



VectorVest®

Stock Valuation & Stock Market Cycles

Presented by:

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Managing Director, VectorVest, Inc., Asia-Pacific

8 August 2016
11.45am Elston Room

AIA Annual National
Conference- Gold Coast

What We Will Discuss

1. How the market works.
2. How to Value stocks.
3. When and Why Bull and Bear markets begin and end.

How the Market Works

The Efficient Market Theory

States that all market participants receive and act on all relevant information as soon as it becomes available.

What is relevant information?

How the Market Works

Relevant Information

Relevant information is any news that causes a change in the perceived value of a stock or stocks.

How the Market Works

Good News & Bad News

Good News causes Perceived Value to increase
and Stock Prices to rise.

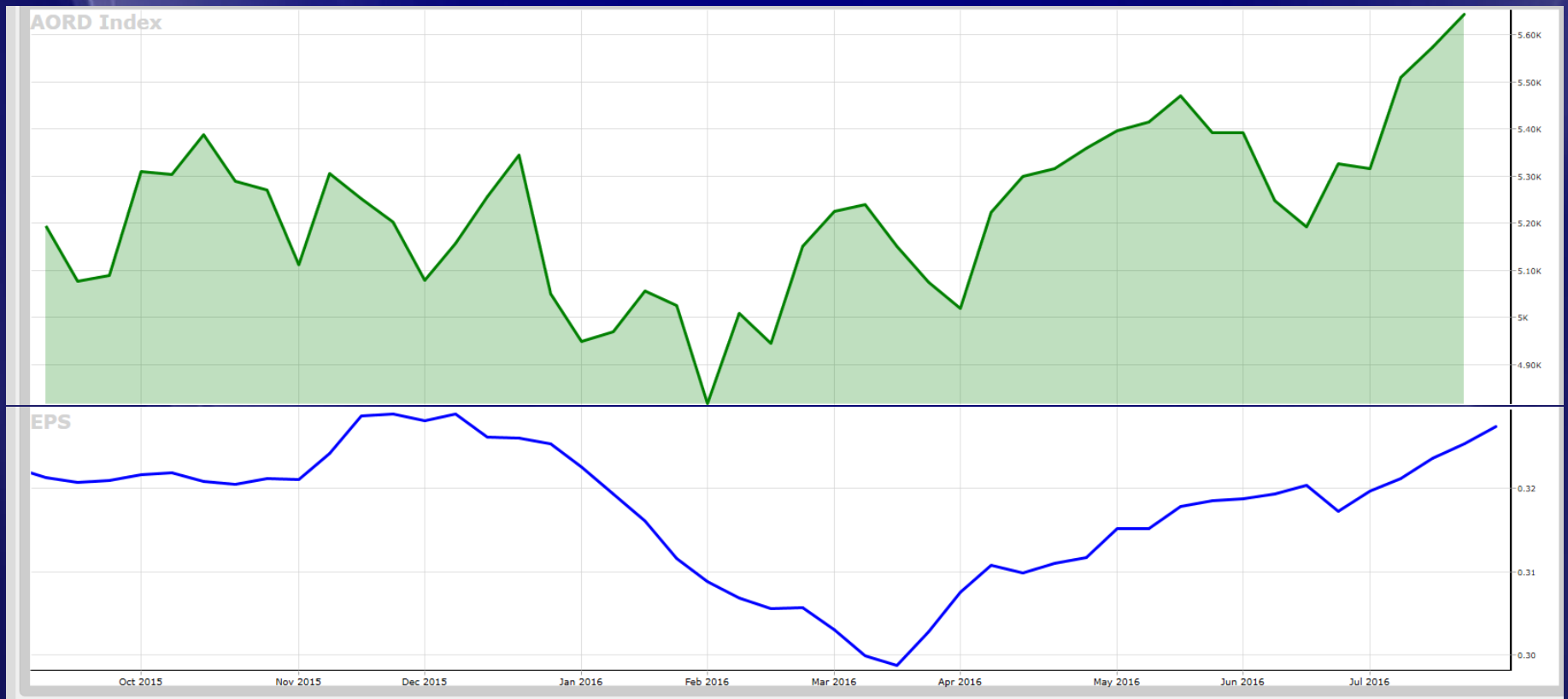
Bad News causes Perceived Value to decrease
and Stock Prices to fall.

