


# Robert Shiller: With stock valuations high, it's time to reduce your holdings

      | 76 SHARES

Alex Rosenberg | @AcesRose  
Friday, 24 Feb 2017 | 8:24 AM ET

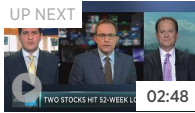


<



**Robert Shiller on the market**  
02/23/17 3:41 PM ET

UP NEXT



**Buy these two S&P losers?**  
02/23/17 3:39 PM ET



**Trader's deep dive into where stocks are headed next**  
02/23/17 3:35 PM ET

>


Long-term investors ought to use the recent market rally to cut back on their equity holdings, according to Yale professor of economics **Robert Shiller**.


The **S&P 500** forward price-earnings ratio, a common measure of market valuations that compares the index's **current price** to analysts' consensus expectation for earnings over the next year, is now at the highest level since 2004, according to information from S&P Global.


The cyclically adjusted price-earnings (or CAPE) ratio developed by Shiller shows even greater overvaluation; that metric, which compares current prices to average earnings over the past 10 years adjusted for inflation, is more elevated than it's been since 2002.


The CAPE ratio, which aims to measure earnings over the course of an entire business cycle, is "high enough to worry about," Shiller said Thursday on CNBC's "**Trading Nation**." "At this level, it suggests that the expected returns for stocks might be negative, but only slightly so."

## TRADING NATION

- 

**Gold is suffering its longest losing streak since last May**  
Gold fell to a one-month low of \$1,201.2 in Thursday trading as the metal sunk for the eight straight session.
- 

**This is one of the riskiest bets investors like Tepper are making right now**  
Some strategists are betting on upside for European equities despite rising political risk.
- 

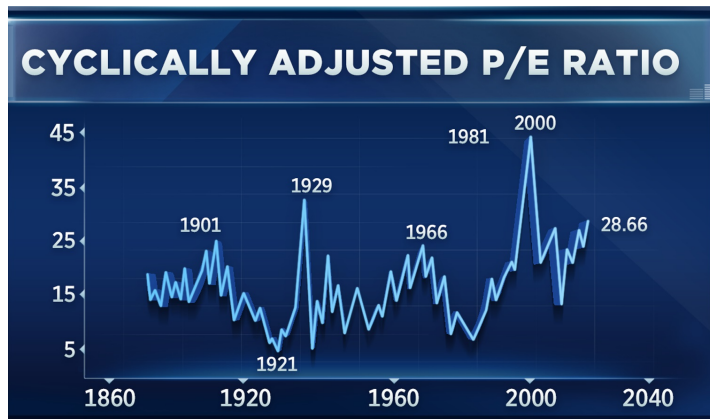
**If rates keep rising, these four stocks could be in 'the danger zone'**  
High-yielding stocks with high valuations could be in big trouble.
- 

**One of the 'biggest surprises of 2017' will keep turning heads, analyst says**  
One top technician explains why another bounce for biotech is in the cards.

## MORE FROM TRADING NATION

- An unlikely Dow stock is surging, and investors could see a buying opportunity ahead**  
Stocks are doing something they haven't done since 1994
- The chart that could be pointing to trouble for stocks**  
How one trader plans to triple his money betting against Wal-Mart in just two months
- Analysts are now more negative on Snapchat than any other large US-listed stock**  
Traders are betting big on these stocks ahead of an expected Fed rate hike next week
- Here's what it takes to call stocks undervalued**  
The market's top sector could fly even higher
- Brace your portfolio: Stocks are set to pop and then drop, says strategist Jim Paulsen**  
Strange pattern may suggest late-Friday surge for the market

## ABOUT TRADING NATION



Shiller is quick to add that since short-term moves are nigh impossible to forecast, the metric "is not suggesting, necessarily, any imminent disaster."

Still, the current level of the CAPE ratio "would suggest reducing your holdings of stocks, especially for a long-term investor. We can't time the market accurately, but we know that when it's this high, over the long term, it usually doesn't do great."

In 2013, Shiller shared the Nobel Memorial Prize in Economic Sciences with Eugene Fama and Lars Hansen for "[laying] the foundation for the current understanding of asset prices." Shiller's work, including on the CAPE ratio, was specifically noted to have "identified a variety of variables that forecast future stock returns."

Despite the mainstream acclaim, the CAPE ratio has been the subject of widespread dispute and even controversy. Many have noted that the CAPE ratio does not integrate the level of bond yields, which are traditionally viewed as a key determinant of proper equity values. Of course, yields remain historically low, which could mean that stock prices deserve to be a bit higher as compared to earnings than would normally be appropriate.

A bit more esoterically, Wharton professor of finance Jeremy Siegel has pointed out that accounting standards have not remained consistent over time. Siegel argues that since companies now report profits more conservatively than they used to, recent earnings numbers are depressed, and valuation levels unnaturally elevated.

For his own part, Shiller grants that "the CAPE ratio has been relatively high for 20 years now, so you might imagine that something has changed," but added, "on the other hand, maybe not — it's been a fairly reliable indicator."

"My general thought is that I think it's quite reasonable to have an investment in U.S. stocks as part of a diversified portfolio," Shiller said Thursday. "Just don't go overboard on it."



**Alex Rosenberg**  
Producer

### RELATED SECURITIES

| Symbol             | Price     | Change | %Change |
|--------------------|-----------|--------|---------|
| <b>S&amp;P 500</b> | 2365.23 ▲ | 2.25   | 0.10%   |

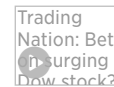
Trading Nation will offer enthusiast traders insights from a group of "Trader Coaches," a collection of expert CNBC Contributors who are well-versed in the daily challenges of trading. Each "Trader Coach" will have a different area of expertise, and will share their unique perspective on the markets, allowing new insights to emerge from this collaboration. Trading Nation is not simply about finding that next trade; it's a forum where enthusiast traders can hear and compare investing ideas in order to build confidence in their trading decisions.

### ON-AIR VIDEO ›



#### Trading Nation: Follow Tepper into Europe?

Boris Schlossberg, BK Asset Management, and Larry McDonald, ACG Analytics, discuss investing in Europe with Michelle Caruso-Cabrera.



#### Trading Nation: Bet on surging Dow stock?

Craig Johnson, Piper Jaffray, and Erin Gibbs, S&P Global, discuss the moves in IBM with Melissa Lee.



#### Trading Nation: Financial sector slips

Rich Ross, Evercore ISI, and Eddy Elfenbein, "Crossing Wall Street" blog, discuss the financial sector with Brian Sullivan.

### @TRADINGNATION

#### Tweets by @TradingNation

Trading Nation Retweeted

**Max Wolff** @MaxFWolff  
Looking forward to joining @CNBC @TradingNation to talk biotech #VIX and oil

1h

**Trading Nation** @TradingNation  
Which stocks are most vulnerable to rising rates? We discuss on [tradingnation.cnbc.com](http://tradingnation.cnbc.com). [cnbc.com/2017/03/09/if-...](http://cnbc.com/2017/03/09/if-...)

5h

**Trading Nation** @TradingNation  
An unlikely Dow stock is surging. and

Embed View on Twitter

### HOST



**Brian Sullivan**  
"Power Lunch" Co-Anchor

[How to use the price-to-earnings ratio](#) ▶

[Using support and resistance levels](#) ▶

—