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STOCKS STILL UNDERVALUED ACCORDING TO WHARTON PROFESSOR JEREMY SIEGEL

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Last week I had the privilege of hearing Professor Jeremy Siegel speak at the J.P. Morgan conference in Chicago. Jeremy Siegel earned his PhD in economics from MIT in 1971. He has authored several books, including “Stocks for the Long Run”, which was named by the Washington Post as one of the ten best investment books of all time. His opinions have been solicited many times on programs such as CNBC and others.

So as an attendee of this conference I was quite interested in hearing what Professor Siegel had to say. He has always evaluated the stock market from a long term historical perspective. He feels it is a mistake to judge investments based on 1 or 2 or even 10 years of data. In Chicago he compared stocks, bonds, gold, and cash. He looked at their returns over the last 208 years. Stocks outperformed all other categories. Over that time period stocks have averaged 6.7%, bonds 3.6%, gold 0.7% and cash 2.8%. The interesting thing is that this average return for stocks holds true over many different time periods, 50 years, 70 years, and even the last 20 years. Yes, the stock market return from 1990-2010 is 6.7%, exactly the historic average. While he agreed stocks can be volatile at times, eventually they return to their average. For example, from 1990-2000 stock returns were way above average. Therefore, he wasn’t really surprised that returns were much lower than average from 2000- 2010.

In his evaluation, innovation and productivity gains are the two big drivers of market returns. Both of which are present today. Additionally he talked about the fact that the S&P 500 companies will probably produce record earnings this year. Earnings that are quality earnings, not just accounting manipulations. Currently his data suggests that the market is 26% undervalued.

Professor Siegel has a lot of experience analyzing stock market data. His conclusions are logical and well thought out. In listening to his presentation, it is hard to argue with his logic. And, do you really want to go against 200 years of history? Although the exact timing is uncertain, he believes there is a good chance stocks will see an increase of about 26% in the not too distant future, which gets them back to historical norms. History suggests that, over time, stocks are the best place to grow your investment portfolio. This is especially true today when you look at stocks compared to bonds or CD’s.