



**LIES, DAMNED LIES
AND STOCK MARKET VALUATIONS**

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Agenda

- Market Valuation 101
- Earnings growth
- Decomposing Earnings growth
- Investment Outlook



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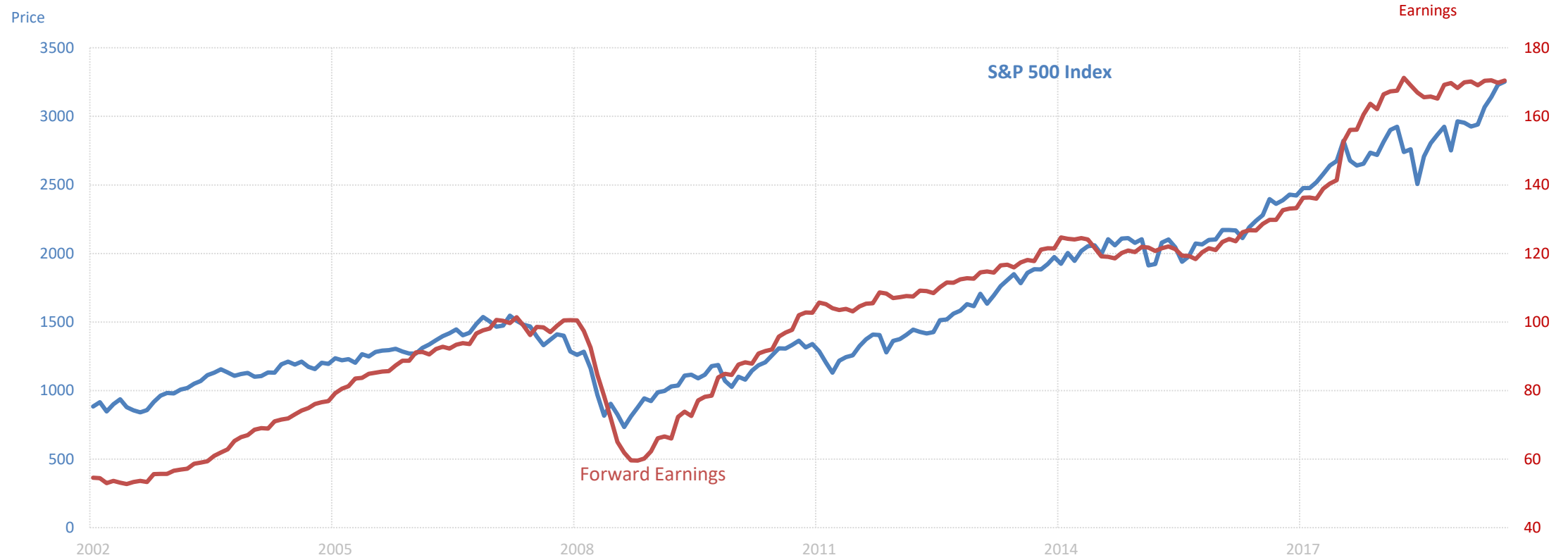
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Market Valuation 101:

Price and Earnings



Source: S&P Capital IQ, Nucleus Wealth



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Market Valuation 101:

