

EPISODE
372



ANATOMY OF A MARKET BOTTOM

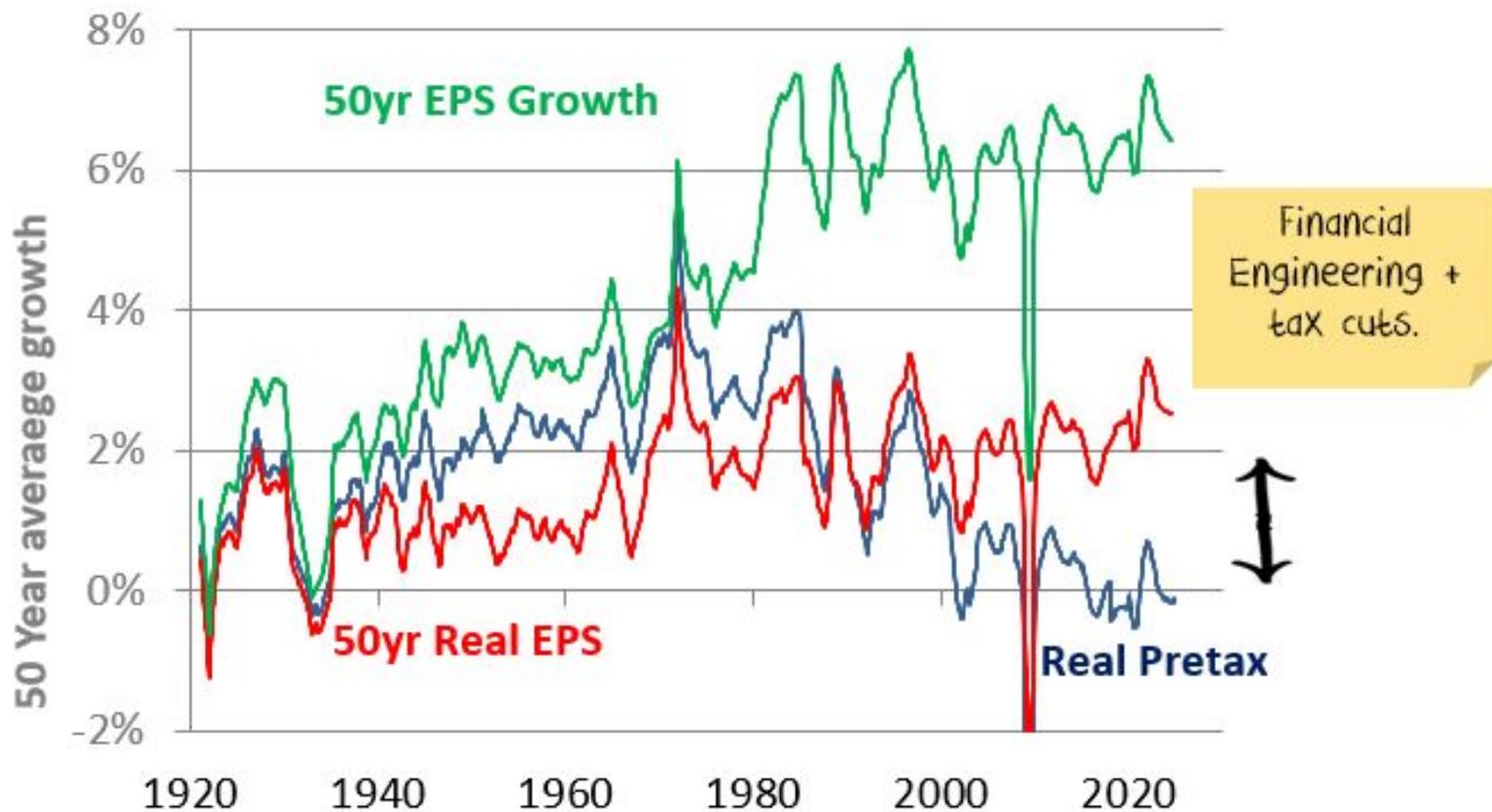
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Agenda:

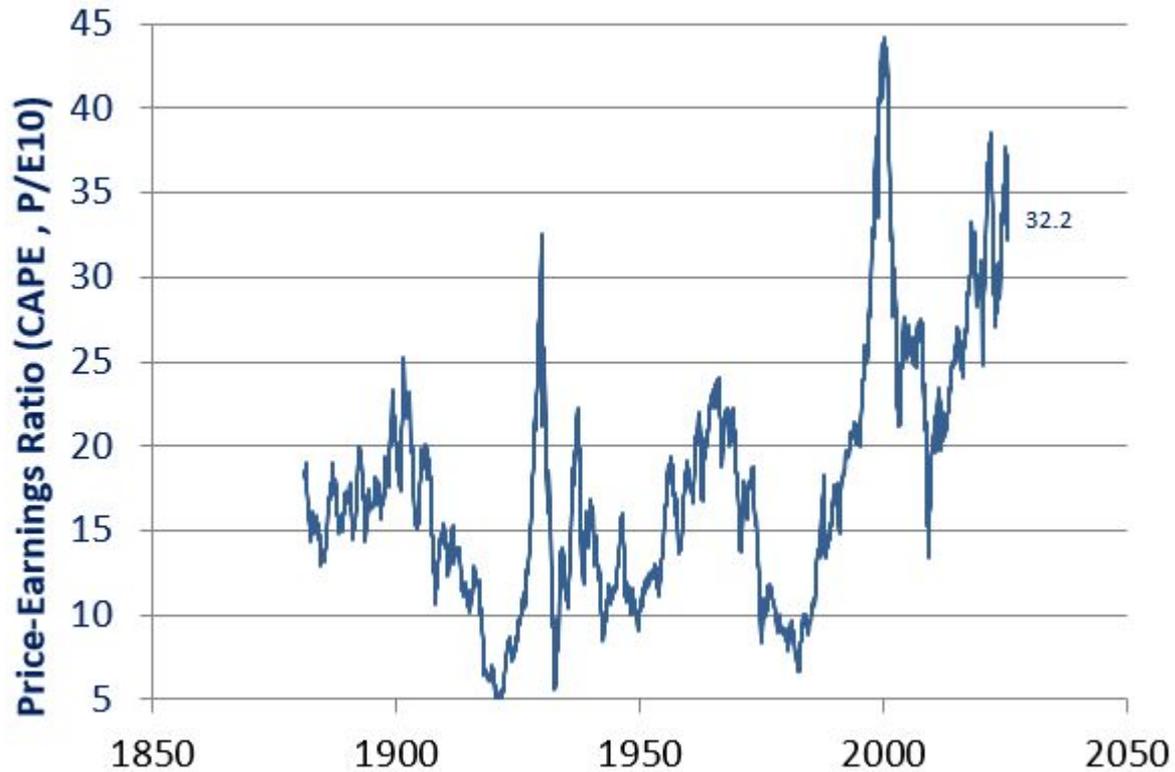
- What are the fundamentals?
- Shiller PE
- Dividends
- Valuation metrics / risk free rate
- Valuation metrics / forward earnings
- Valuation metrics / buybacks / dividends
- Price / Sales or Price / Book

