



# Why The Market Went Down

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*Intelligent Investment Management*

# Why The Market Went Down

2016

2002

1979

1965

1951

**Inflation**

**90 Day T-Bill**

**30 Year GM Bond**

**Required ROE**

**Actual ROE**

**Actual P/BV**

**Implicit P/E**



# Why The Market Went Down

2016      2002      1979      1965      1951

**Inflation**                      **1.5%**

**90 Day T-Bill**

**30 Year GM Bond**

**Required ROE**

**Actual ROE**

**Actual P/BV**

**Implicit P/E**



# Why The Market Went Down

2016

2002

1979

1965

1951

**Inflation**

**1.5%**

**90 Day T-Bill**

**0.25%**

**30 Year GM Bond**

**Required ROE**

**Actual ROE**

**Actual P/BV**

**Implicit P/E**



# Why The Market Went Down

2016      2002      1979      1965      1951

**Inflation**                      **1.5%**

**90 Day T-Bill**                **0.25%**

**30 Year GM Bond**          **4.9%**

**Required ROE**

**Actual ROE**

**Actual P/BV**

**Implicit P/E**



# Why The Market Went Down

2016      2002      1979      1965      1951

**Inflation**                      **1.5%**

**90 Day T-Bill**                **0.25%**

**30 Year GM Bond**            **4.9%**

**Required ROE**                **7.25%**

**Actual ROE**

**Actual P/BV**

**Implicit P/E**



# Why The Market Went Down

2016      2002      1979      1965      1951

**Inflation**                      **1.5%**

**90 Day T-Bill**                **0.25%**

**30 Year GM Bond**          **4.9%**

**Required ROE**                **7.25%**

**Actual ROE**                    **12**

**Actual P/BV**

**Implicit P/E**



# Why The Market Went Down

2016      2002      1979      1965      1951

**Inflation**                      **1.5%**

**90 Day T-Bill**                **0.25%**

**30 Year GM Bond**            **4.9%**

**Required ROE**                **7.25%**

**Actual ROE**                    **12**

**Actual P/BV**                   **2.4**

**Implicit P/E**





# Why The Market Went Down

2016      2002      1979      1965      1951

**Inflation**                      **1.5%**

**90 Day T-Bill**                **0.25%**

**30 Year GM Bond**            **4.9%**

**Required ROE**                **7.25%**

**Actual ROE**                    **12**

**Actual P/BV**                  **2.4**

**Implicit P/E**                   **20**



# Why The Market Went Down

	<u>2016</u>	<u>2002</u>	<u>1979</u>	<u>1965</u>	<u>1951</u>
<b>Inflation</b>	<b>1.5%</b>	<b>2%</b>			
<b>90 Day T-Bill</b>	<b>0.25%</b>	<b>1.1%</b>			
<b>30 Year GM Bond</b>	<b>4.9%</b>	<b>4.8%</b>			
<b>Required ROE</b>	<b>7.25%</b>	<b>8%</b>			
<b>Actual ROE</b>	<b>12</b>	<b>12</b>			
<b>Actual P/BV</b>	<b>2.4</b>	<b>2</b>			
<b>Implicit P/E</b>	<b>20</b>	<b>17</b>			



# Why The Market Went Down

	<u>2016</u>	<u>2002</u>	<u>1979</u>	<u>1965</u>	<u>1951</u>
<b>Inflation</b>	<b>1.5%</b>	<b>2%</b>	<b>8%</b>		
<b>90 Day T-Bill</b>	<b>0.25%</b>	<b>1.1%</b>	<b>9.5%</b>		
<b>30 Year GM Bond</b>	<b>4.9%</b>	<b>4.8%</b>	<b>9.5%</b>		
<b>Required ROE</b>	<b>7.25%</b>	<b>8%</b>	<b>15%</b>		
<b>Actual ROE</b>	<b>12</b>	<b>12</b>	<b>15%</b>		
<b>Actual P/BV</b>	<b>2.4</b>	<b>2</b>	<b>1.0</b>		
<b>Implicit P/E</b>	<b>20</b>	<b>17</b>	<b>6</b>		