How the Market Works

Three Powerful Forces

History tells us that
all Relevant Information
is manifested by changes in
Earnings, Inflation and Interest Rates.

All Ords Price vs. Earnings

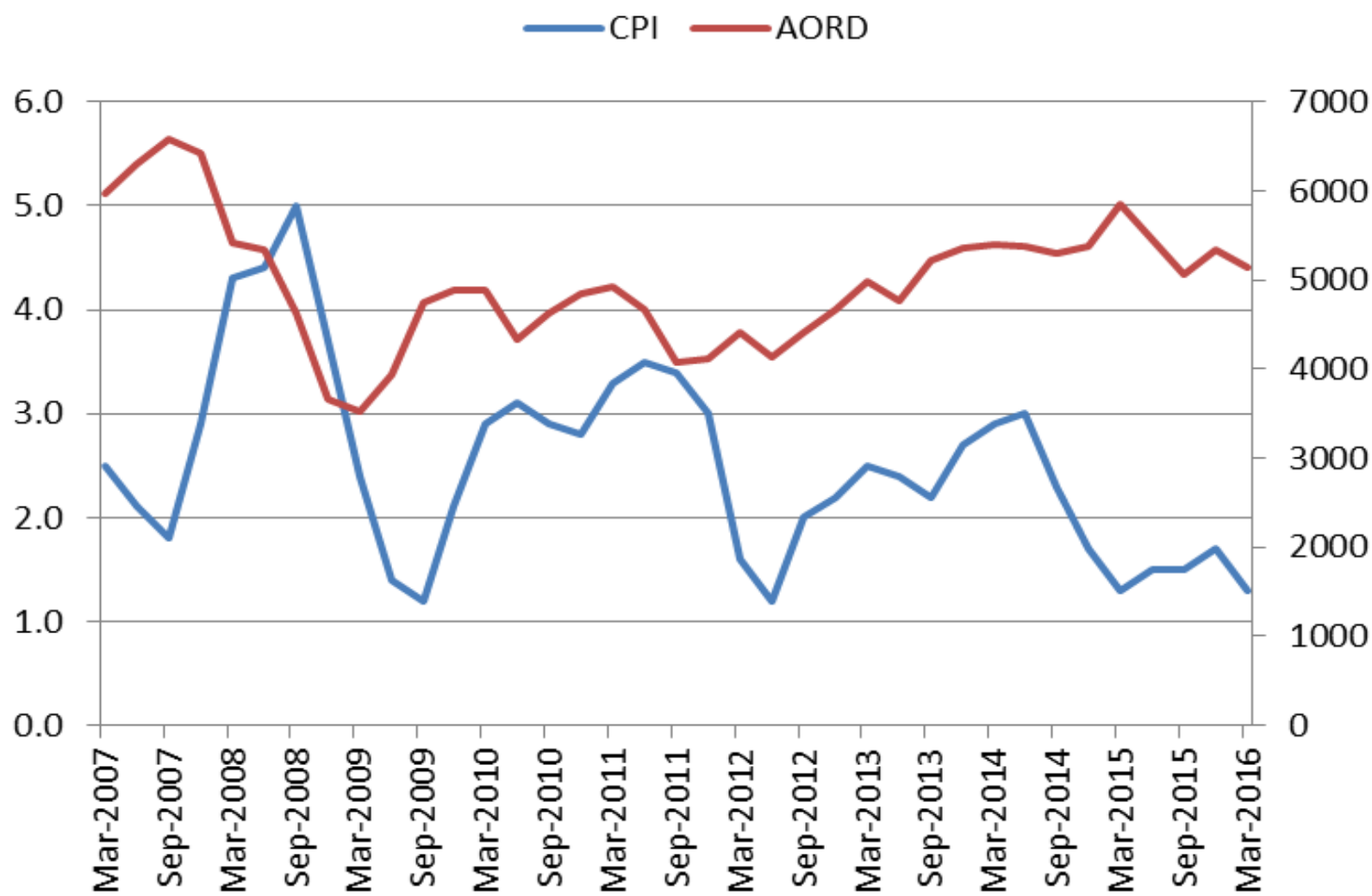


How the Market Works

Earnings

Stock Values go up with Rising Earnings.

