



Michael Mozian of Global Direct Equities works at the New York Stock Exchange. U.S. stocks opened higher Thursday after Greek leaders agreed to a debt deal, but fell later. CRAIG RUTTLE/AP

Stocks on the rise — but still fairly cheap

Despite jump, buying now could net investors some great deals

By Matt Krantz
USA TODAY

Stocks are soaring, but investors who buy in now may still be getting a deal of a decade, based on metrics of how pricey the market is.

The market is off to its best start since 1987, with the Standard & Poor's 500 rising again Wednesday and boosting its year-to-date gain to 7.3 percent.

Even so, the prices investors are paying for stocks are still well below average. If stock prices rise enough to get valuations closer to historic norms, it could help finally repair a decade-long period of disappointing returns.

Stocks are trading at a price-earnings ratio of 13.9 based on the past 12 months of earnings. That's well below the market's average P-E of 19.0 since 1988, says S&P Capital IQ. The P-E has crept higher along with the market's rebound, rising from

just 12 in the third quarter of 2011. Investors, though, are still buying shares below the 15 P-E they paid at the start of 2011.

"You can make a good case that stocks are relatively cheap," says Bill Stone, of PNC Wealth Management. "There's room to the upside."

Market indicators signal stocks are relatively reasonable based on:

» **Future earnings.** Earnings growth has been slowing — the fourth quarter of 2011 was the eighth straight quarter of lower profit growth. But even based on projected 2012 earnings, which reflects slower expected growth, stocks trade at a P-E of 12.8, which is below the average P-E of 18 based on projected earnings since 1988.

» **Revenue.** Some investors compare the prices of stocks to the revenue the companies generate to measure value. Stocks are now trading for 1.29 times their trailing reve-

nue, which is 12 percent below the average since 1996, says Jack Ablin, of Harris Private Bank. Ablin estimates stocks could rise 40 percent over the next three years if the price-to-revenue ratio returns to its historical average.

» **Book value.** Comparing the price of stocks to the book value, or net worth, of companies conservatively shows how much investors are paying for a claim to companies' assets minus liabilities. Stocks are now trading for roughly two times their book value, well below the three times book value they've paid on average since 1996, Ablin says.

Stocks' relatively low prices are even more attractive now in a period when bond yields are so low, says Robert Maltbie, of Singular Research. "The stock market is still priced for bad times," he says. "Investors should be saying, 'Maybe I should not hate stocks so much.'"