# Why The Market Went Down

	<u>2016</u>	<u>2002</u>	<u>1979</u>	<u>1965</u>	<u>1951</u>
<b>Inflation</b>	<b>1.5%</b>	<b>2%</b>	<b>8%</b>	<b>1.5%</b>	
<b>90 Day T-Bill</b>	<b>0.25%</b>	<b>1.1%</b>	<b>9.5%</b>	<b>4%</b>	
<b>30 Year GM Bond</b>	<b>4.9%</b>	<b>4.8%</b>	<b>9.5%</b>	<b>4.5%</b>	
<b>Required ROE</b>	<b>7.25%</b>	<b>8%</b>	<b>15%</b>	<b>8%</b>	
<b>Actual ROE</b>	<b>12</b>	<b>12</b>	<b>15%</b>	<b>12%</b>	
<b>Actual P/BV</b>	<b>2.4</b>	<b>2</b>	<b>1.0</b>	<b>2.0</b>	
<b>Implicit P/E</b>	<b>20</b>	<b>17</b>	<b>6</b>	<b>17</b>	



# Why The Market Went Down

	<u>2016</u>	<u>2002</u>	<u>1979</u>	<u>1965</u>	<u>1951</u>
<b>Inflation</b>	<b>1.5%</b>	<b>2%</b>	<b>8%</b>	<b>1.5%</b>	<b>7%</b>
<b>90 Day T-Bill</b>	<b>0.25%</b>	<b>1.1%</b>	<b>9.5%</b>	<b>4%</b>	<b>2%</b>
<b>30 Year GM Bond</b>	<b>4.9%</b>	<b>4.8%</b>	<b>9.5%</b>	<b>4.5%</b>	<b>3%</b>
<b>Required ROE</b>	<b>7.25%</b>	<b>8%</b>	<b>15%</b>	<b>8%</b>	<b>13%</b>
<b>Actual ROE</b>	<b>12</b>	<b>12</b>	<b>15%</b>	<b>12%</b>	<b>13%</b>
<b>Actual P/BV</b>	<b>2.4</b>	<b>2</b>	<b>1.0</b>	<b>2.0</b>	<b>1.0</b>
<b>Implicit P/E</b>	<b>20</b>	<b>17</b>	<b>6</b>	<b>17</b>	<b>7</b>