ALL ORDS VS 1Yr CPI Change

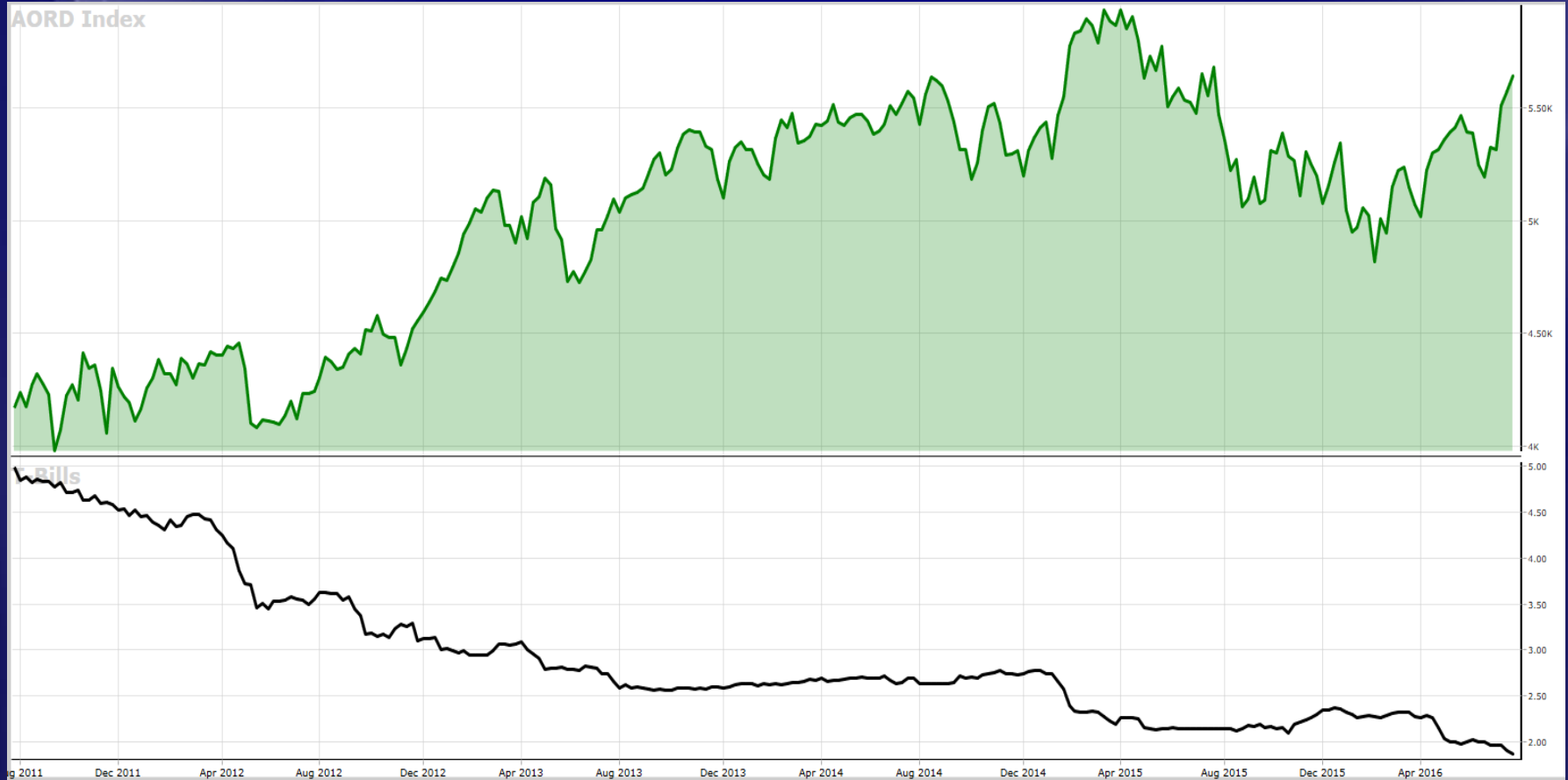


How the Market Works

Inflation

Stock Values go up with falling inflation.

