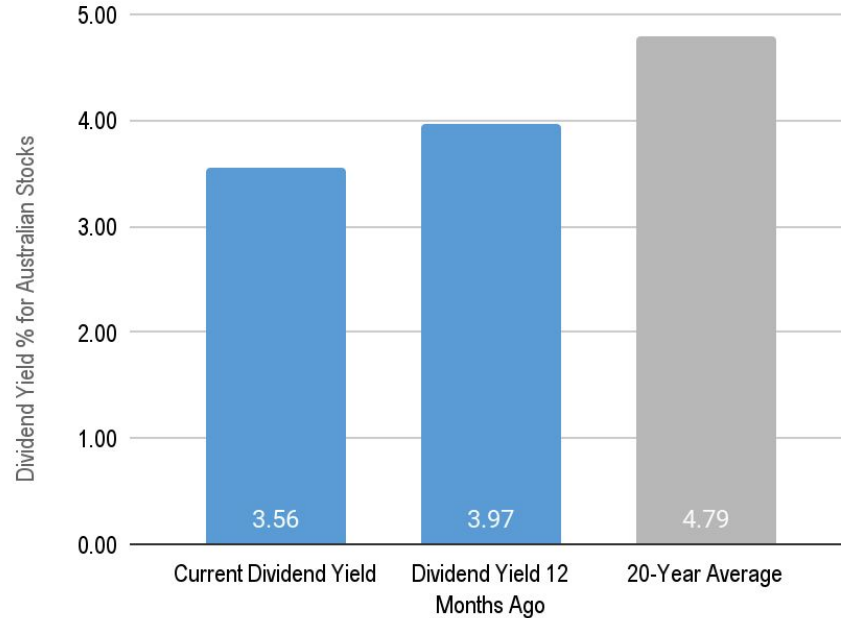




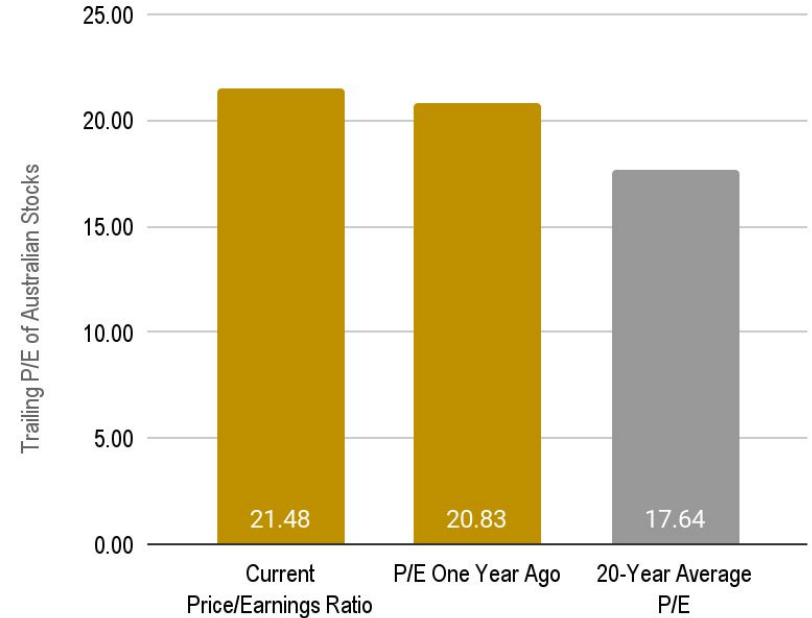
Source: Investing Times. Data as of 5 January 2025
For Educational and Informational Purposes Only

