

# Applying the Shiller P/E Framework to the Earnings Certain Strategy

Presented by: Mayur Thaker, CFA  
Analyst, Co-Portfolio Manager  
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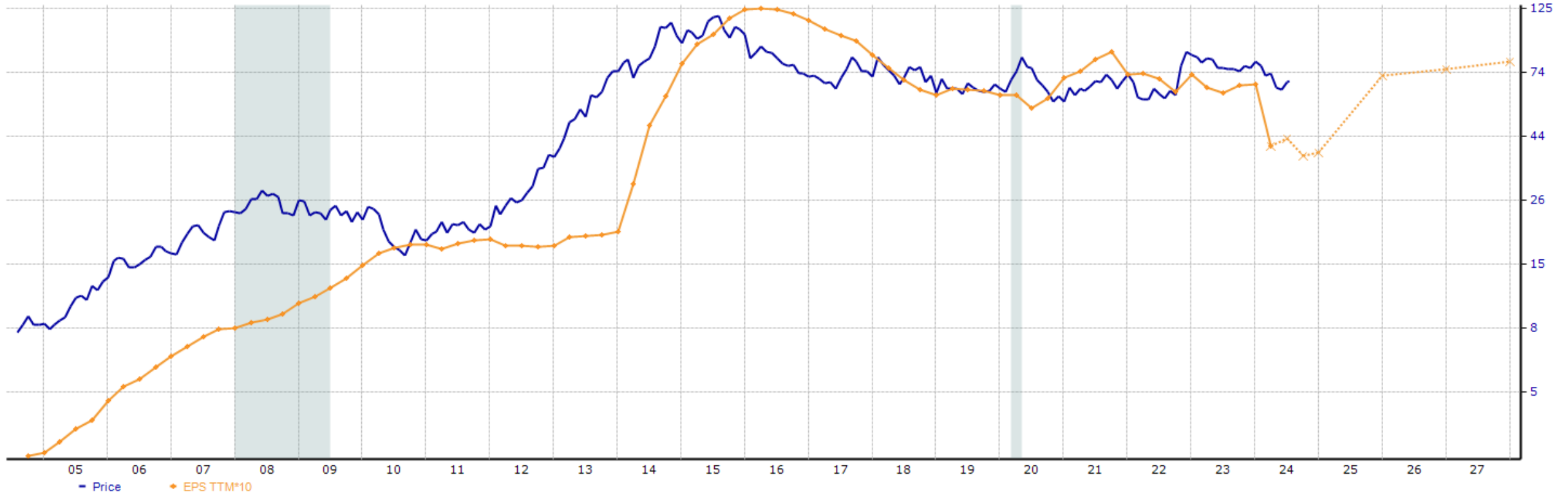
Bear markets are the result of two factors:

