

RICH MARKETS OR POOR YARDSTICKS?

Kostas Grigorakis, CFA®, Managing Director – Investments, Senior PIM® Portfolio Manager

January 11, 2026

Are markets really “expensive,” or are we measuring them with poor-quality yardsticks?

Much of today’s valuation angst rests on a simple claim: the S&P 500 trades near ~29× earnings, far above its long-term average of ~16×.

Yet, as a recent, illuminating analysis points out¹, that comparison ignores how profoundly the reporting rules behind “earnings” have changed across time and—*we* would say—market regimes.

One striking illustration pertains to stock-based compensation. Prior to 2006, it wasn’t expensed at all. Today, it suppresses reported S&P 500 earnings by roughly 10–15%. Adjusting for that single accounting change alone pulls the market’s P/E down into the mid-20s, without prices moving an inch!

Layer in the mandatory expensing of R&D and the amortization of intangibles—now central to a tech- and innovation-driven economy—and the historical distortion widens further. Apply today’s accounting rules retroactively to prior cycles, and even the dot-com peak would appear more expensive than commonly remembered.

For market-navigation strategies like our **CORE**, **QUAD**, **FOCAL**, and **ASTRA**, two lessons stand out:

- **First, headline multiples demand context.** In an economy powered by intangibles and innovation, *properly-measured* fundamentals and forward-looking growth matter more than backward-looking averages from a bygone era.
- **Market leadership rotates.** While the S&P 500 risks becoming a winner-take-all arena, dominated by a handful of high-margin leaders, 2025 reminded us that market leadership can surge outside the U.S. (where valuations appear lower) and even beyond stocks altogether (where valuations are largely irrelevant, as in gold). To navigate these shifts, the solution isn’t retreating to systematically depreciating cash, chasing headlines, or knee-jerk market timing—it’s adaptive, risk-aware repositioning via a rules-based engine like our BOOST², built to profit from the relentless rotations that drive the market’s frontrunner relay.

Old P/E yardsticks? An anachronism. Adaptive investors track the regime, follow leadership rotations, and let positioning evolve with the market—rather than clinging to stale averages.

Markets evolve. Is your strategy keeping up? Contact us to see how it could.

¹ Manu Invests. (2025, December 8). The broken yardstick: Why your “historic” P/E chart is lying to you. Fundamentally Sound.

² <https://fa.wellsfargoadvisors.com/gnh-capital-group/mediahandler/media/726302/GNH%20Capital%20Group%20-%20The%20Engine%20Room%E2%80%9494What%20Powers%20Y-our%20Strategies.pdf>

Wells Fargo Advisors does not provide legal or tax advice.

The report herein is not a complete analysis of every material fact in respect to any company, industry or security. The opinions expressed here reflect the judgment of the author as of the date of the report and are subject to change without notice. Any market prices are only indications of market values and are subject to change. The information contained herein is based on technical and/or fundamental market analysis and may be based on data obtained from recognizable statistical services, issuer reports or communications or other sources believed to be reliable. However, such information has not been verified by us, and we do not make any representations as to its accuracy or completeness. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Additional information is available upon request.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.