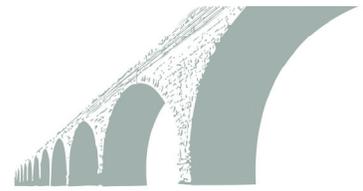


# Still In Thrall With Low Vol

by: Doug Ramsey, CFA, CMT



When Jimmy Carter’s Chief Economist was asked in 1979 to avoid using the “R-word,” he cleverly substituted another—and then promptly forecast the nation was “headed for a serious banana.” We wish Alfred Kahn, who died in 2010, had coined an alternative for the “B-word” before it came to describe almost any asset with a price chart showing a move “from the lower left to the upper right.”

While we wouldn’t go so far as to tar it with the “bubble” epithet, the ongoing investor obsession with **stability** strikes us as considerably more dangerous than the situation in the Technology sector.

While many see market parallels with 1999, we instead see a **mirror image**. The latter half of the 1990s was obviously characterized by strong economic growth, culminating in a final bull market phase in which no price appeared too high for superior EPS growth. The current expansion, on the other hand, has delivered a massive shortfall in growth and a scarcity of income along with it. **Predictability** of growth (rather than the **level**) has therefore become a highly desired trait—and if that growth is accompanied by a steady dividend stream, so much the better.

The result: Consumer Staples stocks at a Price/*Cash Flow* multiple near 20x (Chart 1), and Utilities at a P/E ratio roughly 50% above its historical norm (Chart 2).

Chart 1

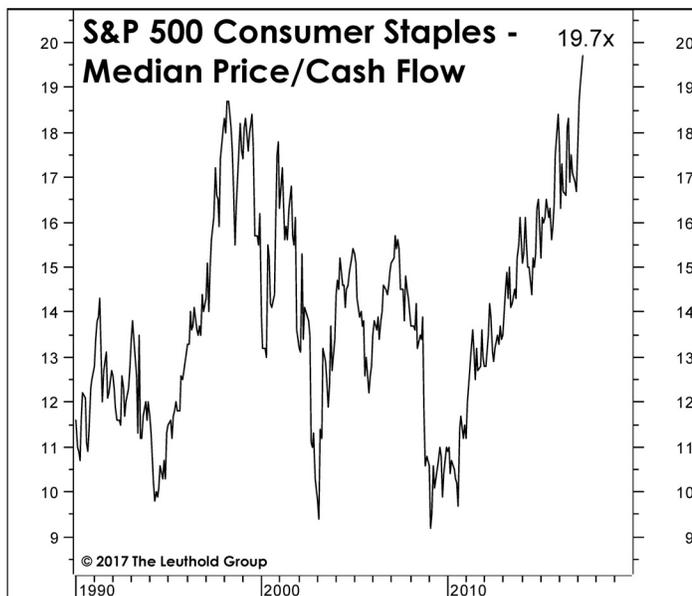
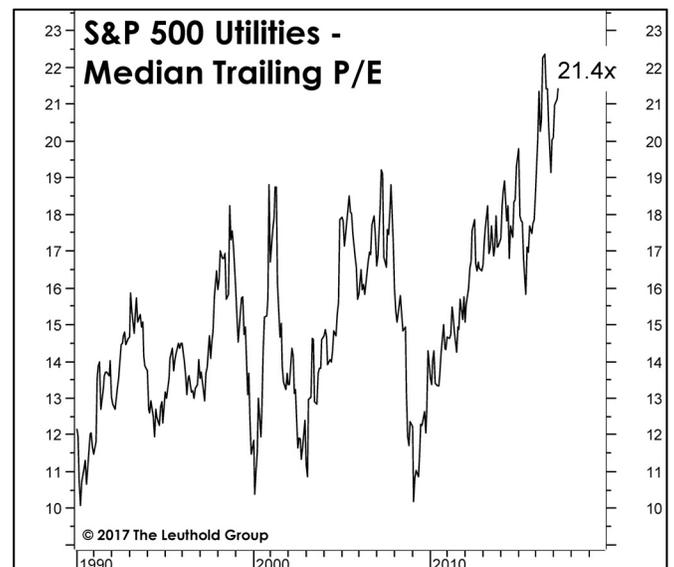


Chart 2



## Still In Thrall With Low Vol (continued)

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Our **Low Volatility Index** sits at the intersection of all of this cycle's most prized qualities:

- Minimal stock price volatility
- Relative “safety” of the underlying business models
- Stability of earnings and cash flows
- Dividend yield that is competitive with prevailing bond yields

These are great qualities, but today's entry price (P/E of 23.1x, Chart 3) is not so great. Low Vol has been this millennium's best theme in part because **the entry price was right**: The Low Vol P/E bottomed at 13.6x, just as the Tech (and Growth) stocks were topping. The latest multiple is almost 10 points higher...totally “bananas.”

Chart 3