ALL ORDS vs T BILLS



How the Market Works

Interest Rates

Stock Values go up with falling
interest rates.

How the Market Works: Summary

Stock Values Go Up When:

Earnings go up,
Inflation goes down and
Interest rates go down.

How the Market Works

How Do Investors Decide Where to
Put Their Money?

Stocks vs. Bonds

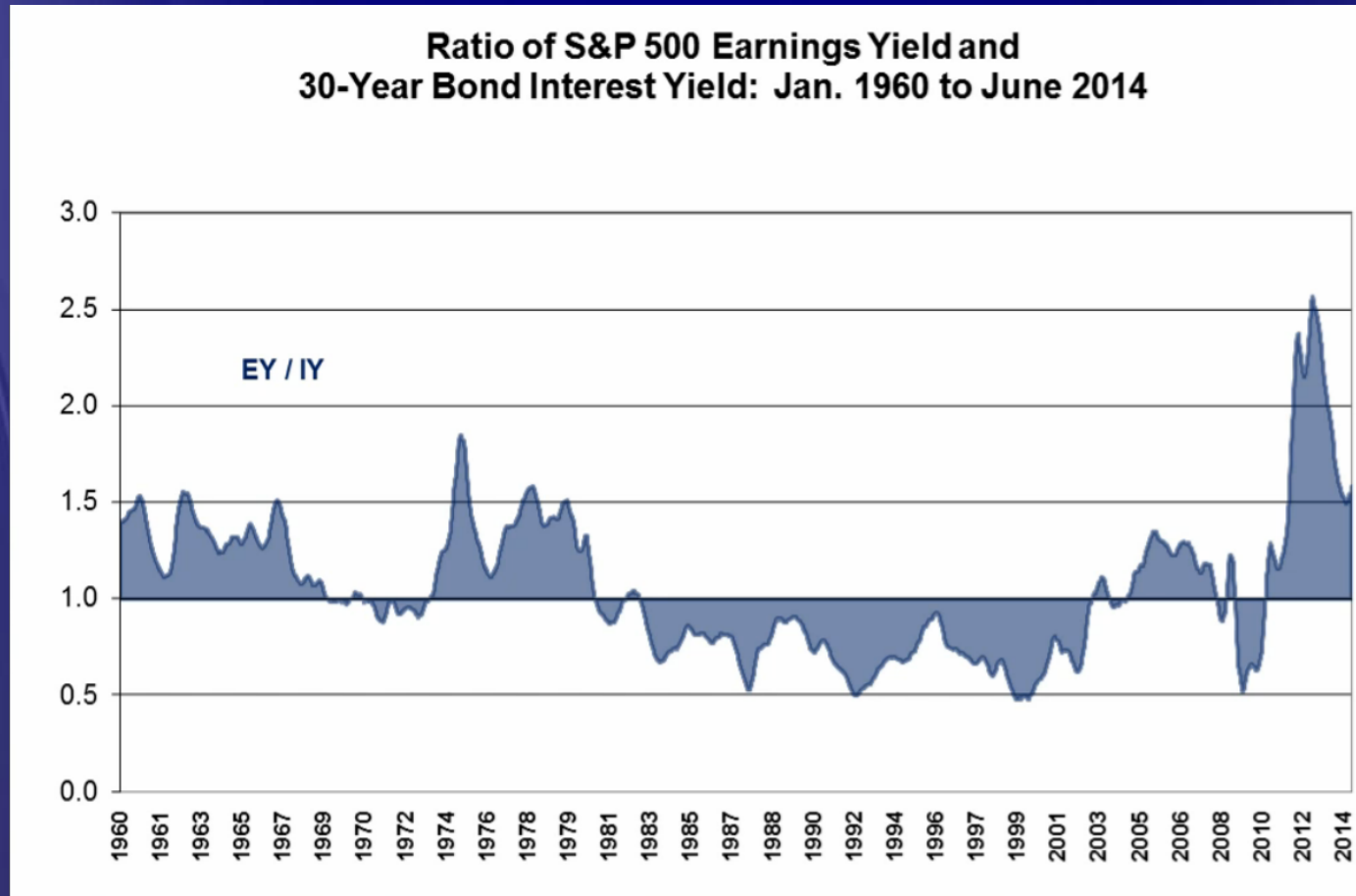
How the Market Works

Money Goes Where Money Grows

EY vs. IY

Earnings Yield vs. Interest Yield

Ratio of S&P 500 EY & 30Yr Bond IY



How the Market Works

The Yield Premium

Ideally: $EY = IY$

In Reality: $EY = IY + YP$

Where: $YP = \text{Yield Premium}$

How to Value Stocks-Simple Method

Inherent Value

If: $EY = IY + YP$

Then: $100 \times (E/P) = IY + YP$

Or: $100 \times (E/V) = IY + YP$

And: **$V = 100 \times [E/(IY + YP)]$**

How to Value Stocks

Value of Newcrest Mining LTD.

$$V = 100 \times [E / (IY + YP)]$$

$$V = 100 \times [0.88 / (2.12 + 2.78)]$$

$$V = \$17.96 / \text{Share}$$

Closing Price = \$25.33/ Share, 1/08/2016

How to Value Stocks

Now Factor into our “Quickie” Formula:

- Profitability (ROTC)—(EBIT/Total Capital)
- Earnings Growth
- Inflation Rate

How to Value Stocks-Advanced Method

$$V = 100 \times [E / (IY + YP)] \\ \times \text{Sqr} [((R + G)/2) / (IY + YP + F)]$$

where

E = Earnings in \$ / share

IY = Interest Rate in %

R = Profitability Factor in %

G = Earnings Growth in % / yr.

F = Inflation Rate in % / yr.