Fundamentals



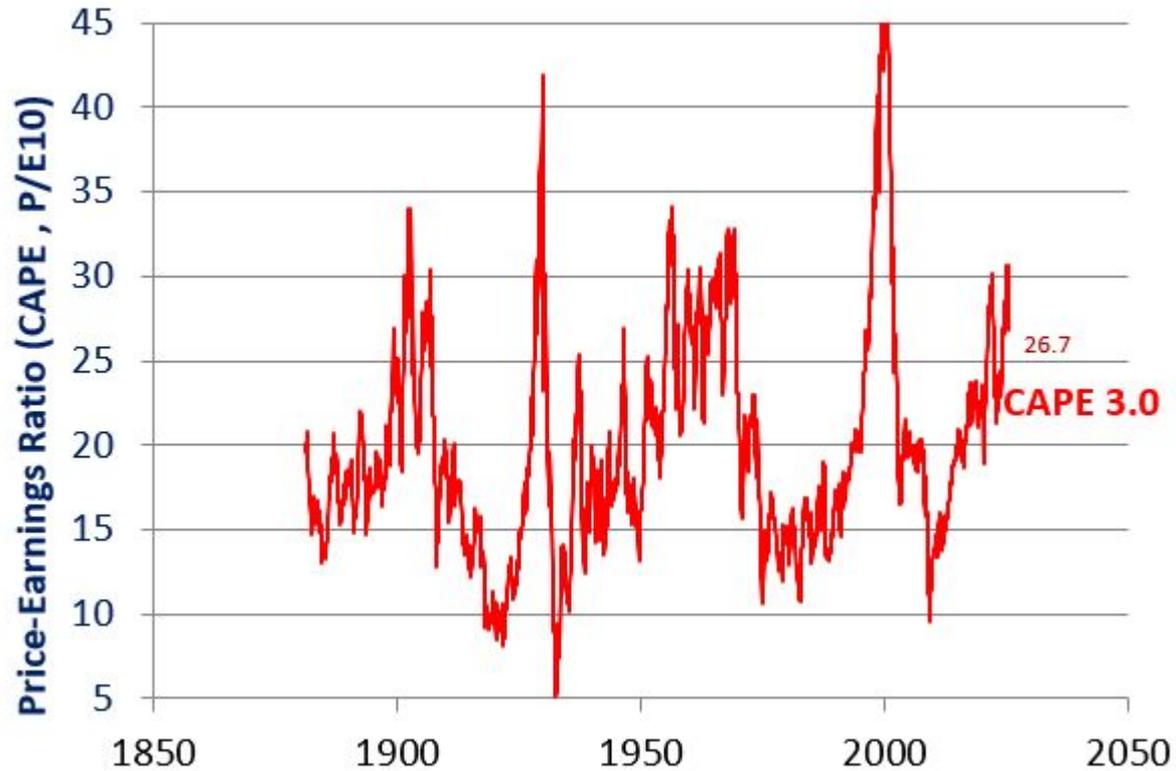
Source: Nucleus Wealth, <http://www.econ.yale.edu/~shiller/data.htm>

Shiller P/E:



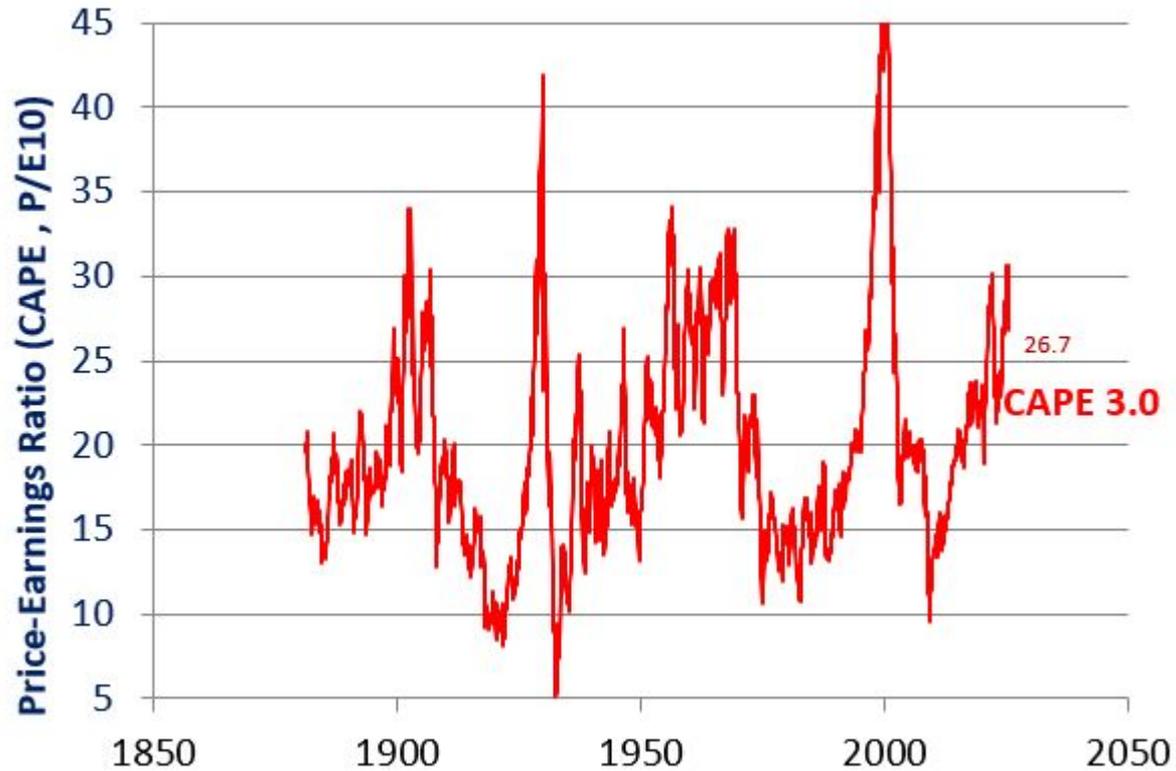
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Adjusted for accounting differences Shiller P/E:



