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Sandpiper Capital

Gleanings

Index Returns	2022	2023	2024	**2025**
S&P 500	-18.3	26.3	24.9	6.2%
ML 1-5 yr Gov't/Corp	-5.5	5.2	4.6	2.0%
EAFE (Dev Fgn Mkts)	-14.4	18.2	3.8	19.4%
Emerging Markets	-20.9	10.1	7.5	15.3%

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"The growing political influence of mega-cap corporations — some generating more annual cash flow than entire industrialized nations collect in tax revenue — suggests that preventing equity market declines may now be viewed as a de facto policy objective."

Navigating uncertain terrain with confidence.

Navigating today's financial terrain requires more than just resolve — it demands vigilance. The path is flanked by familiar hazards: an overvalued stock market on one side, and steadily rising living costs on the other. The instinct to avoid the pain of a sharp market decline has pushed many toward the safety of Treasuries. That strategy — slow but steady returns from interest payments and bond maturities — remains compelling, especially given the historical tendency for Treasuries to rally during financial crises or periods of heightened uncertainty.

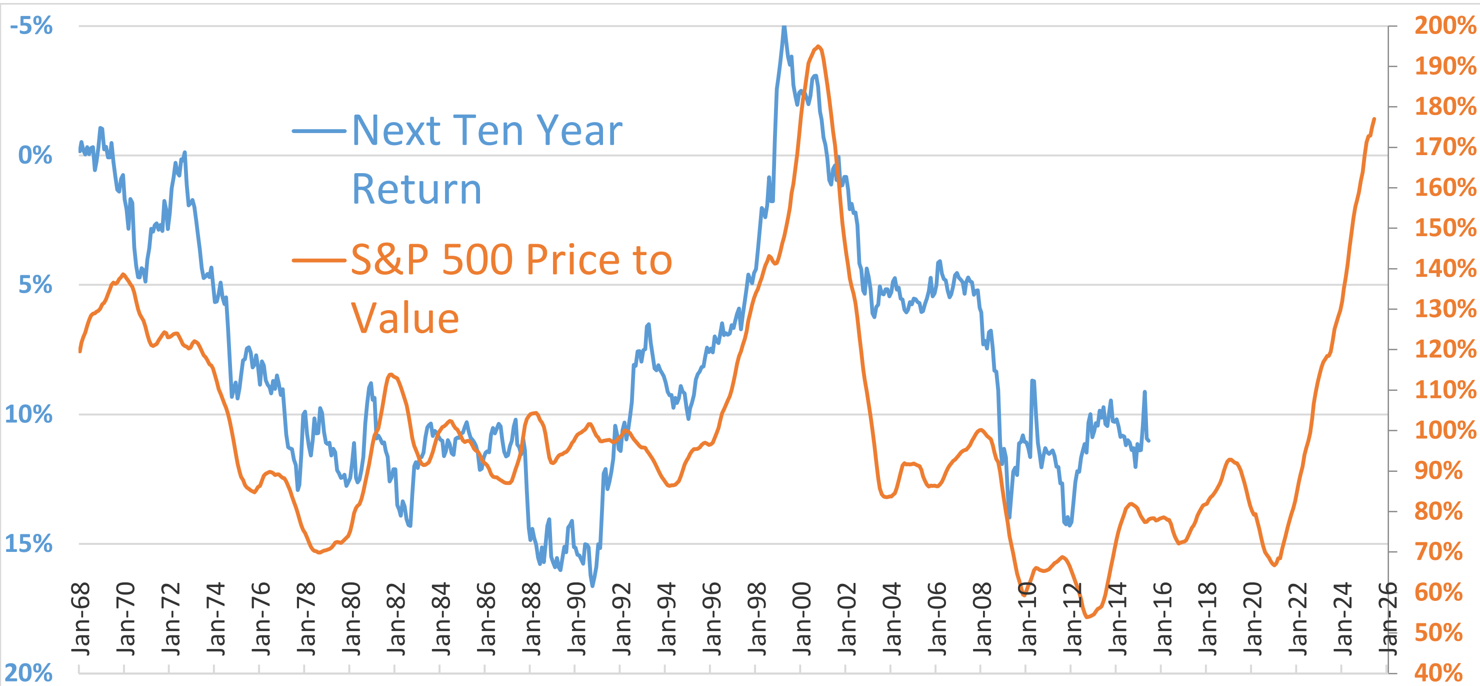
The challenge in 2025 is that the extraordinary measures used to address the housing bubble in 2007 and the pandemic in 2020 are now treated as standard responses to any financial threat. Policymakers and central banks have, in effect, shifted the burden of market stability onto public institutions. Meanwhile, the growing political influence of mega-cap corporations — some generating more annual cash flow than entire industrialized nations collect in tax revenue — suggests that preventing equity market declines may now be viewed as a de facto policy objective.