How to Value Stocks

Value of Newcrest Mining LTD

$$V = 100 \times [E / (IY + YP)] \times \text{Sqr}[\frac{(R + G)/2}{(IY + YP + F)}]$$

$$V = 100 \times [0.88/4.9] \times \text{Sqr}[\frac{(4.44 + 31)/2}{(2.12 + 2.78 + 1)}]$$

$$V = 17.96 \times \text{Sqr}[\frac{(4.44 + 31)/2}{(2.12 + 2.78 + 1)}]$$

$$V = 31.12/\text{Share}^*$$

At 1 August 2016:

- Price = \$25.33
- VV Value = 31.00

How to Value Stocks-Advanced Method

VectorVest Valuation includes

- Weighting
- Historical/Current/Forecast
- Rates of Change

Stock Valuation 1 August 2016

| Stock | Price | Simple | Advanced | VectorVest |
|-------|-------|--------|----------|------------|
| NCM | 25.33 | 17.96 | 31.12 | 31.00 |
| WES | 43.00 | 46.73 | 48.73 | 42.84 |
| AFI | 5.93 | 5.88 | 6.01 | 5.83 |
| CBA | 77.98 | 69.75 | 67.78 | 52.09 |
| SBM | 3.22 | 4.38 | 6.94 | 6.40 |
| TLS | 5.73 | 5.71 | 5.43 | 5.37 |

All Ords vs VV Valuation



All Ords vs VV Valuation

Valuation a Year Ago:

The All Ords was Fully valued .

Actual AORD = 5664

VV Valuation AORD = 5295

* VectorVest, 3/08/2015

All Ords vs VV Valuation

Valuation 1 August 2016:

The All Ords was Fully valued.

Actual AORD = 5670

Valuation AORD = 5330

* VectorVest, 1/08/2016

Bull & Bear Markets

What Causes
Bull & Bear Markets?

Bull & Bear Markets

Bull Markets are Born

when the economy is weak, inflation and interest rates are low and earnings are expected to rise.