Valuations: Dividend and P/E Ratio Snapshots

Dividend Yield Snapshot



Price/Earnings Ratio Snapshot

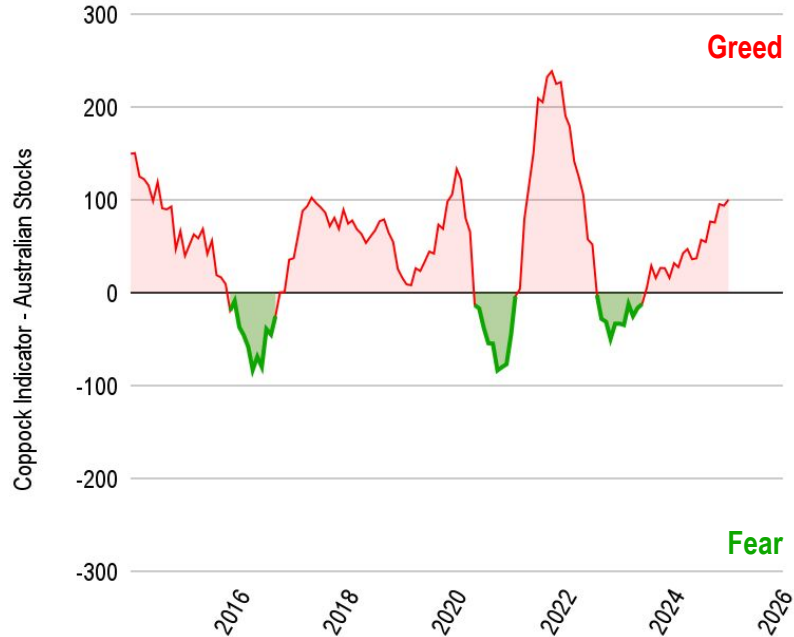


Source: Investing Times. Data as of 5 January 2025

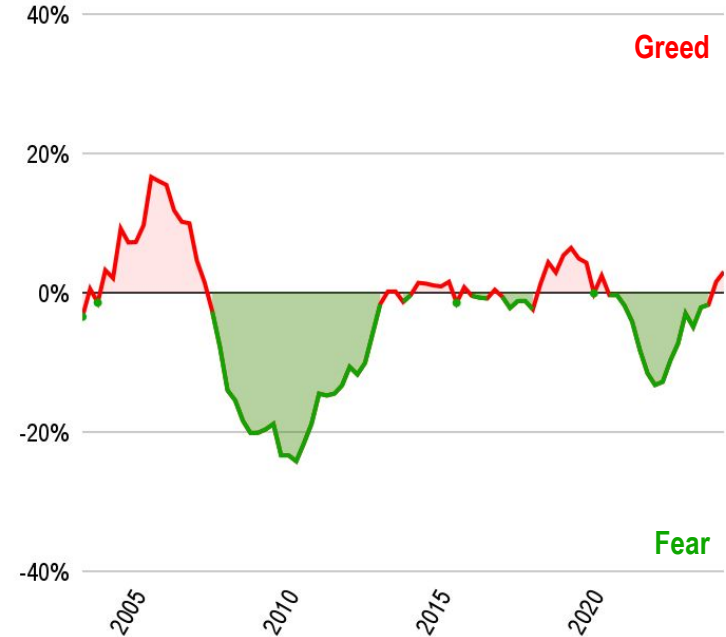
Punchline: The dividend yield is below long-term averages, while the P/E ratio is above normal. This implies stocks are expensive relative to normal and could be a contrarian indicator.

Leading Indicators for Australian Stocks

Short-Term Sentiment: Coppock Indicator for Stocks



Long-Term Sentiment: % Change in Allocation to Stocks



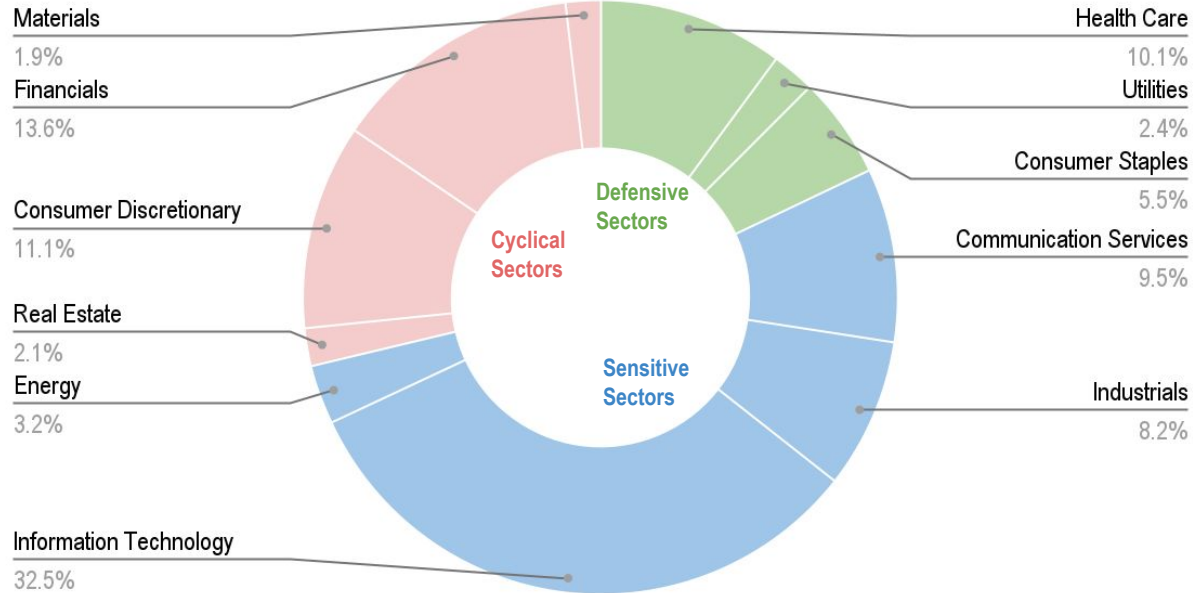
Source: Investing Times. Data as of 5 January 2025

Punchline: We currently face a situation where greed exceeds fear, both in the shorter term and longer term. All else being equal, this warrants care.

