VIDERE
WEALTH MANAGEMENT, INC.

Trendlines – Jim Butler, CFP®, AIF®
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1. Ever wonder about the meaning of certain words? Here are some examples:
    - **Consumer Price Index (CPI**): We hear most about the CPI for All Urban Consumers (or CPI – U) which is the broadest measure of the change in cost (or inflation) of a broad basket of goods and services. Many economists like to also look at the Producer Price Index (PPI) and GDP Deflator to get a bigger picture of inflation. You can look at the CPI-U alone for an overall view (it currently stands at 1.8%).
    - **Price Earnings Ratio (P/E)**: It is the ratio of the company's share price to the earnings per share (EPS). It is used primarily to find out if the stock is over or under – valued. Variations of the P/E include "Trailing" for the recent 12-month period, or "Forward" for an estimate of the next 12-month period. They are both useful but you may notice the P/E is often stated on a forward basis for a look into future expectations. The forward P/E of the S&P 500 Index is currently 17.7 vs a 25-year average of 16.2.
    - **Earning Yield**: It is the reciprocal of the P/E or the EPS over the share price of the stock. It shows the percentage of how much a company earned per share of stock and is mostly used as a valuation measure. For example, if the Earning Yield is lower than the 10-year Treasury yield, the stock is considered to be overvalued, and if it is over the 10-year yield it is considered to be undervalued. As of this writing, the Earning Yield of the forward S&P 500 Index was 5.6% (the 10-year Treasury yield was 1.6%).
    - **Yield Curve**: It is a curve of several interest rates across various maturities. It is the relationship of interest rates (cost of borrowing) to the time to maturity (2-years, 5-years, etc.). Yield curves are normally positive or upward sloping which means the longer dated bonds have the higher interest rate. An "inverted" yield curve means that shorter dated bonds offer the higher yield. This usually means that investors are expecting a slowdown in economic activity and potentially a recession. It can also suggest a flight-to-quality with an increase in demand for the longer dated bonds. As of this writing, the yield curve is inverted on the short-end and positive on the long-end.

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