WHY EQUITY MARKETS STILL HAVE MORE ROOM TO RUN

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Last week's podcast featured a great discussion on the outlook for U.S. markets and the economy, with Brian Wesbury, Chief Economist at First Trust. Jeremy Schwartz also spoke with Rick Pitcairn, CIO of Pitcairn, about family office planning.

Some highlights of the conversation include:

- A discussion on the founding of Pitcairn as a family office–one of the great American entrepreneurial success stories and its 100-year history as an organization in family office money management and multi-generation estate planning. The Pitcairn family office was set up to manage the wealth created by the founder of PPG Industries, but in 1985 it expanded to run the wealth of now 100 different families. Pitcairn discussed a number of equity strategies his firm developed for managing equities in a very tax-efficient and friendly way, and he believes they can create tax alpha on top of the equity managers they are using.
- Wesbury has been bullish throughout the last nine years, and his worldview has largely been spot-on. He sees really strong growth in corporate productivity and profit margins that are supporting this market.
- Wesbury is still bullish at these levels. Based on his current assumptions for measuring the market valuation, he saw year-end 2017 levels being about 10% undervalued and seeing more earnings growth of 20% this year can further push markets higher–which includes using a discount rate of 3.5% to value the Earnings Stream.
- We discussed the inputs to Wesbury's market forecasts–and the level of the 10-Year that would be required to say the market is "fairly valued" at today's prices–and also at what level of the 10-Year one would need to say markets are overvalued today. This would likely be a 10-Year bond yield pushing 3.9%–and even pushing 5% before Wesbury would get worried about entering overvalued territory.

Listen to the interesting conversation on how to value equities and the various inputs involved, along with the take from a successful family office.

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Alpha : Can be discussed as both risk-adjusted excess return relative to a specific benchmark, or absolute excess return relative to a benchmark. It is sometimes more generally referred to as excess returns in general.

Bullish : a position that benefits when asset prices rise.

U.S. 10 Year Treasury Note : A debt obligation issued by the United States government that matures in 10 years.