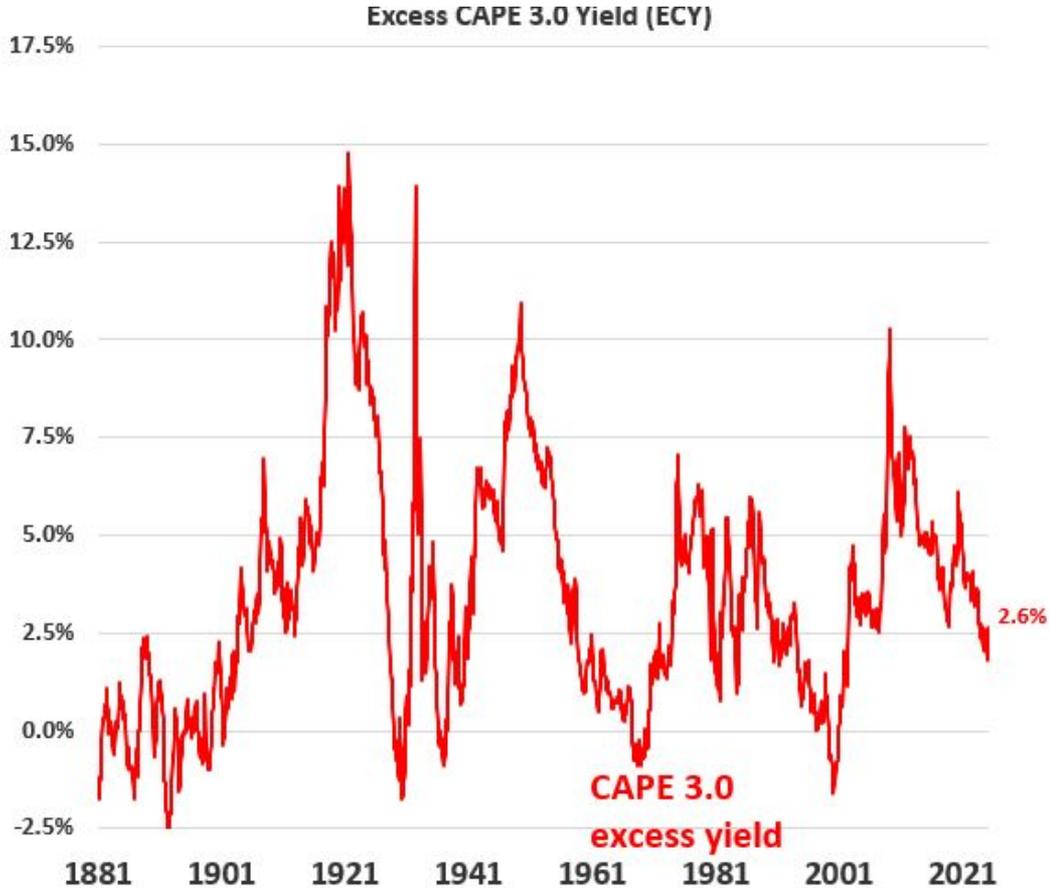
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Adjusted for accounting differences Shiller P/E:



