naïve or gullible, there are target prices galore, lists of stocks to buy now, and tips from ostensible gurus. Much, if not most, of the latter is utter and complete rubbish.

The driving forces behind the market today are exactly the same as they always were: corporate earnings and sufficient financial capability to keep the engine of stock prices humming along.

In every grouping of companies, there are those that are consistently growing, some that have their ups and downs, and a few, probably due to management incompetence, that are struggling to keep things on an even keel.

When reviewing those that are doing well, the next question is about financial capabilities. After all expenses, both operational and capital, and after dividends are paid, is there any money left to go into the bank? If so, what's left for consideration is the market's view of valuations.

If the fundamental numbers are worthy, one has to wonder where the market price falls on the range of "worth considering" to "don't even think about it".

That's equally true of where the overall market stands today. And that may well be the rub.

Although many Wall Streeters will view current valuations as toward the high end of the historical scale, the reality is probably otherwise.

Let me explain. In the past, the leading indexes have typically ranged between 15 and 18 times earnings. Based on estimated earnings for this year, it would appear that the current valuation is about 18 times earnings. That, however, is misleading.

Why? Because the corporate tax cuts of 2017 expanded after tax profits by 10% or more, which means comparable valuations are closer to 20 times than 18. If so, it's time to take a more cautionary approach to our view of the next year or so.

Not only that, but it's only 16 months to the upcoming Presidential election. Who knows what will happen between now and then. And, in case you've forgotten, the summer months have historically been among the weakest times for stocks.

Still, the employment numbers are good, interest rates remain low, and there are points to be made on both sides of the discussion. One thing's for sure: Regardless of the weather, it's essential to keep a sharp eye on the horizon.

N. Russell Wayne, CFP®