If the downside is muted or actively suppressed, then the pursuit of upside dominates. Investing becomes less about valuing future income streams and more about chasing momentum — or trying to predict where the next viral, crowd-driven surge will take place. In 1999, I used to say, "This is going to end, and end badly." Today, I'm less sure. We've been waiting a long time for rational pricing to return — to the markets, and to the world.

Still, the numbers don't lie. Below are the valuation metrics that applied when the market was last this overextended — both then and now. Overvaluation no longer guarantees a correction, but it continues to serve as a stark warning. When the S&P 500 peaked in September 2000, it was estimated to be 40% overvalued — and went on to fall 46% from peak to trough.

Valuation Metric	Dividend Yield	Price to Earnings	Price to 10 Year Earnings (CAPE Ratio)	Market Value to GDP	Price to Sales	Five Factor Overvaluation (equal weight)
June 2025	1.35%	25.95	4.13	2.05	2.98	1.58
September 2000	1.14%	25.30	4.27	1.38	1.97	1.40
Average	1.85%	19.98	2.85	.80	1.76	
Price drop to average	-27%	-23%	-39%	-61%	-41%	-37%

One strategy for dealing with an overpriced stock market is to wait for it to reprice. Below is a graphic history of the S&P's range of price to value using our preferred metric. It seems like common sense but I will point out that there is a relationship between the price you pay and the return you get. If you buy an S&P index fund when the market is overvalued, you will not make as much money as those who buy when it's undervalued. Those who bought in the 2000 tech-boom when the S&P was 170% to 190% overvalued (orange scale on the right) saw negative annual returns (left scale in blue) for the next decade. Buying when the market is fairly valued typically gets you 10% plus. Unless "This time is different", it seems like a bad time to drop money into an S&P index fund.



Alternatively…

Maybe Warren Buffett is right and investors shouldn't care about the S&P and the economy. Just buy good companies and hold them as, you know, investments. For the last several years, as I've worked through my ideas on the how to "Buy and Hold" the right stocks, I keep coming back to the low risk model. That is; screen the S&P's 500 companies for those who have the most predictable cash flows and the highest profit margins. Knowing that buyers of your product are willing to pay a premium price and that, as a result you can say with some assurance that your income next quarter can be estimated accurately every time, is a great advantage for a business and for its shareholders. And as it turns out, a portfolio of these companies bought at the end of any quarter and held for at least ten years, has out-performed the S&P for 95% of all sixty of the ten year periods since 1999.

Especially at the market peak in 2000, avoiding the high risk areas of the stock market and only sticking with the lowest risk companies has paid off in spades.

03/31/2000 Low Risk Companies					Value at:		
YUM! BRANDS INC		$1000 Invested on 3/31/2000			Two Years	Five Years	Ten Years
ST JUDE MEDICAL		Low Risk Eight			$1,683	$2,807	$4,186
ALLERGAN INC		S&P 500			$785	$852	$937
AUTODESK INC							
BIOMET INC		Percent of Time All Portfolios					
ALZA CORP		Outperformed the S&P			75%	86%	95%
ALLTEL CORP		Accumulated over Four Quarters			78%	95%	97%
ADOBE INC							

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