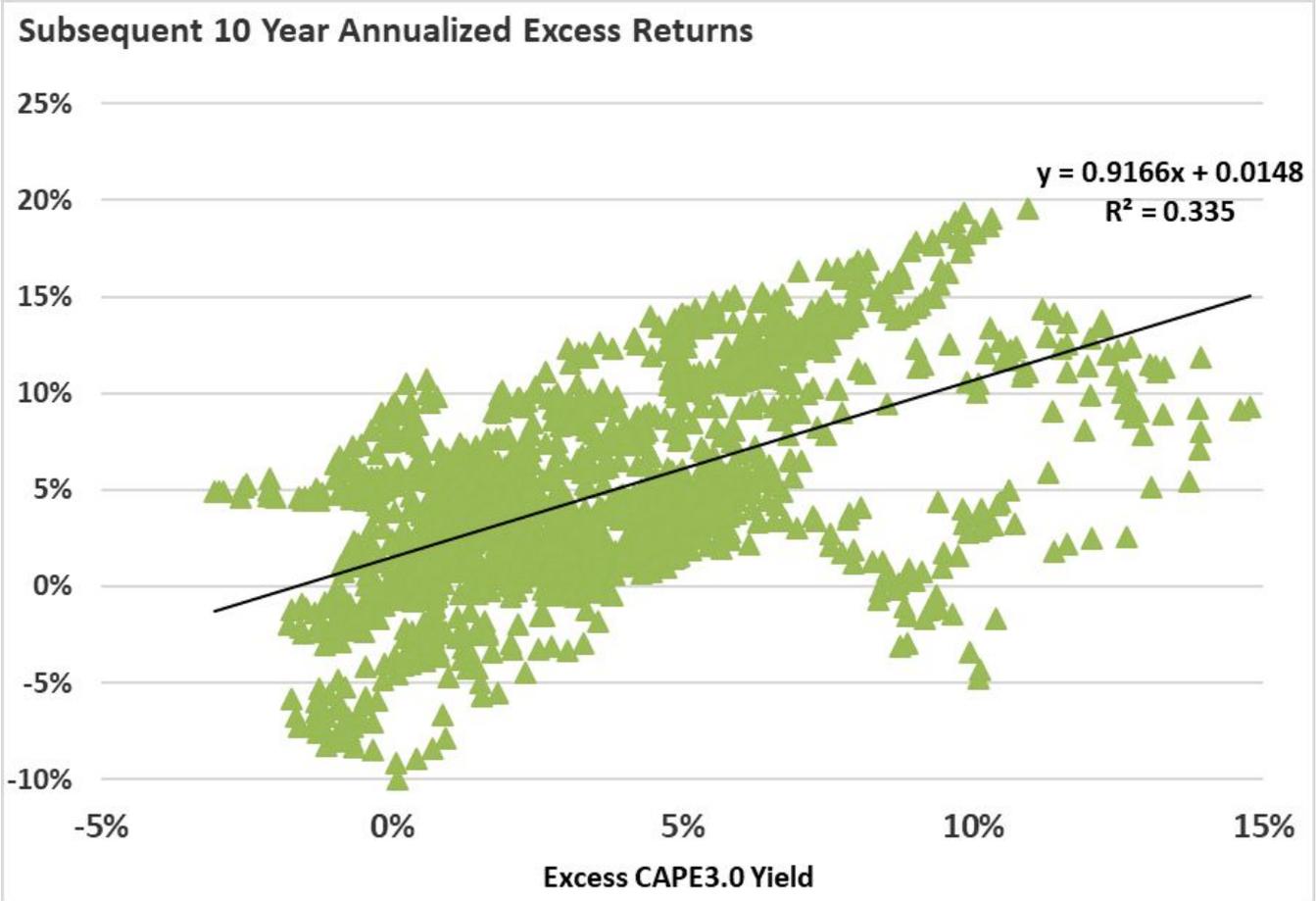
Source: Nucleus Wealth, <http://www.econ.yale.edu/~shiller/data.htm>

Excess Yield Shiller P/E:



Source: Nucleus Wealth, <http://www.econ.yale.edu/~shiller/data.htm>

Excess Yield Shiller P/E:



Forward P/E:

Global 12m Forward P/E ex Financials and Resources



Forward P/E:

Global 12m Forward P/E ex Financials and Resources

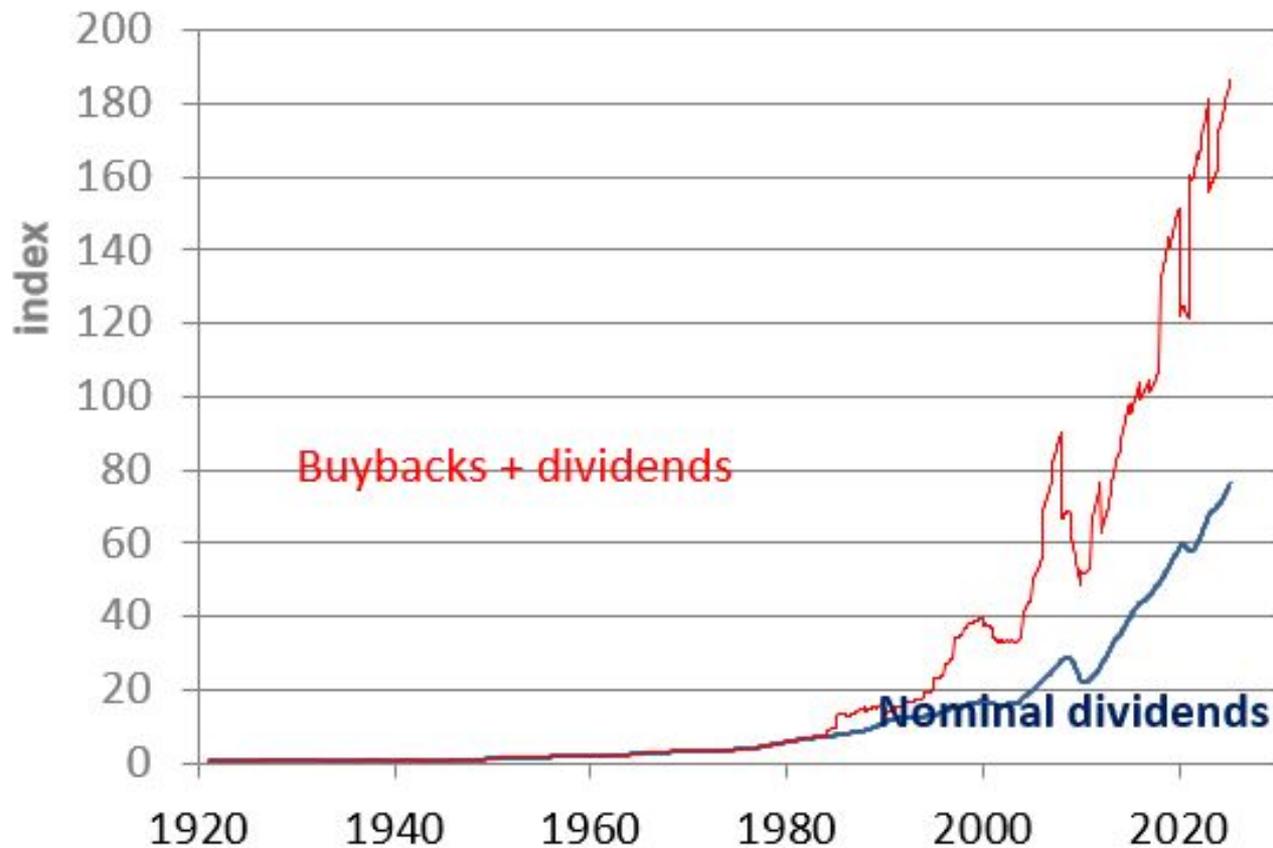


Forward P/E:

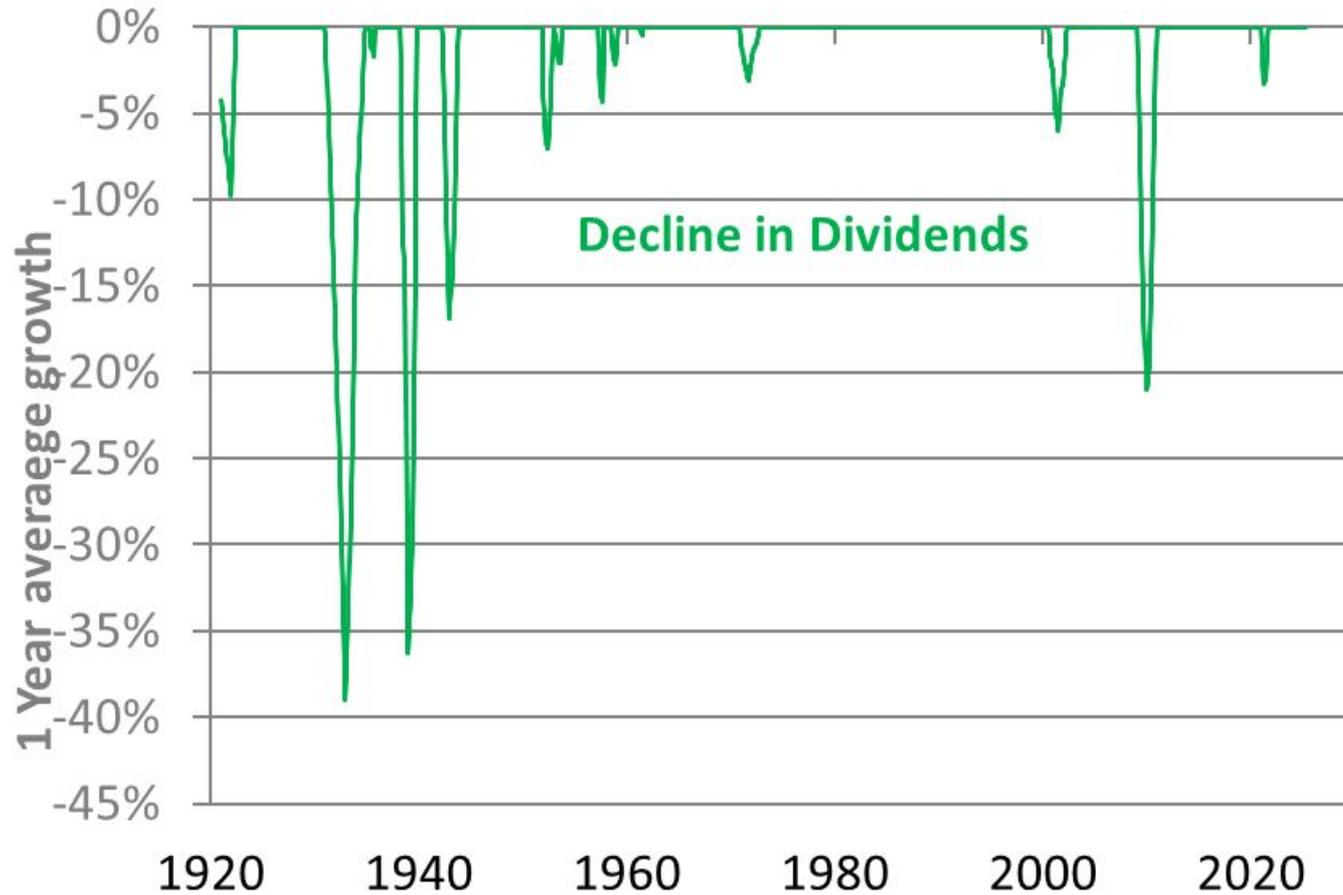
US ex Financials and Resources



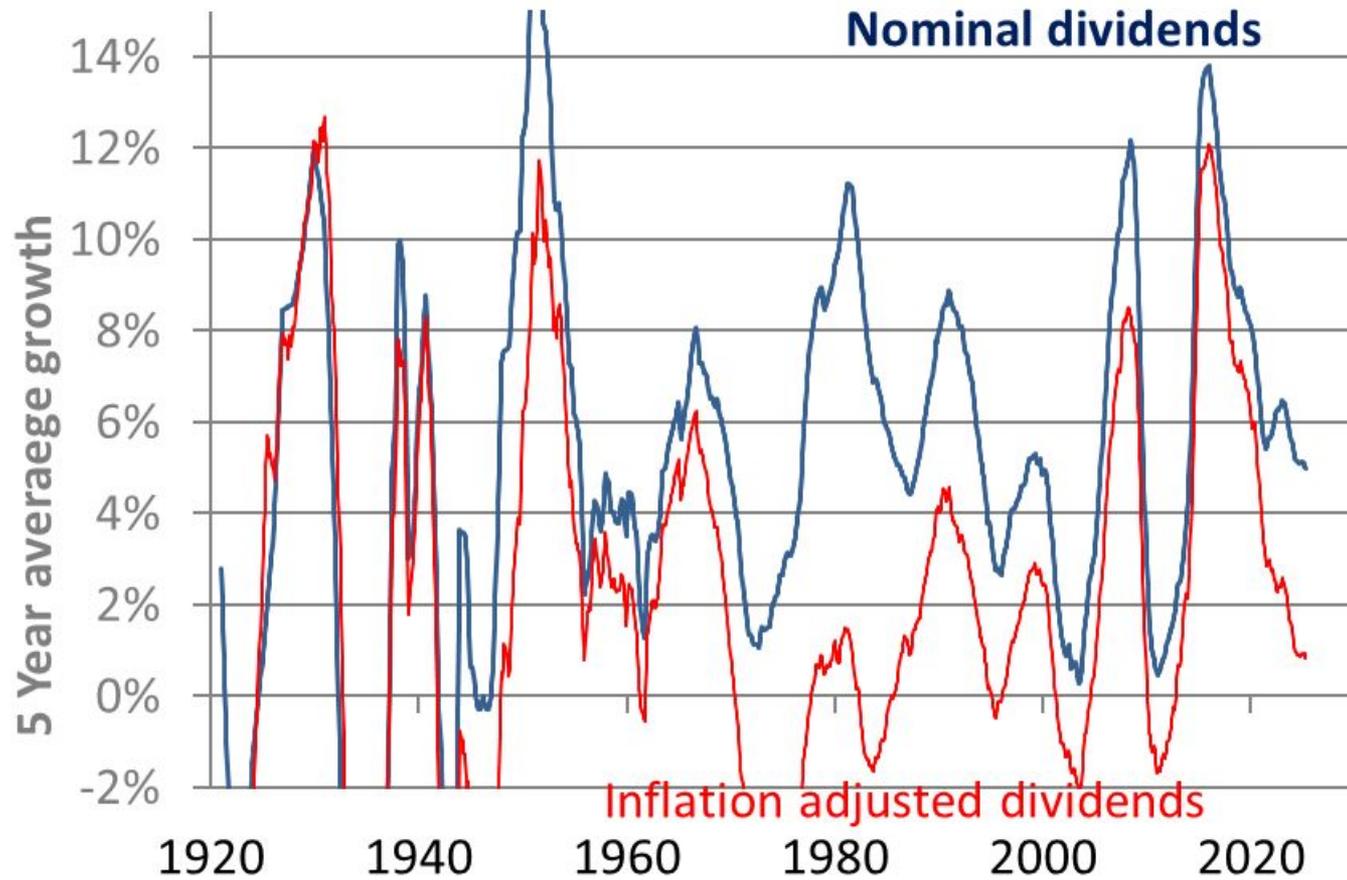
Dividends:



Dividends:



Dividends:



Choose themes to screen from your portfolio away from (i.e. remove stocks)

Climate Change

War

Human Rights

Health

Vices

Animal Rights

Religion

Asset Class

Thematic

Climate Change

- No Fossil Fuels (Worst Offenders) ⌵