- 1) earnings decline
- 2) p/e multiple compression



### Price & Earnings GILEAD SCIENCES (GILD)

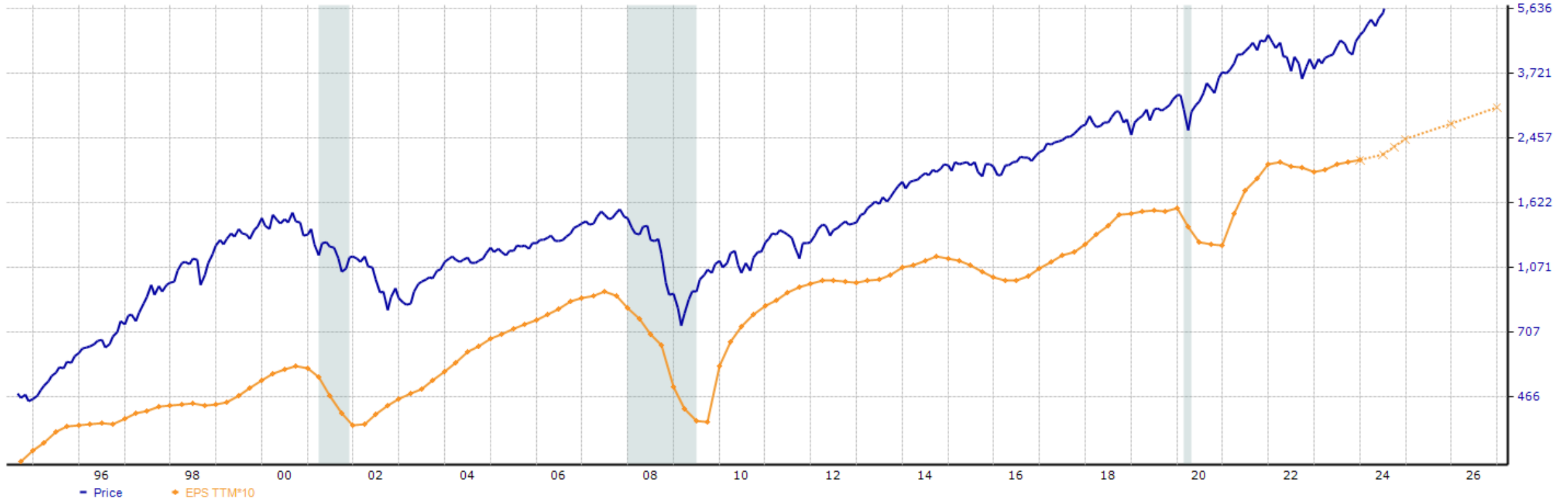
Price \$ | EPS\*10



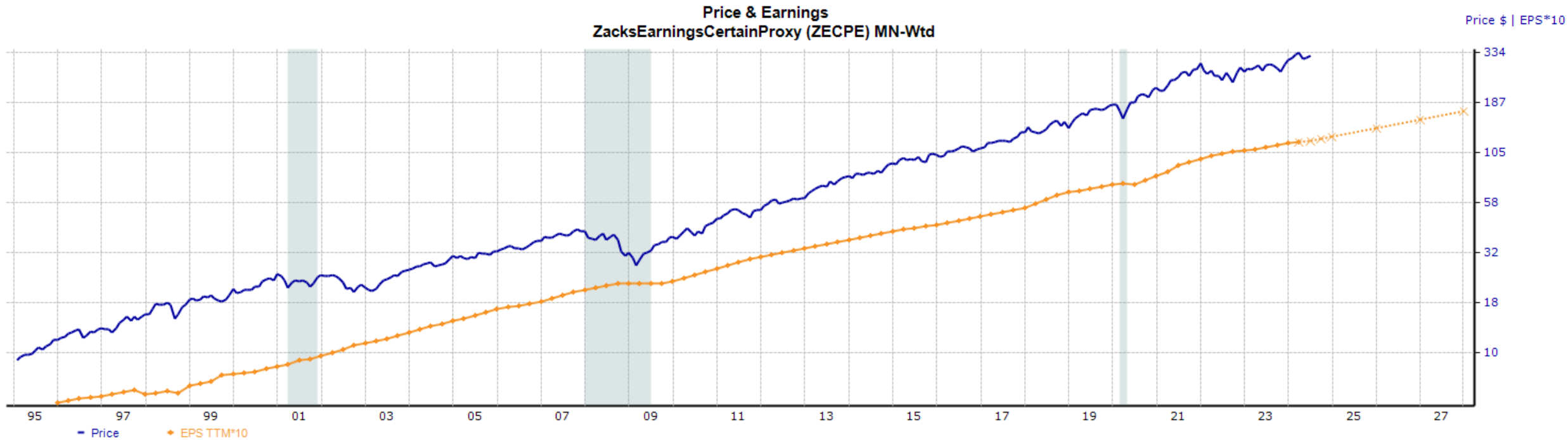


### Price & Earnings S&P 500 (SPX)

Price \$ | EPS\*10



# The Zacks Earnings Certain Proxy corrects for earnings risk, but still carries valuation risk





But what if we could apply an analytical framework to minimize valuation risk as well?

Shiller P/E can help us achieve this





# Shiller P/E, or the Cyclically Adjusted P/E (CAPE)



- Adjusts all historical EPS for inflation (CPI)
- Calculates a 10-year moving average of those historical real earnings
- Looks at the multiple the stock historically trades at relative to that 10-year moving average Real EPS

The idea is to look past single year earnings, which can be highly misleading, and instead look at the multiple to *normalized earnings* that are proven to be long-term sustainable and supportable.



Shiller P/E has had strong predictive power on the overall market, explaining forward 10-year returns by over 65% over the past century.

# Thank You for Attending!



**Mayur M Thaker, CFA**

Equity Strategist

Zacks Professional Services

Support: 866.794.6065 | [info@Zackspro.com](mailto:info@Zackspro.com)

Twitter: @freshjiva

[linkedin.com/in/mayur-m-thaker-cfa-86234235/](https://www.linkedin.com/in/mayur-m-thaker-cfa-86234235/)

866-794-6065

strategycall@zackspro.com

www.zackspro.com



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