

Valuations



There is nothing more impactful to an investor's future return than the price that is paid to acquire an asset. This is why understanding the relative valuation of assets within our global opportunity set is the central tenant of our Investment Philosophy.

Below are two examples of the importance of valuations to investors.

Example #1: Buying a Rental Property



- ① Similar Neighborhood
- ② Same # of Units
- ③ Similar Structure



Investment Property #1

- Annual Rental Income = \$100,000
- Sale Price: \$1,000,000

Return on Investment (ROI)

 **10%**

(\$100,000 / \$1,000,000)

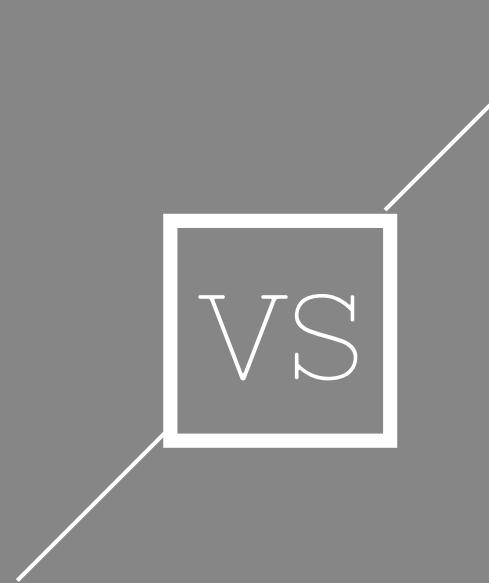
Investment Property #1

- Annual Rental Income = \$100,000
- Sale Price: \$2,000,000

Return on Investment (ROI)

 **5%**

(\$100,000 / \$2,000,000)



The same principle has direct application to asset classes and guides our decision-making and tactical over/under-weight decisions within portfolios.

Example #2 – US Equities

The Connection Between Valuations & Returns

	Average P/E (CAPE 10)	Average 10 Year Return (Ann.)	Probability of Return < Average	Probability of Return > Average
Quintile 1 Least Expensive	9.60x	15.38%	18.86%	81.14%
Quintile 2	12.76x	13.41%	30.16%	69.84%
Quintile 3	16.82x	10.32%	52.03%	47.97%
Quintile 4	20.82x	7.98%	68.54%	31.46%
Quintile 5 Most Expensive	28.61x	5.85%	80.92%	19.08%
Average	17.73x	10.60%	50%	50%

We've measured what happens from each of these valuation levels over the subsequent 10 years.

Notice that quintile 1, the cheapest price or valuation provides an average return of 15.38% /yr over the next 10 years. As we increase the price that we pay, the average return that you get as an investor declines to the point where in the most expensive market environments, quintile 5 your average return is nearly 1/3 of what it was in the cheapest environment only about 5.85% per year.

Additionally, the price you pay to acquire the assets directly impacts the probability of a return greater than or less than average.

Sources: S&P, iCM

Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past Performance is no guarantee of future results. Probabilities are calculated based upon the statistical relationship between the beginning CAPE ratio of the S&P 500 and subsequent 10-year annualized returns. Analysis period runs from January 1926 through December 2025.

The moral of the story - On a forward-looking basis, **high valuations** tend to create much lower returns when compared to **lower valuations**.



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