(Think March, 2009)

Bull & Bear Markets

Bear Markets Begin

when the economy is strong, inflation and interest rates are high and earnings are expected to fall.

(Think November, 2007)

Bull & Bear Markets

The Virtuous/Vicious Cycle

- Inflation Drives Interest Rates.
- Interest Rates dictate the Strength of the Economy.
- The Economy affects Earnings.
- Earnings ultimately cause Stock Prices to Rise or Fall.

Bull & Bear Markets

The Investment Climate

Looks at Earnings, Inflation,
Interest Rates, Market Direction
and Investor Sentiment.

Stock Market Cycle Chart

| | <u>E</u> | <u>F</u> | <u>I</u> | <u>P</u> | |
|----|----------|----------|----------|----------|---------------------|
| 1. | U | U | D | U | Bull Market Begins |
| 2. | U | D | D | U | Bull Market Thrives |
| 3. | U | D | U | U | Rarely Happens |
| 4. | U | U | U | U | Bull Market Ends |
| 5. | D | U | U | D | Bear Market Begins |
| 6. | D | D | U | D | Rarely Happens |
| 7. | D | D | D | D | Bear Market Matures |
| 8. | D | U | D | D | Bear Market Ends |

E = Earnings
F = Inflation

I = Interest Rates
P = Stock Prices

Bull & Bear Markets

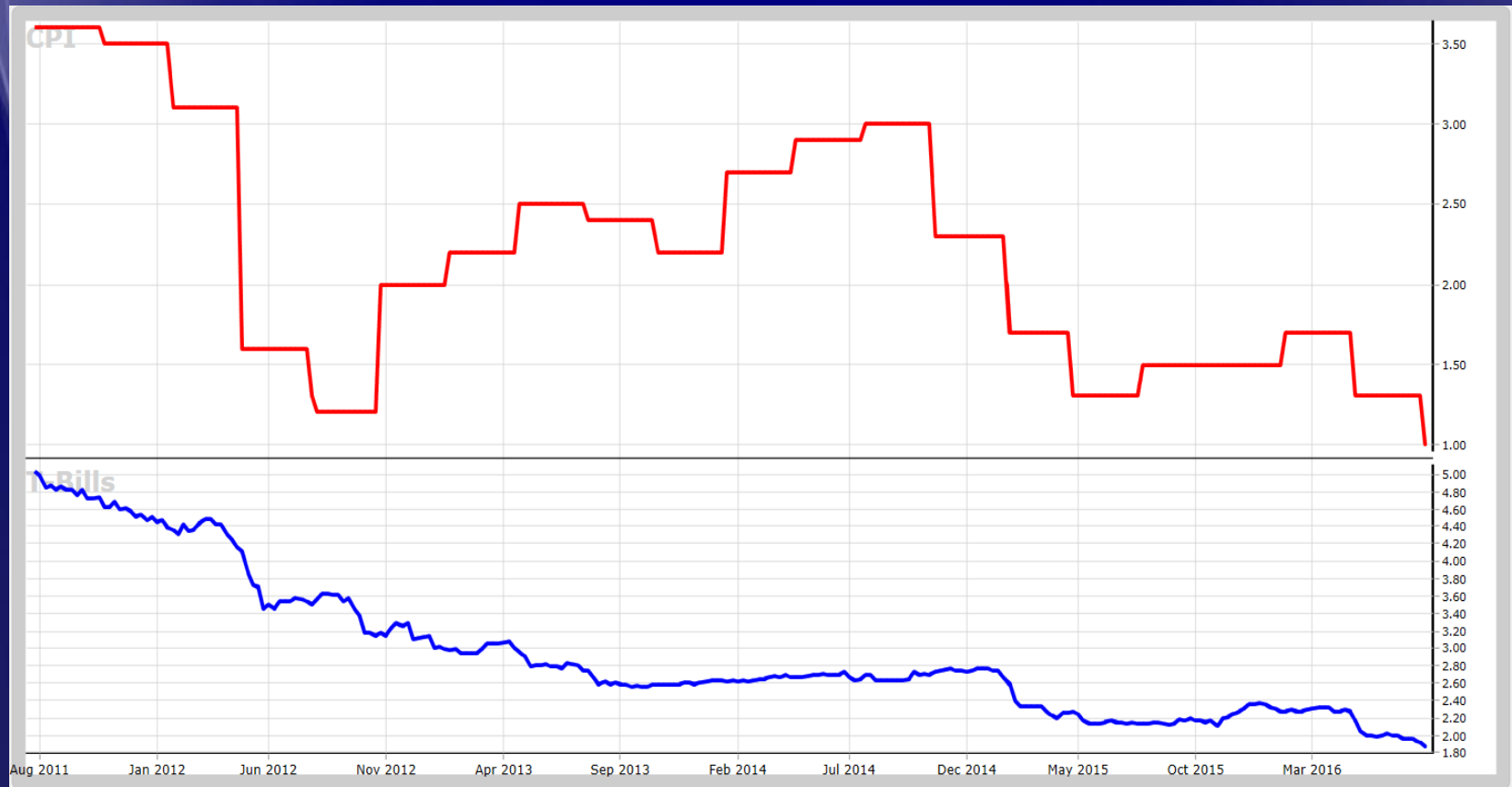
*The Current Situation:**

The Australian Market is in a
Case Seven Bear Market Scenario.

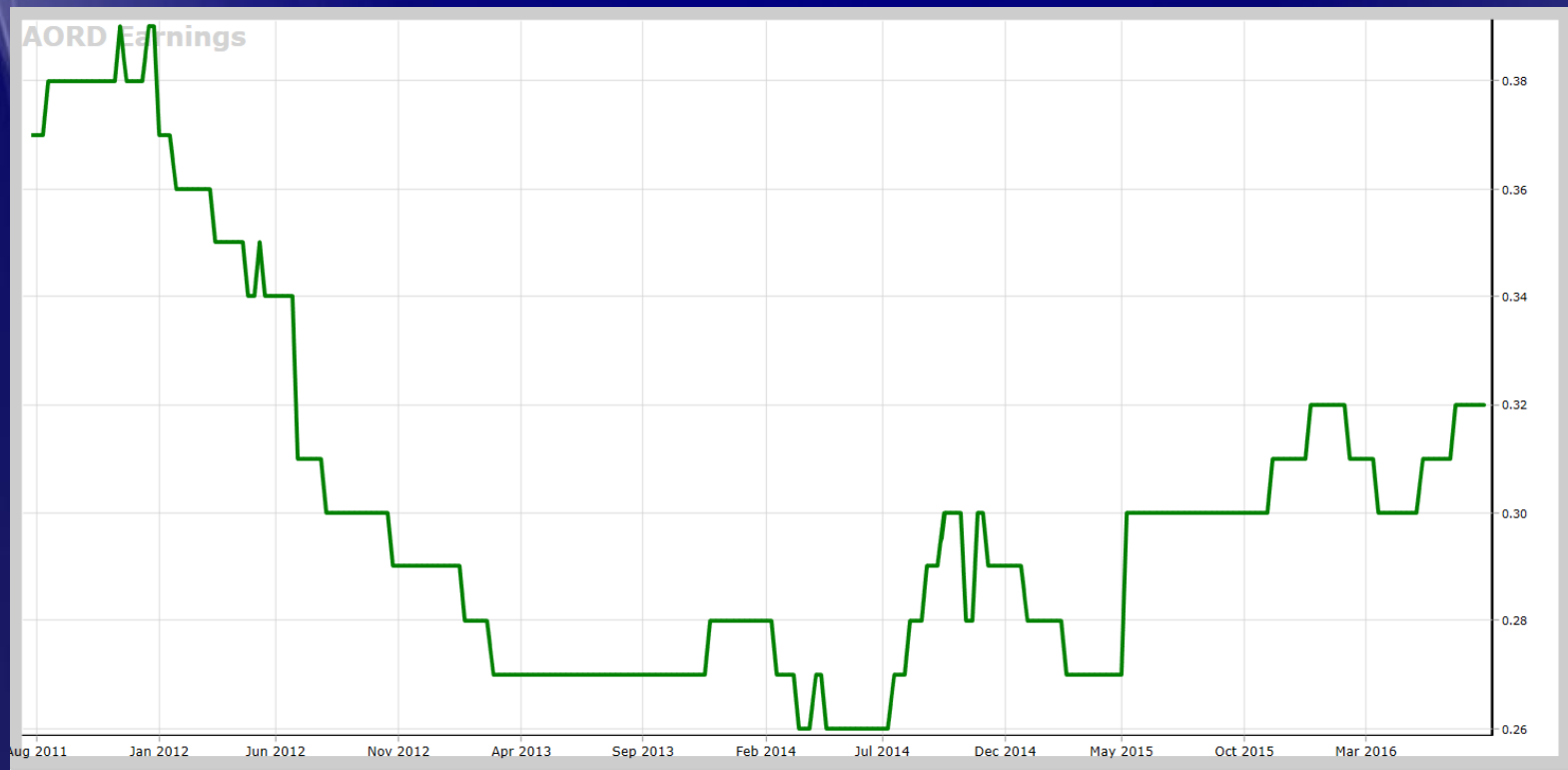
Earnings ,Interest Rates, Inflation and Prices are
all falling