- No Fossil Fuels (Any) ⌵
- No Coal Seam Gas or Fracking ⌵
- No Nuclear Power ⌵
- No Old Growth Forest Logging ⌵

Dividends:

- 60/40 portfolio in retirement. 3.0% Yield, 3.1% growth. APRA Comfortable = \$2.3m for a couple and not going backwards at all.
- Pension etc means this is much lower

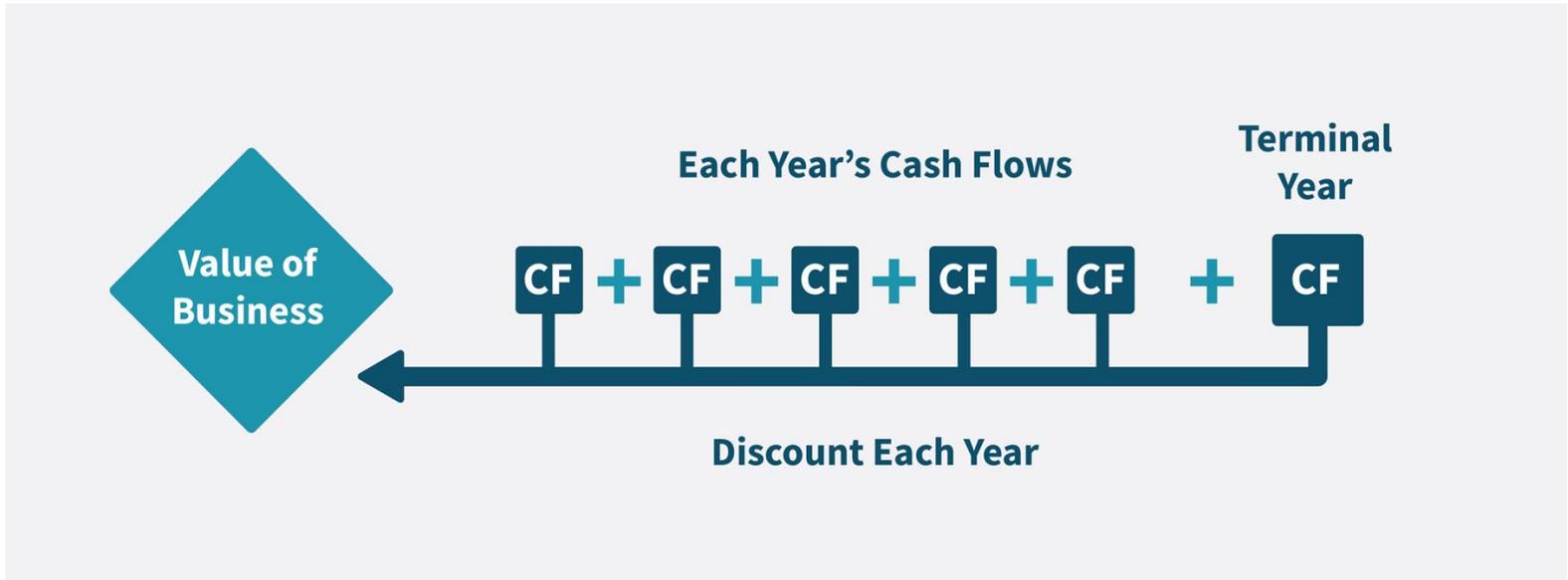
DCF valuations:

Risk Free Rate = 4.5% from Inflation 2.0% + Real Interest Rate 2.5%

Equity Risk Premium = 5.5%

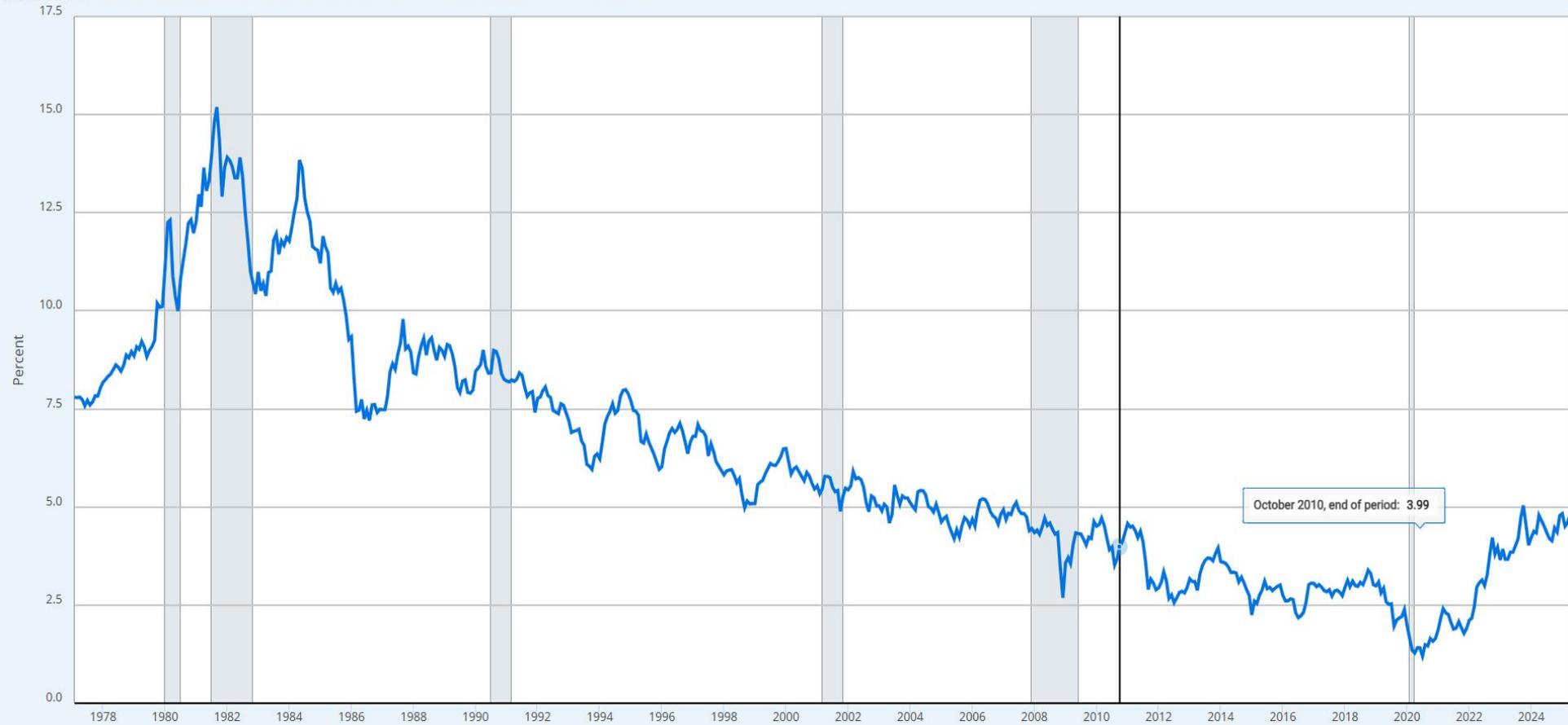
Discount Rate = 10.0%

Earnings / Cashflow assumption.



DCF valuations - Risk Free Rate:

FRED  — Market Yield on U.S. Treasury Securities at 30-Year Constant Maturity, Quoted on an Investment Basis