US Market Characteristics

Largest Stocks and Sectors

Name	Weight
Apple Inc.	7.42%
Nvidia	6.83%
Microsoft Corp	6.26%
Amazon.Com	4.15%
Meta Platforms Inc	2.63%
Alphabet Class A	2.23%
Broadcom	2.18%
Tesla	2.13%
Alphabet Class C	1.83%
Berkshire Hathaway B	1.66%



Source: Investing Times. Data as of 5 January 2025

Punchline: The US has more "sensitive" exposure, thanks to an enormous technology sector. It is otherwise quite balanced between defensive and cyclical exposures

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ZONE SYSTEM BEST IDEAS, WORTH INVESTIGATING FURTHER

The hard reality is that investment opportunities are scarce at the moment, although relative ideas are plentiful. This means it could be worth digging a little deeper than usual to identify good opportunities. With this in mind, we highlight new markets where the Zone System suggests the highest risk-reward levels to the upside.

ASX REALTY/REIT

Dividend Yield 4.47%, Zone 5, 18 Year Total Return 4.12% P/a

ASX COMMERCE/RETAIL

Dividend Yield 5.81%, Zone 4, 18 Year Total Return 4.93% P/a

ASX UTILITIES

Dividend Yield 5.81%, Zone 3, 18 Year Total Return 4.93% P/a

First, we look at sector opportunities in Australia. The top three at the moment are mostly defensive sectors, which could protect against a broad downturn if it were to occur. Healthcare is still clearly the cheapest and also offers the most fundamental diversification. Consumer staples can also act defensively, while utilities offers reasonable yields of 5%.

POWER/GEN

Dividend Yield 4.28%, Zone 5, 18 Year Total Return 2.81% P/a

INTERNATIONAL STOCK

Dividend Yield 1.70%, Zone 5, 18 Year Total Return 11.32% P/a

US SMALL CAPS

Dividend Yield 3.81%, Zone 5, 18 Year Total Return 8.93% P/a

Outside of Australia, the opportunity set is getting smaller, with many regions on the expensive side. It's already mentioned the case for Hong Kong, which is a stand-out as it could offer growth drivers but comes significant risk. Looking for higher-quality opportunities, parts of the US still look reasonable, with equal-weighted offering exposure without the high prices point, which still caps could do well if interest rates continue to get out.

ASIAN/EM

Zone 5 + Expense, Zone 4 + Moderately expensive, Zone 3 + Cheap

GLOBAL GREEN/PROPERTY

Zone 5 + Expense, Zone 4 + Moderately expensive, Zone 3 + Cheap

COMB

Zone 5 + Expense, Zone 4 + Moderately expensive, Zone 3 + Cheap

For the first three opportunities, we look for diversification. Hedged international holdings could be considered, which could do better than unweighted indices if Australian interest rates stay higher than global peers or China continues to stimulate. Global bond property is also interesting, with potentially hedging investors, who want to look outside of stocks and obtain healthy yields. Last, cash can still play a role, with reasonable interest rates and a stock of alternatives as more opportunities present themselves.

As always, there are good ideas for your consideration. As we've already discussed, diversification is always a good idea.

Zone 5 + Cheap, Zone 4 + Moderately expensive, Zone 3 + Cheap

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GLOBAL STOCKS: THE WORLD IS MODERATELY OVERVALUED

The overwhelming theme throughout our report is that the investing landscape is on the expensive side, although the market has some solid momentum carrying it. Below, we can see the way the market has evolved over time depending on how much bear or green it proved into global markets. Currently, we are seeing a heated market – with Australia sitting in a similar position to developed and emerging markets.

MARKETS ARE BEING DRIVEN ON THE EXPENSIVE SIDE, BUT NOT IN THE DANGER ZONE

With these markets at similar valuation levels, the empirical evidence would therefore suggest that lower returns are ahead of us. Adding some current context to this statement, it could be important given Australian banks are in the danger zone. If it gets deeper, we can also see some relative opportunities though. The best value is still Hong Kong, despite a large bounce following the China stimulus package. Flanking behind Hong Kong, we have five markets also classified as 'fair value' according to the Zone System and might be worth a closer look. This includes two US markets, including small caps which have to do well during rate cuts, historical spending.