Forward P/E

Price / Earnings



Source: S&P Capital IQ, Nucleus Wealth



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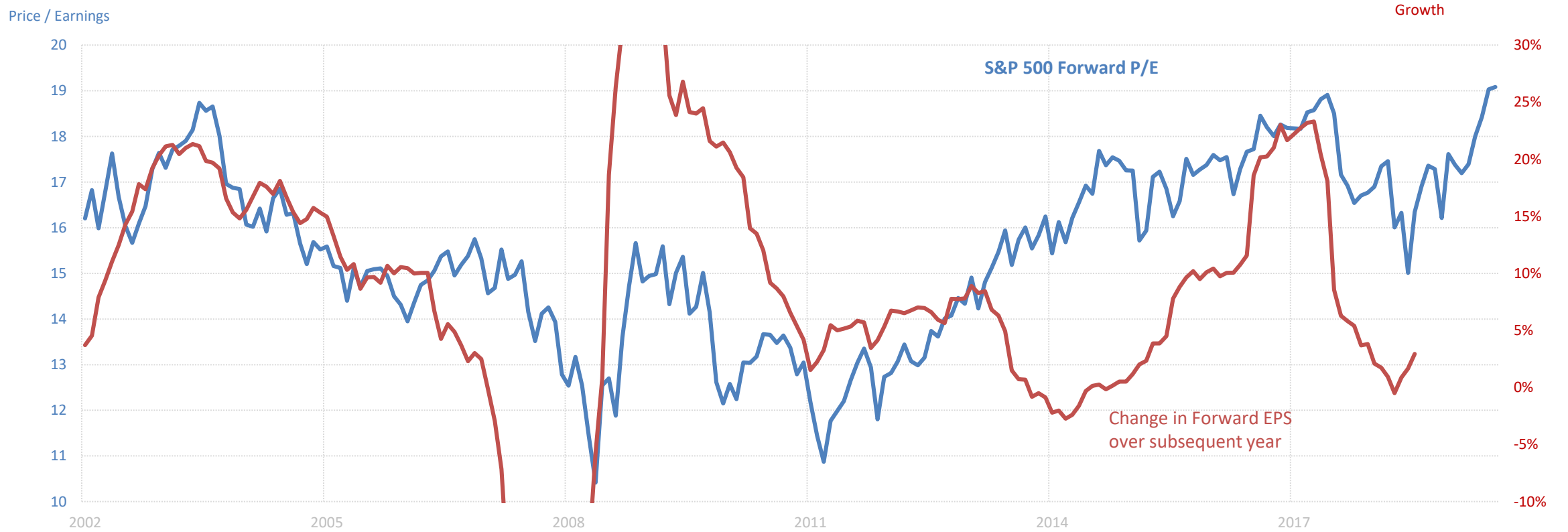
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Market Valuation 101:

Prescience or exuberance



Source: S&P Capital IQ, Nucleus Wealth



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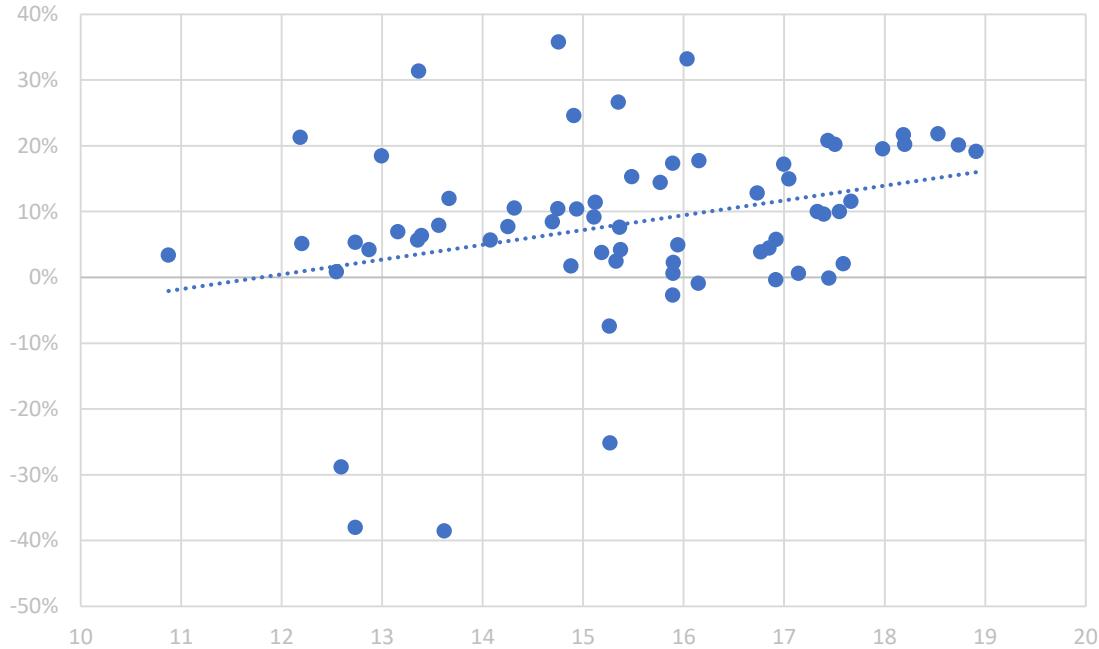
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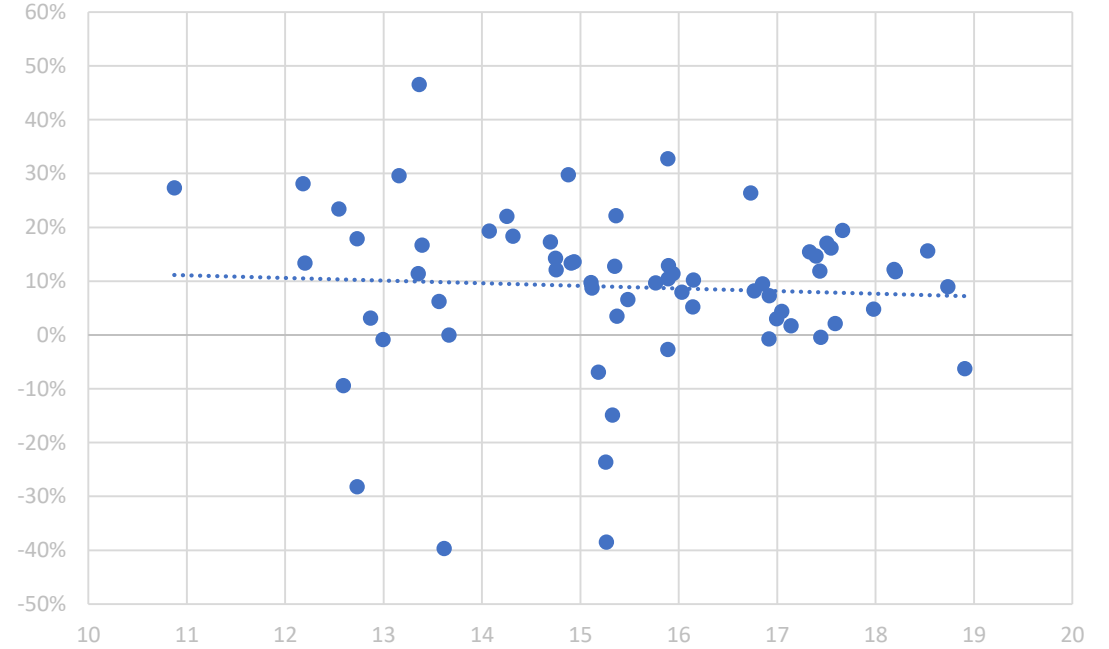
Market Valuation 101:

Prescient on Earnings, not so much on Price change

Forward Price/Earnings vs Subsequent Earnings Growth



Forward Price/Earnings vs Subsequent Price Growth



Source: S&P Capital IQ, Nucleus Wealth



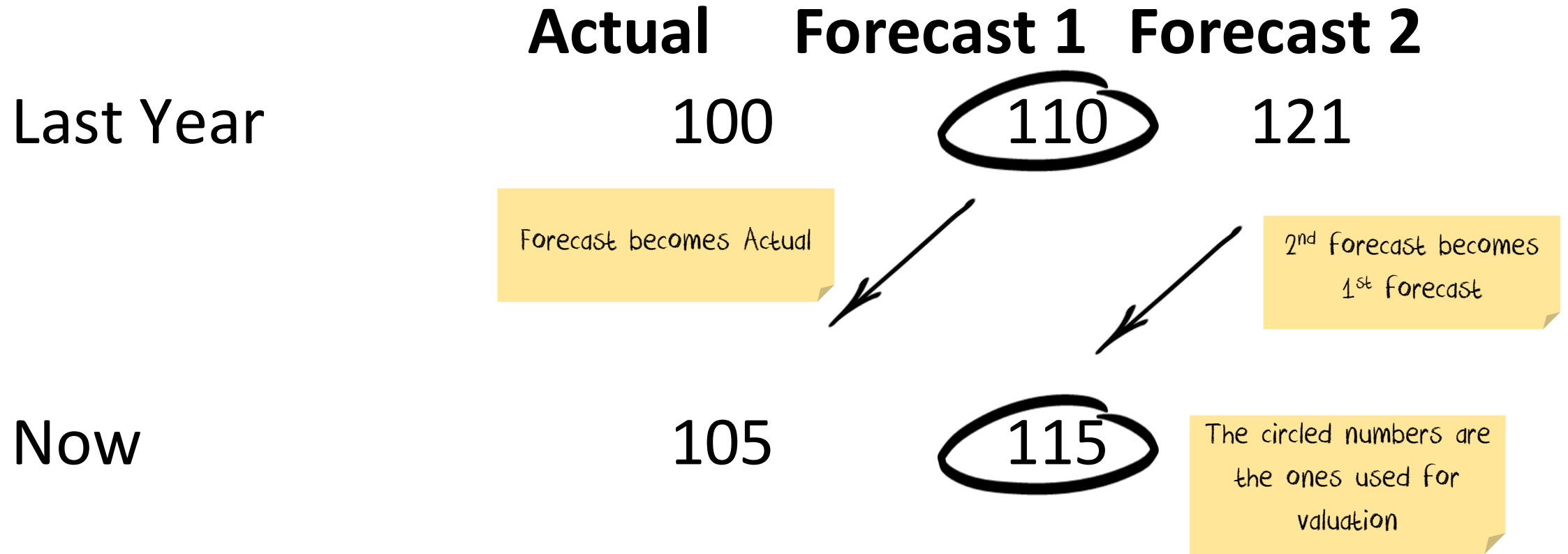
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Earnings Growth:

A moving target



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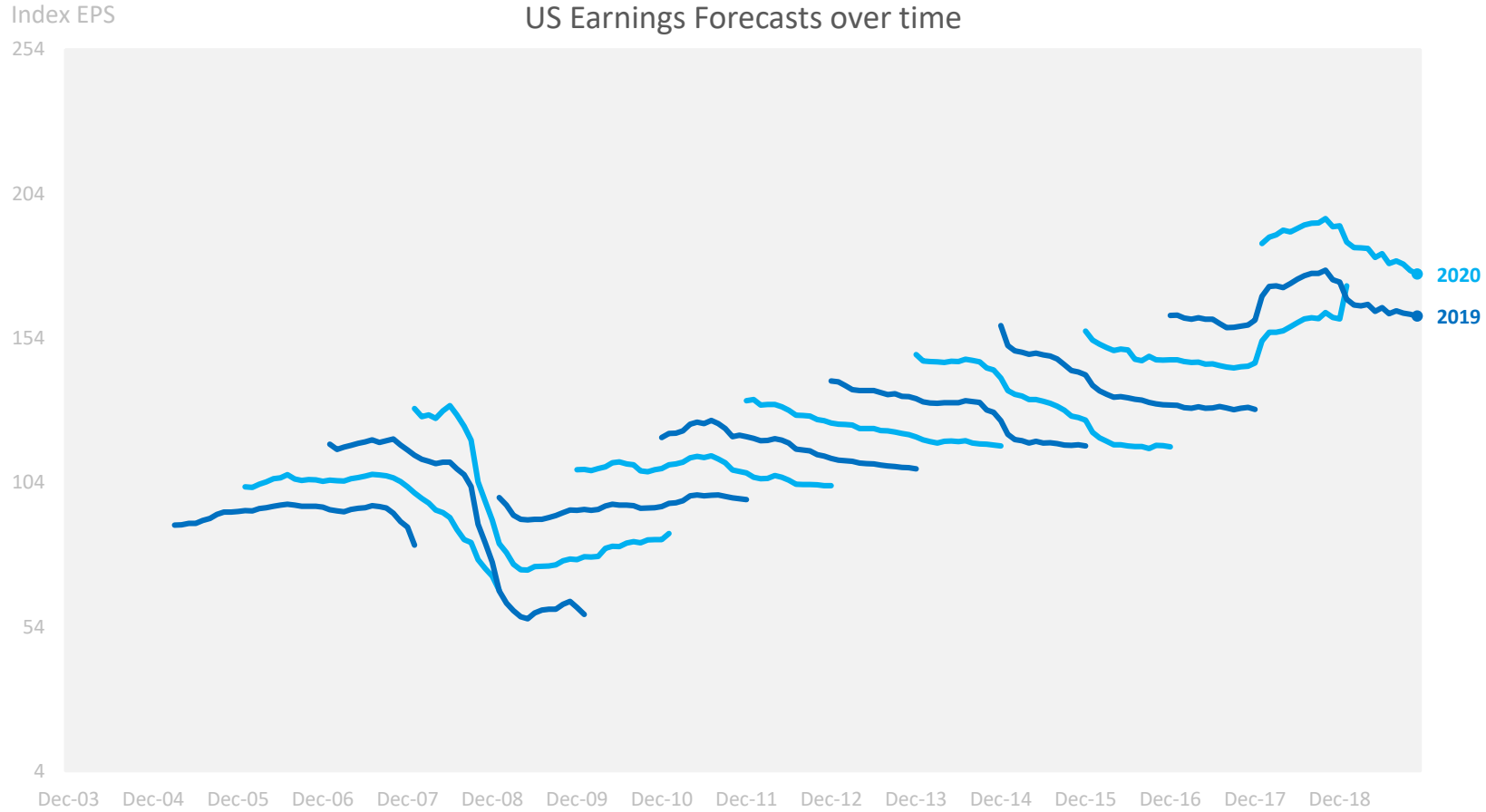
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Earnings Growth:

Earnings Squiggles



Source: S&P Capital IQ, Nucleus Wealth



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Earnings Growth:

Illustrative Forecast Process

	2018	2019	2020
Earnings Original	100	110	121
Earnings New	100	105	119
Change		-5%	-2%
Growth Original		10%	10%
Growth New		5%	13%



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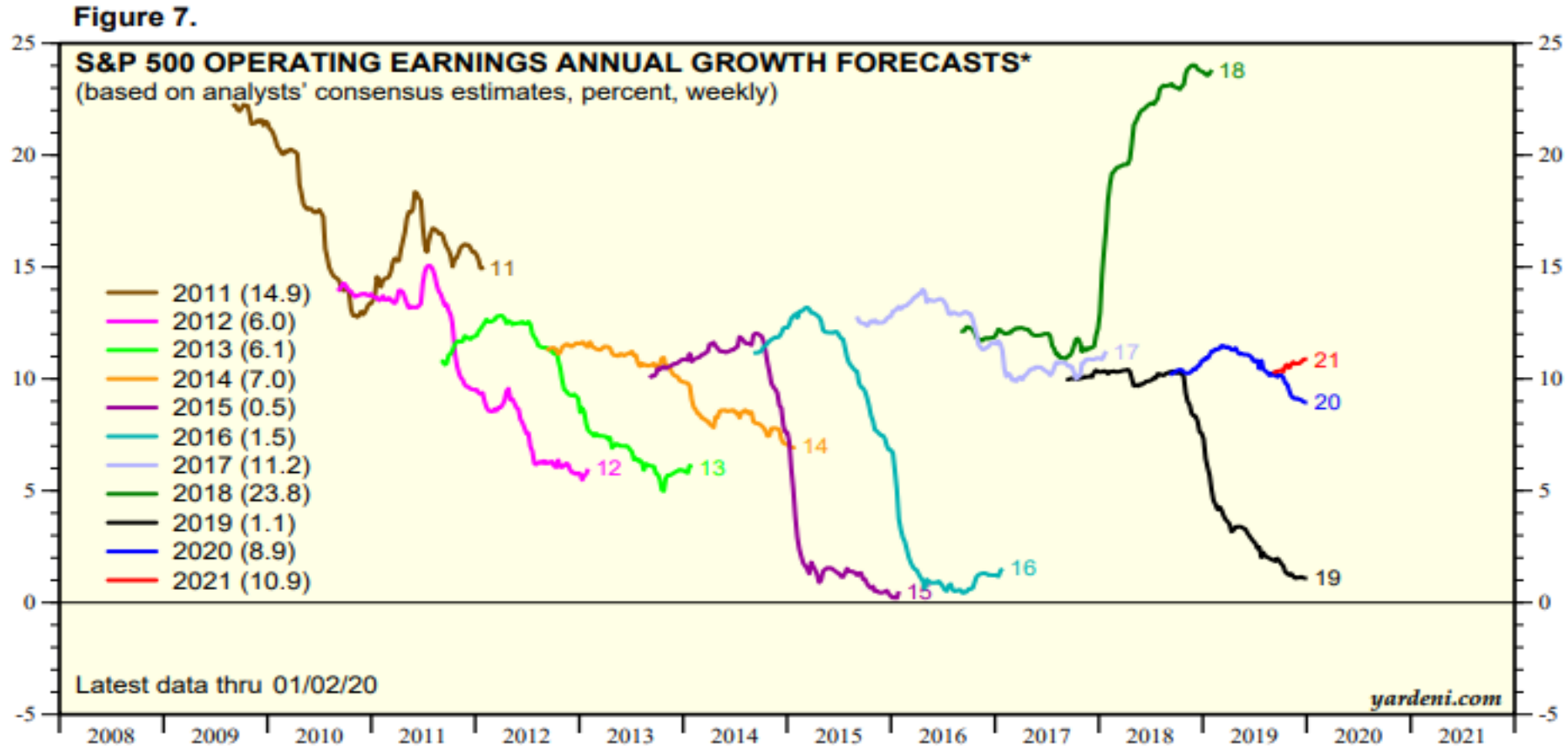
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Earnings Growth:

Growth Cliff



Source: I/B/E/S data by Refinitiv.



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Earnings Decomposition:

Breaking it down

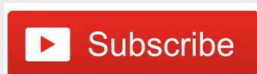
Change in Price =

+/- **Growth** expected in earnings from the first year to the second year

+/- **Revisions** in growth expectations from the first year to the second year

+/- Earnings **surprise** as first-year earnings go from a forecast to an actual

+/- Change in valuation **multiple**



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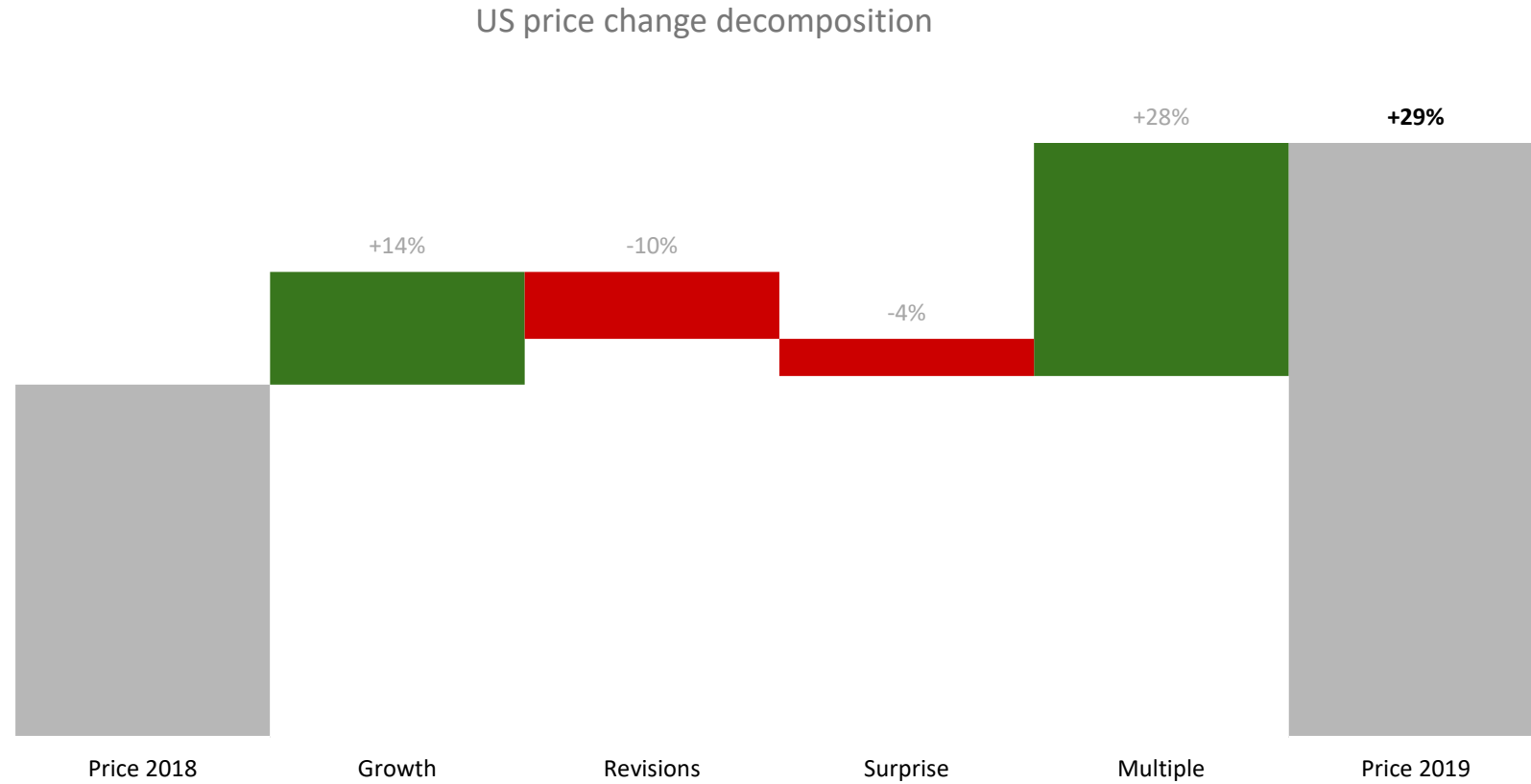
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Earnings Decomposition :

Example



Source: S&P Capital IQ, Nucleus Wealth



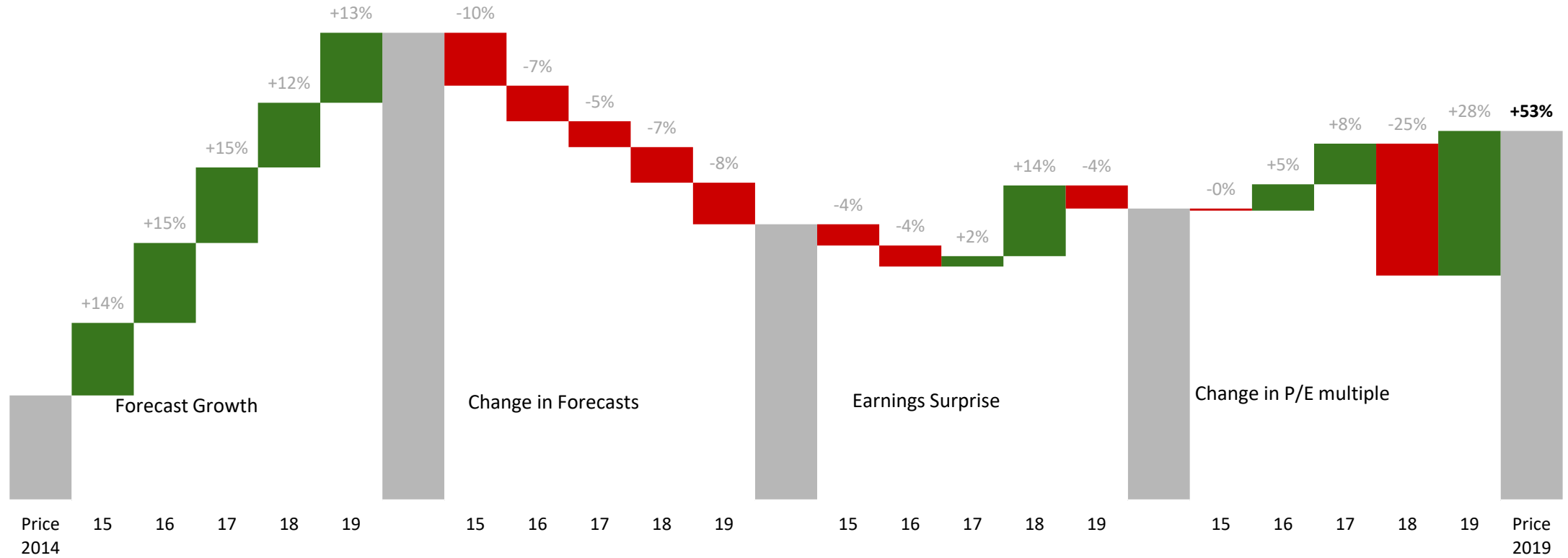
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Earnings Decomposition :

