

“In the end, how your investments behave is much less important than how you behave.”



Stanton & Castleton, Inc.

An independent firm

Let's Review: Our Monthly Newsletter.....04/01/2010

This Month:

Since the closing low of 676.53 on March 9th 2010 the S&P 500 Index (an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.) has risen over 78% thru April 13th 2010. All this during a recession that has seen unemployment reach 10% (U-5 unemployment measure over 17%)...why?

S&P 500 P/E Ratio



1881-01-01

2010-04-14

Current P/E: 22.06 +0.14 (0.63%)

Mean: 16.36

Median: 15.73

Min: 4.78 (Dec 1920)

Max: 44.20 (Dec 1999)

P/Es are based on average inflation-adjusted earnings from the previous 10 years (P/E10)

- [FAQ](#)

Data courtesy of [Robert Shiller](#), Yale Department of Economics.

Let's look at market valuation and one important way we measure what is "normal" and "extreme" using Price to Earnings Ratios (P/E). Above is the recently updated Shiller historical S&P 500 P/E Ratio chart from 1881 thru 04-10-2010 inflation adjusted. With the current 22.06 P/E ratio it can be argued most "extreme" undervaluation has been removed from the market.

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1151 Dove St., Suite #115, Newport Beach, CA 92660 / 949.975.0955 / 877.975.0955 / www.stantoncastleton.com

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We can also see clearly that trending markets often move in the direction (up or down) to extremes more often than may be realized. In strong periods we extrapolate earnings expectations that continue to improve to justify paying a high multiple for equities today and in weak periods the opposite expectations price in lower values.

Our view is to try and be aware of how markets behave and have some measure to indicate when valuations are moving past “reasonable”. This is as much art as science which is why there can be such a wide variation of what is “reasonable value”. We try and continue to learn from our experiences and in that way improve our ability to help you preserve and invest your portfolio. Looking over the last 14 years we have seen the S&P 500 move from 670 to a high of 1530 back and forth and currently (4-13-2010) at 1197. In our view this up and down pattern may continue into the near future so it is important to manage risk by monitoring measures of equity valuation. We are not so smart to think we can clearly “time” the markets and we do not have to, we just have to manage portfolio risk through design. Since the managers we select are also more value centric each is taking more or less risk as they see valuation extremes develop in their assignment. We also make tactical adjustments to allocation using our **Portfolio Stochastic Design Scan** tools to help manage the extremes.

While P/E ratios are only one measure of market valuation they do provide a lot of quantifiable data going back over long periods and therefore is a valuable measure. For now our position is to be cautious that the economy may not be as far along in the recovery as the market seems to be pricing. With the National Bureau of Economic Research’s (NBER) Business Cycle Dating Committee recently concluding it would be “premature” to call an end to the current recession we think a cautious outlook is in order.

Bob:

I finally got to see why Ron is always happy after visiting his son at Ca Poly SLO...Ethan and I were there over spring break for his HS baseball tournament (went 2-2) wow what a beautiful area. I want to be 18 again! I got to visit the campus and my niece, Nichole, who is a junior there. We went to dinner, the farmers market in down town and I visited Moro Bay. I also discovered that a teen boy on spring break at a baseball tournament does not hang out with Pop between games. Still a great trip and maybe a school for Ethan.....cheers!

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Ron:

Be forewarned, my youngest, Ari, has his driving test scheduled in early May so it looks as if we will soon be a 5 car family. Not sure how to break the news to him that a shiny new BMW is NOT in his future, and he better get used to the idea of driving a 20 year old “beater” ---just like I did! I’ll let you know how it all turns out! Sunny’s got the gardening bug so our front yard has all new flowers...never looked better! We are enjoying these Spring days knowing the summer chaos is right around the corner!

Amy:

Ryan and I have been staying busy and enjoying life! We had friends in town for 8 days and spent 4 of them in Vegas. I am hoping to make it home to WI soon to visit my family and friends...I figure its ok to go back there now since the snow is gone! Hope all is great with everyone – Happy Spring!

This month “Financial Topic”: One more cartoon!



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Benjamin Graham

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The Intelligent Investor

The Numbers:

Closing Values / 03-31-2010

DOLLAR	weaker	NASDAQ	2,397.96	+159.70
10-YR YIELD	3.83%	S&P 500	1,169.43	+64.94
VOLUME NYSE	1,152,473,010	DJIA	10,856.63	+531.37

Provided by Standard & Poor's

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Manage.....Monitor.....Maintain

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