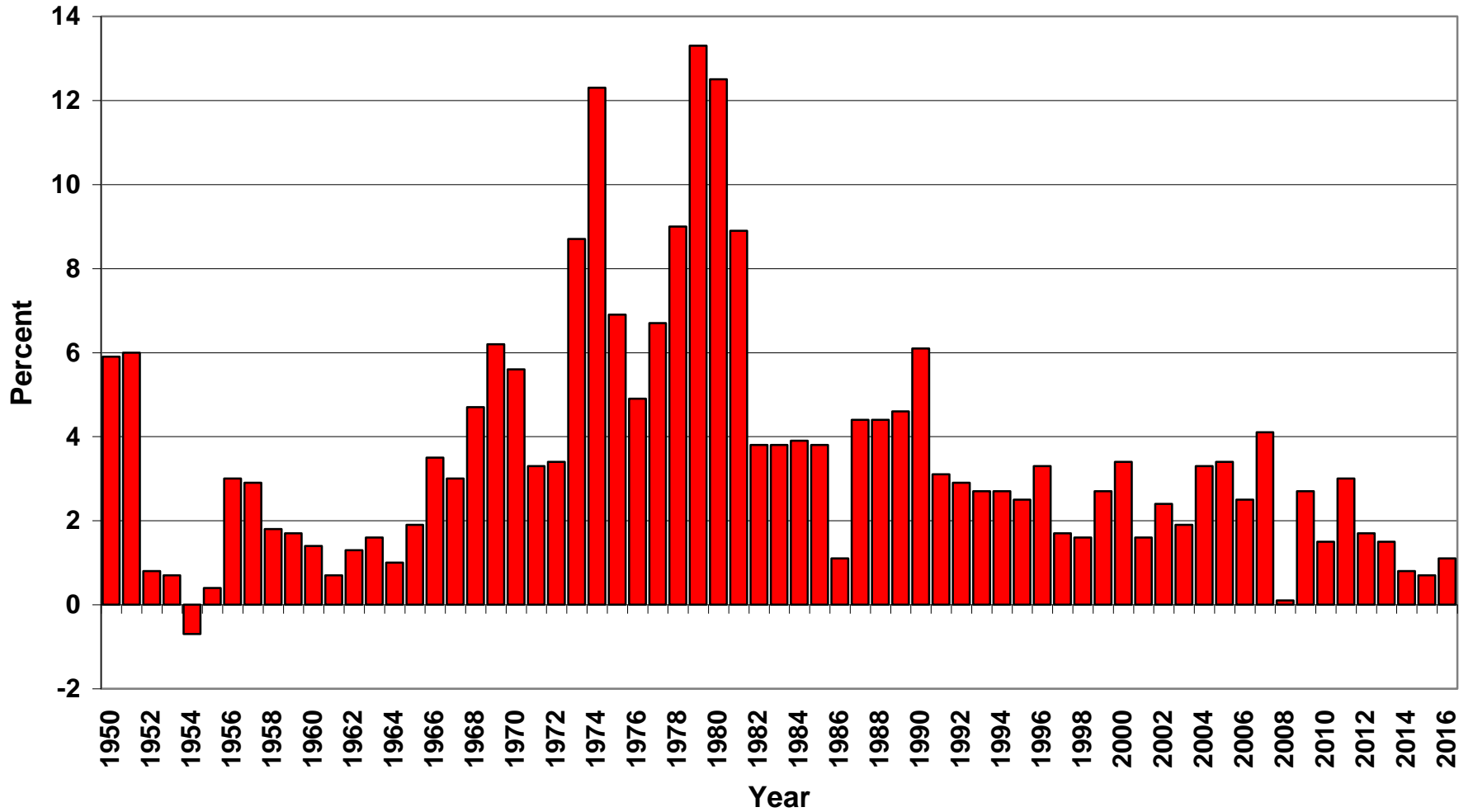


# Why The Market Went Down

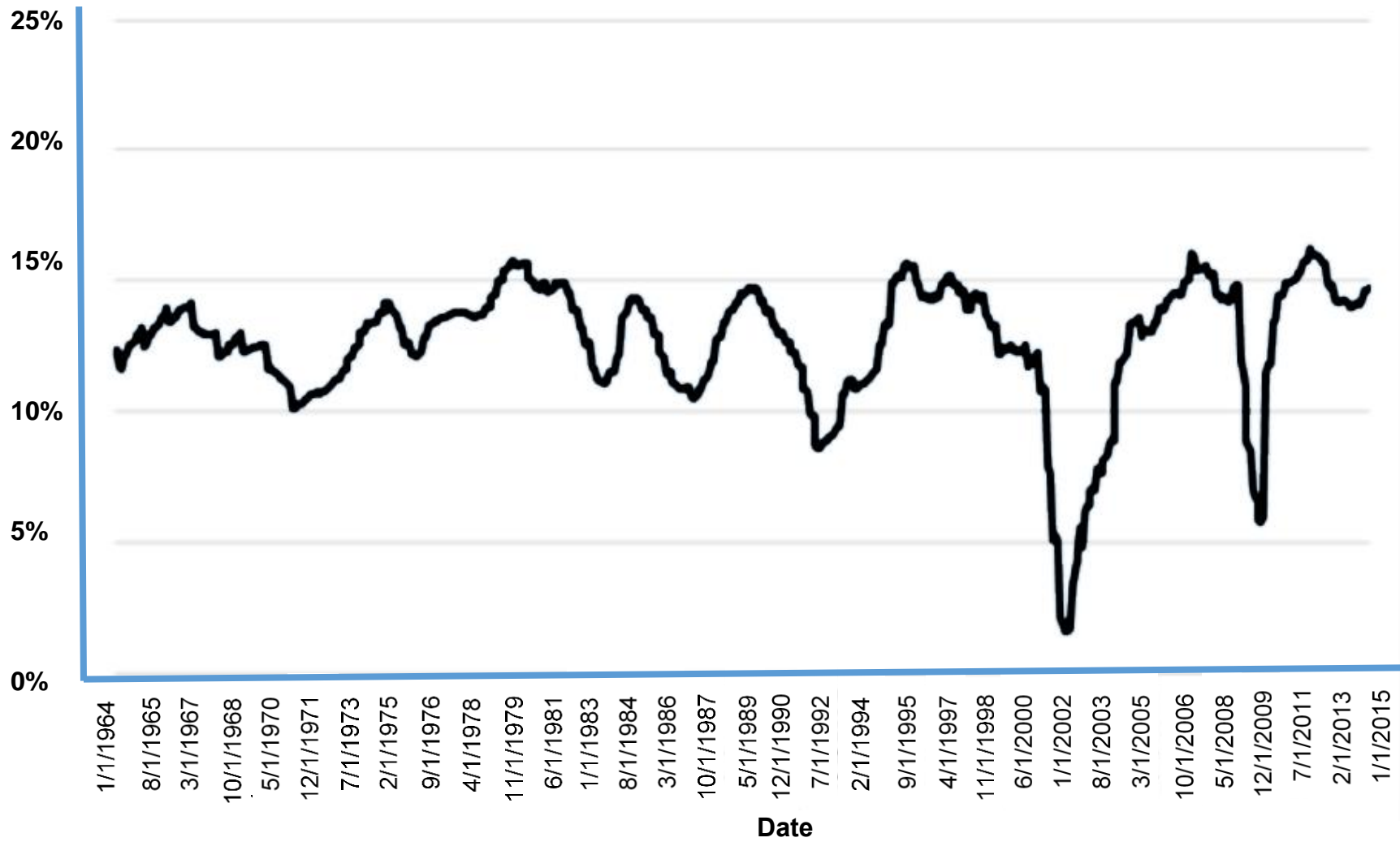
	<u>2016</u>	<u>2002</u>	<u>1979</u>	<u>1965</u>	<u>1951</u>
<b>Inflation</b>	1.5%	2%	8%	1.5%	7%
<b>90 Day T-Bill</b>	0.25%	1.1%	9.5%	4%	2%
<b>30 Year GM Bond</b>	4.9%	4.8%	9.5%	4.5%	3%
<b>Required ROE</b>	7.25%	8%	15%	8%	13%
<b>Actual ROE</b>	12	12	15%	12%	13%
<b>Actual P/BV</b>	2.4	2	1.0	2.0	1.0
<b>Implicit P/E</b>	20	17	6	17	7
<b>Required Return</b>	8%	15%	8%	8%	13%
<b>+/- (P/B Return)</b>	<u>+1%</u>	<u>+3%</u>	<u>-5%</u>	<u>+5%</u>	
<b>Realized Return</b>	9%	18%	3%	18%	



