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We hope this letter finds you reflecting on a wonderful summer. The financial markets certainly enjoyed great returns during the summer months and have remained stronger than most expected. One of the concerns we hear in talking with clients is whether the stock market is ahead of itself and due for a significant decline. As you have read or heard us say many times, we do not attempt to time the market and have no idea which direction it will move in the short term. One of the indicators we pay attention to when evaluating valuation is the Price/Earnings ratio. This number tells an investor what multiple of earnings they are paying for an investment if they buy it at today's price.

The appropriate multiple is determined by many factors like interest rates, earnings growth rate, debt, and others. When looking at the long-term history of the market, the statistical mean or average P/E has been 15.73 times earnings and the S&P 500 is currently trading around 25 times earnings. This would indicate a very expensive market, however, stocks trade on future earnings estimates, not just current earnings. When using forward earnings estimates, the P/E of the S&P 500 is 17.3 times earnings. This is a little rich compared to normal but not out of line relative to the growth of our economy and low level of interest rates. With that being the case, we do not see storm clouds on the horizon relative to this risk.

There are other risks that could cause a decline in stock prices. Trade wars and interest rates rising too quickly are two that immediately come to mind. Those earnings estimates assume there will not be a significant drop in earnings because of tariffs. All these risks, as well as others not mentioned, are known by the market and reflected in current prices. We will continue to monitor this measure of valuation and others as we move forward. If the market continues to charge ahead to historically unreasonable levels, a change in allocation may be warranted. We will do our best to manage your assets through these developments and are grateful for your trust and confidence in us.

Enjoy the Fall, and let us know if there is anything we can do to be of better service to you.

Sincerely,



David J. Sculati
President
Accredited Investment Fiduciary®



Nathan Hawrot
Certified Financial Planner™