Equities

The Bubble Has Not Popped

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There are currently a legion of investors, strategists and general pundits telling us that the stock market is "undervalued." While some have formal models for this, the most common observation is simply that stocks have dropped dramatically. Darn it, smart brave investors buy when things are lousy. We have fallen so far, it has to be time for the "bottom," and when we hit the "bottom," it's straight back to Nasdaq 5000. Right? Well, not so fast.

The fact that stocks could have fallen so much and still be so expensive, is a statement about how silly we all got in 1999–2000 and about the disingenuousness of those who didn't sound the alarm back then. It is not a statement that stocks are cheap at the time this paper was written, in 2001. In fact, the opposite is true.

Basically, stocks are massively expensive versus all of recorded history on any reasonable scale. They are down from their provably insane levels of March 2000 (and please quote me here, any strategists not saying boldly that they were stupidly expensive back in March of 2000 should have their math and/or motivations checked), but stocks are anything but cheap today.

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