# U.S. Inflation Rate Year/Year Urban Consumers 1950-Aug2016



# Market ROE (Universe is all U.S. domiciled stocks) 1964-2015

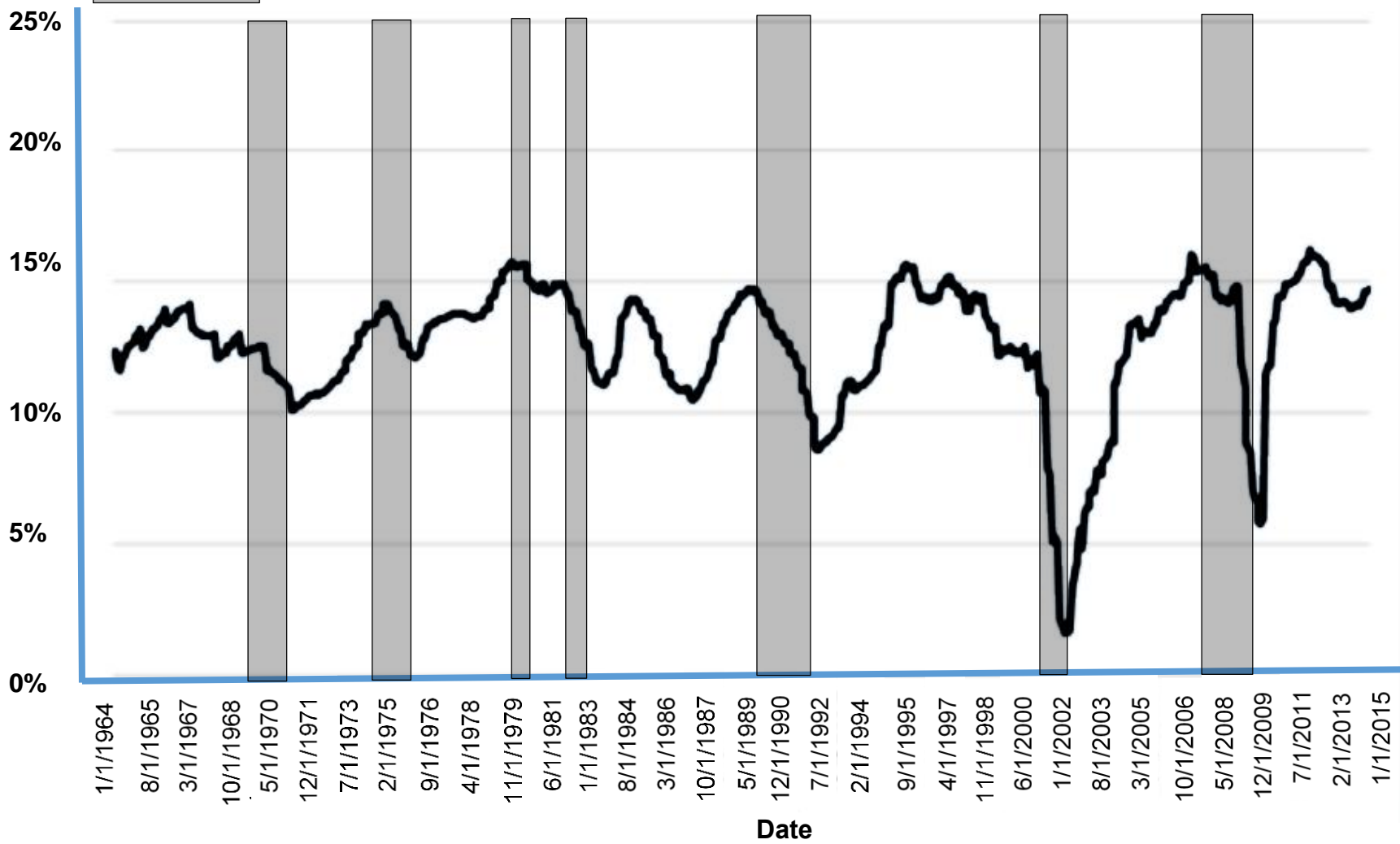


Source: <http://investorfieldguide.com/wp-content/uploads/2014/05/img4.png>





# Market ROE (Universe is all U.S. domiciled stocks) 1964-2015



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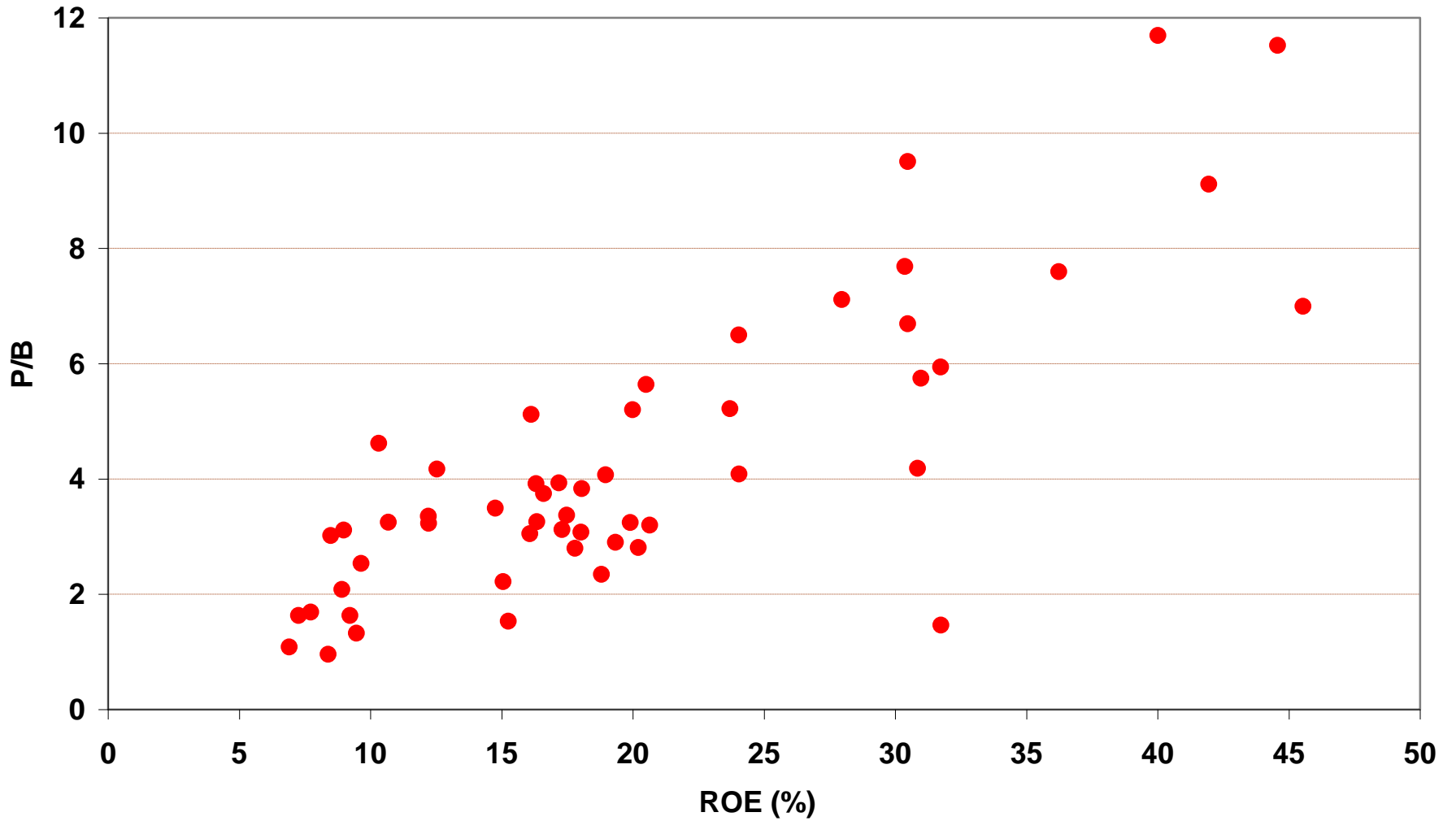
## Available Returns October 2016

	Nominal	After-Tax	Real After-Tax
<b>Short-Term Debt</b>	<b>0.25</b>	<b>0.16</b>	<b>-0.84</b>
<b>Long-Term Debt</b>	Treasury: 2.3 Corp. BAA: 4.23 Muni: 2.75	Treasury: 1.5 Corp. BAA: 2.75 Muni: 2.75	Treasury: 0.5 Corp. BAA: 1.75 Muni: 1.75
<b>Common Stocks</b>	<b>8</b>	<b>6.4*</b>	<b>5.4*</b>

\* Assuming long term capital gain rate of 20%



# S&P 500 Index Industry Groups 10/5/16





## Questions and Responses



Muhlenkamp & Company, Inc.  
*Intelligent Investment Management*