Country/Region	Relative Value	Zone	Price
Hong Kong	19.2%	1	1.4
China	20.2%	2	1.4
India	17.4%	3	1.4
Japan	8.0%	4	1.4
UK	10.2%	4	1.4
US	12.2%	4	1.4
US Small Caps	12.2%	4	1.4
US Large Cap	12.2%	4	1.4
US Mid Cap	12.2%	4	1.4
US Dividend	12.2%	4	1.4
US Growth	12.2%	4	1.4
US Tech	12.2%	4	1.4
US Healthcare	12.2%	4	1.4
US Financial	12.2%	4	1.4
US Energy	12.2%	4	1.4
US Consumer	12.2%	4	1.4
US Industrial	12.2%	4	1.4
US Real Estate	12.2%	4	1.4
US Utilities	12.2%	4	1.4
US Telecom	12.2%	4	1.4
US Media	12.2%	4	1.4
US Entertainment	12.2%	4	1.4
US Technology	12.2%	4	1.4
US Software	12.2%	4	1.4
US Hardware	12.2%	4	1.4
US Services	12.2%	4	1.4
US Retail	12.2%	4	1.4
US Food	12.2%	4	1.4
US Beverage	12.2%	4	1.4
US Pharmaceuticals	12.2%	4	1.4
US Biotech	12.2%	4	1.4
US Medical Devices	12.2%	4	1.4
US Healthcare Services	12.2%	4	1.4
US Insurance	12.2%	4	1.4
US Banking	12.2%	4	1.4
US Finance	12.2%	4	1.4
US Real Estate Services	12.2%	4	1.4
US Real Estate Development	12.2%	4	1.4
US Real Estate Investment	12.2%	4	1.4
US Real Estate Management	12.2%	4	1.4
US Real Estate Services	12.2%	4	1.4
US Real Estate Development	12.2%	4	1.4
US Real Estate Investment	12.2%	4	1.4
US Real Estate Management	12.2%	4	1.4

At the other end, we can see India is no longer in the danger zone following a volatile October. This comes off the back of an extraordinary run. Still, it perhaps the other relatively market, it's the only market that is negative in 2024 but remains in Zone 2, so not showing as an opportunity at this stage.

Overall, we have a global backdrop that is much more expensive than this time last year, but only a few are in the danger zone.

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DEALING WITH ALL-TIME HEIGHTS

Markets are at or near record highs in most major countries, which is great news for existing investors. Part of the reason for the recent elevation is the notion of a goldilocks scenario: falling interest rates with no recession. We still have reasonably strong employment, robust property prices, a healthy global economy and moderate inflation – all going in the right direction for the near-term. But is this optimism warranted?

Let's see what the evidence says about investing during all-time highs today:

1. Despite rising risks, all-time highs tend to result in more all-time highs, on average.
2. A combination of falling rates and no recession generally results in strong returns. But with a recession, the opposite is true. So, we need to watch the economy closely, especially the forward-looking indicators.
3. The post-election period in the US tends to result in positive returns.
4. However, valuations matter. The smart investor won't chase a 10% gain signal yet, but the all-time highs are increasing risks.

At present, three of the four scenarios offer optimism, which pushes the odds in the right. That said, valuations have stretched beyond fair value, with the upside/downside potential now presenting risks. Said another way, the best of the return is probably behind us. Therefore, while history suggests the market could keep running higher, it's important to keep your expectations in check.

AUSTRALIAN BANK STOCKS: All-Time Highs, But Not in The Danger Zone Yet

1-Year Return 13.95%

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FEEDBACK & IMPORTANT NOTE

If you have any ideas or challenges, please don't hesitate to contact us at info@investingtimes.com.au as we'd love to hear from you. If something is an issue to you, it is likely an issue to others, so please don't be shy coming forward with your thoughts.

WARNINGS & LIMITATIONS:

While best efforts have been made, we acknowledge that no investment process or analysis is bullet-proof, including the insights we present in this report. Below we outline several limitations, however these should not be seen to be exhaustive.

- Data integrity – we are only as good as the quality of our data, and while we are very careful to ensure the integrity of our source data remains accurate, we cannot make any guarantees for its quality or precision.
- Data time lags – some economic data inputs are made in real-time (e.g. interest rates) and others with a significant lag (e.g. GDP). Our reports try to deal with this issue practically, but could create erroneous or misleading observations.
- Little to no qualitative judgements – the metrics involve a lot of quantitative analysis as we are unable to capture the soft inputs such as management quality, corporate governance and other qualitative judgements that affect asset prices.
- Correlation between metrics and data points – some metrics have tight correlations which potentially create a bias if not considered carefully.
- Classifications – making data comparisons means we need to be very careful on groupings. While care is taken to provide relevant insights, you should take care when comparing these inputs.

SOURCES AND DEFINITIONS

Throughout our research, we access data from numerous public sources. Below is a list of major sources that were considered and are duly referenced in no particular order:

**Reserve Bank of Australia, St Louis FRED, ABS, ASX, US Treasury, S&P, MSCI, BOIS,
Federal Reserve, Yale University, OECD, World Bank**

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