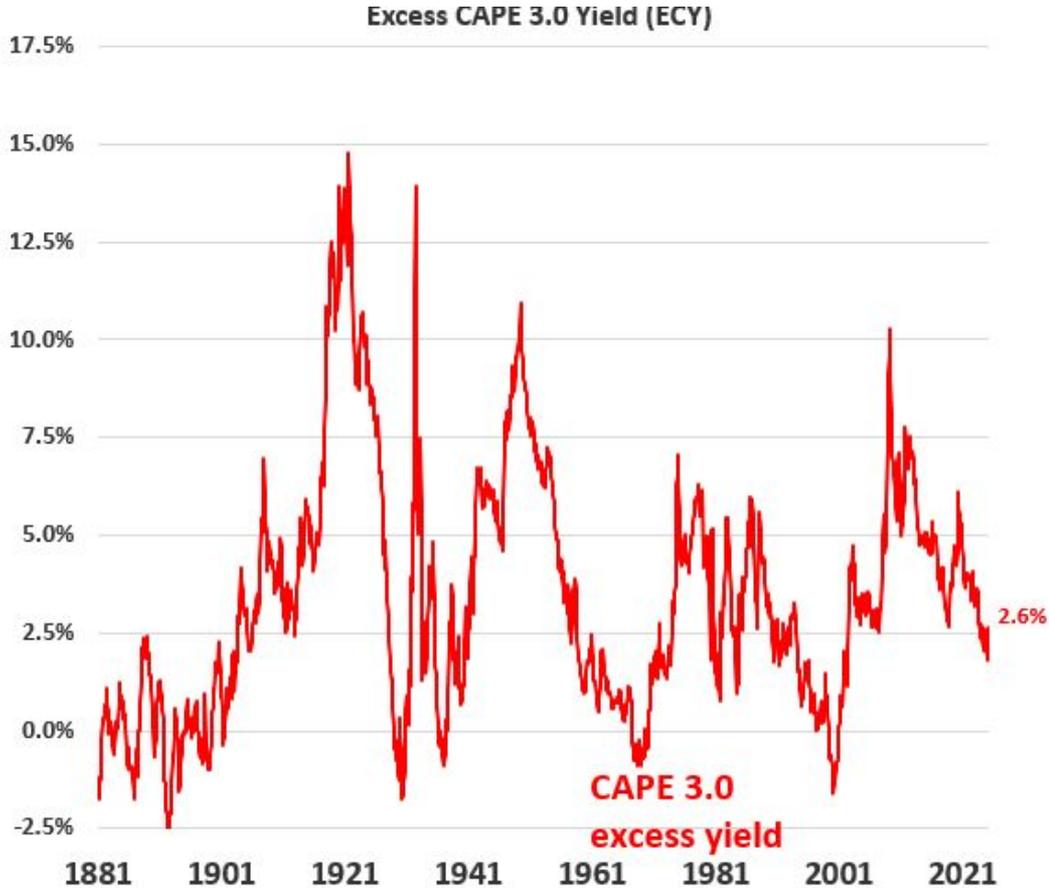
October 2010, end of period: 3.99

DCF valuations - Real Interest Rate:



Source: Federal Reserve Bank of Cleveland via FRED®
Shaded areas indicate U.S. recessions.

Excess Yield Shiller P/E:



Source: Nucleus Wealth, <http://www.econ.yale.edu/~shiller/data.htm>

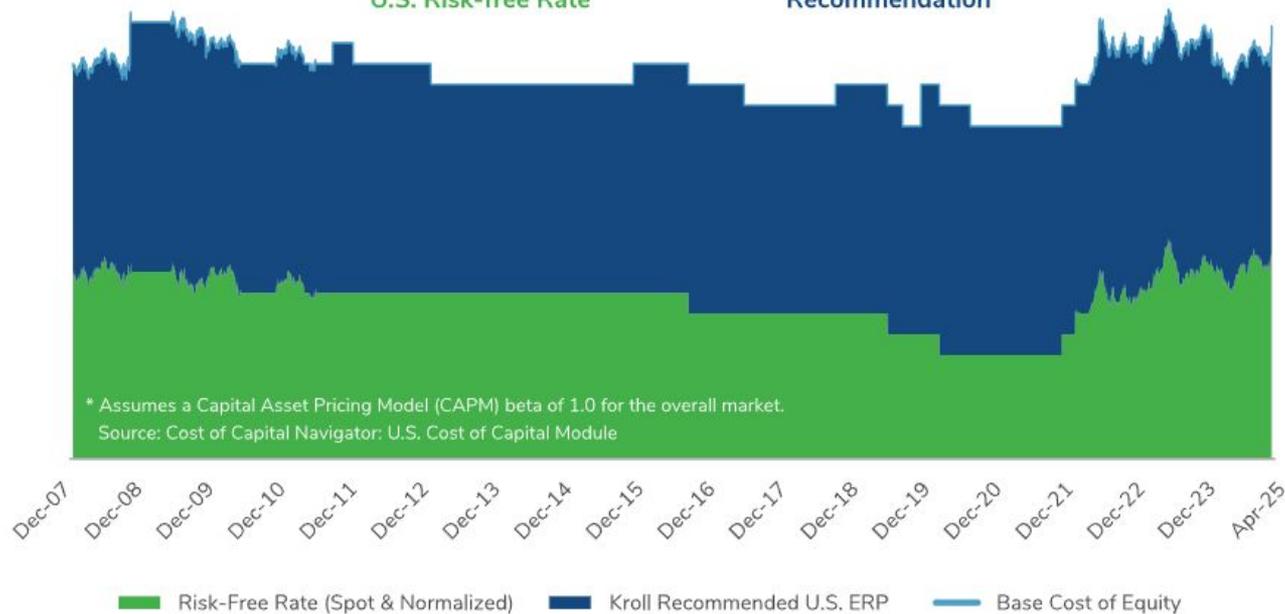
Other estimates:

Higher of
3.5% or Spot*

Current Normalized
U.S. Risk-free Rate

5.5%

Current U.S. ERP
Recommendation



* We recommend using the spot 20-year U.S. Treasury yield as the proxy for the risk-free rate, if the prevailing yield as of the valuation date is higher than our U.S. normalized risk-free rate of 3.5%. This guidance is effective when developing USD-denominated discount rates as of June 16, 2022 and thereafter.

Other estimates:

Chart 1: Option-implied ERP across advanced economy main equity indices ^(a)



DCF valuations:

Current say ERP 5.5%

Each 0.5 = 10% up/down

Or if you take current earnings, 3-10yr = 4%

Or if you say -1% for 2 years then 8% 3-10yr

Personalise Your Portfolio

Screens

You can exclude the below to customise your portfolio

Climate Change	War	Human Rights	Health	Vices
Animal Rights	Religion	Asset Class	Thematic	

- No Fossil Fuels (Worst Offenders) ?
- No Fossil Fuels (Any) ?
- No Coal Seam Gas or Fracking ?
- No Nuclear Power ?
- No Old Growth Forest Logging ?

Tilts

You can add the below to customise your portfolio

Investment Style Factors	Climate Change	Technology	
Consumption	Commodities	Military	GICS Sectors

- Quality Stocks ?
- Value Stocks ?
- Growth Stocks ?
- Defensives ?



Personalise your portfolio now >



Build Your Portfolio

Need help with this page? Video Tutorial

Account Selection

Investment Choice

Risk Profile

Build Your Portfolio

Ethical Overlay

Review

Applicants

Bank Details

Compliance

Final Review

Portfolio Tilts



Quality Stocks

Value Stocks

Growth Stocks

Oil & Gas Stocks

Gold Stocks

Agribusiness

Large Technology Stocks

Cloud Computing Stocks

Robotics/AI

Video Gaming

Cybersecurity

Clean Energy

Defensives

Battery Supply Chain

Nuclear Power

Defense Contractors

Travel

Luxury Goods

Logistics

Global Communication Services

Global Consumer Discretionary

Global Consumer Staples

Global Energy

Global Financials

Global Health Care

Global Industrials

Global Information Technology

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