US last five years



Source: S&P Capital IQ, Nucleus Wealth



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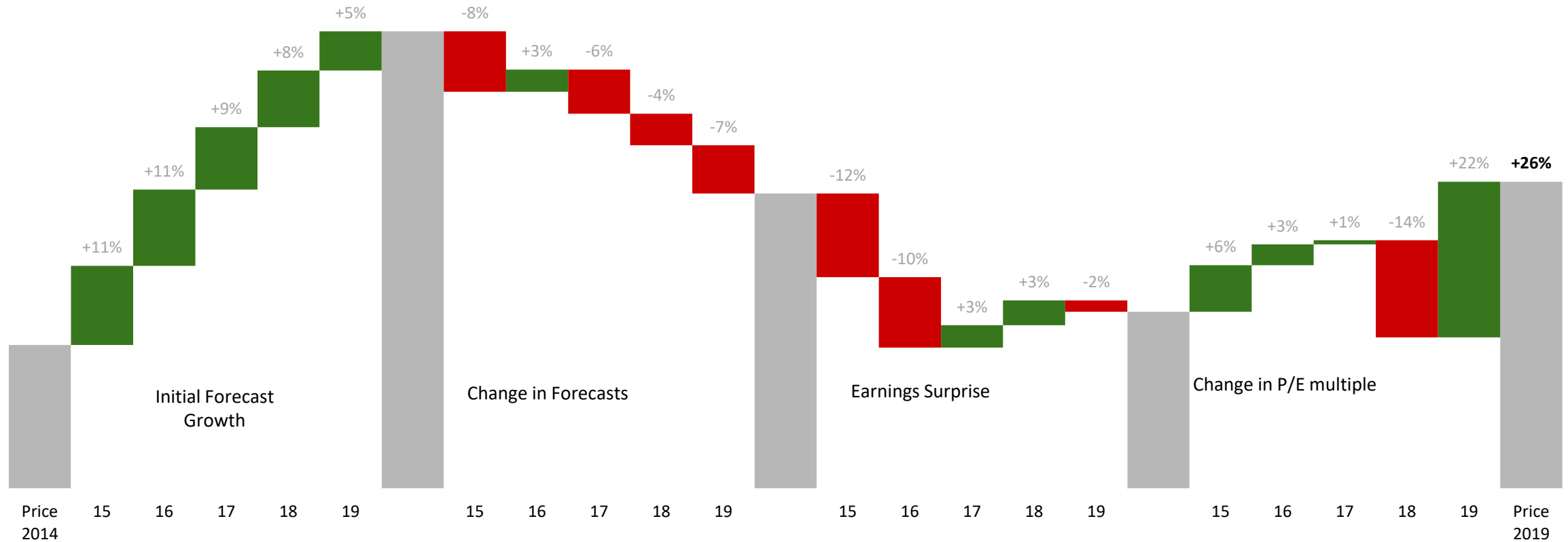
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Earnings Decomposition :

Australia last five years



Source: S&P Capital IQ, Nucleus Wealth



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Investment Outlook:

Australia not built on solid foundations

- Stock market valuations suggest earnings growth, can't see it yet
- Australia has more issues, worse fundamentals
- Central banks crowding out investors. International stocks still the cleanest dirty shirt



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