*1/8/2016

Bull & Bear Markets



Bull & Bear Markets



Australian Share Market



SUMMARY OF WHAT WE HAVE COVERED

1. How the market works.
2. How to Value stocks.
3. When and Why Bull and Bear markets begin and end.

About VectorVest

Stock Analysis & Portfolio Management Software Provider

- In Business 30 Years
- 14 Different countries (AU 1800 shares, USA 9000, Total 23 000)
- Software provided is:
 - Rules based using mathematics
 - Uses combination of fundamental and technical stock analysis
 - Integrates this with a unique market timing system and a variety of risk management choices..
 - Giving a Share Portfolio Management System

For More

1. Booth 14

2. Hinterland Room-Wednesday 10 August 8am

VectorVest Stock Analysis and Portfolio Management System

3. Verandah Room-Stock Health Clinics

- Monday 8 August 2.45pm
- Tuesday 9 August 10.30am & 2.30pm

4. Special AIA Member Offer

- \$15 AUD for a 5 week trial
- \$790 AUD annual subscription
- \$1320 AUD two year subscription

Q&A

Mission Statement

Our Mission

is to provide the best stock market guidance available anywhere at any price.

VectorVest

Important Contact Information

Product Support: 1800 303 782

E-mail: support@vectorvest.com

Inflation, Interest Rates, Earnings

| Indicator | Current Level | 01/07/2016 | 08/07/2016 | 15/07/2016 | 22/07/2016 | 29/07/2016 |
|-------------------|---------------|------------|------------|------------|------------|------------|
| CPI Inflation % | 1.00 | 1.07 | 1.07 | 1.07 | 1.07 | 1.14 |
| CRB Inflation | 179.21 | 0.66 | 0.73 | 0.68 | 0.76 | 0.81 |
| 90 Day T-Bills % | 1.87 | 1.18 | 1.17 | 1.18 | 1.21 | 1.24 |
| 10 Yr. Gov Bnd % | 2.12 | 1.34 | 1.34 | 1.34 | 1.48 | 1.07 |
| 5-Yr AA Corp % | 3.40 | 1.00 | 0.97 | 0.97 | 0.97 | 1.01 |
| AORD Earnings | 0.32 | 0.97 | 0.97 | 0.97 | 0.97 | 0.97 |
| AORD Composite | 5643.97 | 1.01 | 0.97 | 1.06 | 1.07 | 1.09 |
| VWC/AU Adv/Dec | 7370.00 | 1.20 | 1.29 | 1.43 | 1.51 | 1.22 |
| Consumer Sentmnt. | 99.10 | 0.76 | 0.76 | 0.79 | 0.79 | 0.79 |
| Composite | | 1.00 | 1.01 | 1.03 | 1.06 | 1.02 |

Bull & Bear Markets

