CAPE RATIO

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SWIPE

What is Cape Ratio?

The CAPE Ratio is an acronym for the **C**yclically-**A**djusted **P**rice-to-**E**arnings Ratio. The ratio is calculated by dividing a company's stock price by the average of the company's earnings for the last ten years, adjusted for inflation.

A.K.A. the **Shiller P/E** or **PE 10** Ratio

5:1

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$$\text{CAPE} = \frac{\text{Stock Price}}{\text{10 yrs Avg. Earnings}}$$

Inflation Adjusted

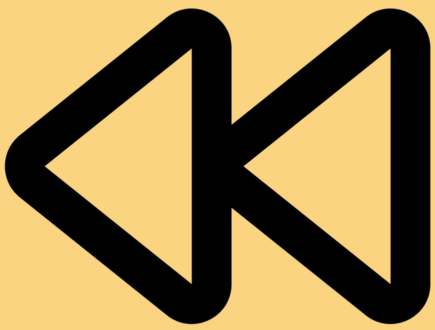
Why is it used?

It is a valuation method which smoothens any fluctuations by taking into account real earnings per share for past 10 years.

Similar to the P/E ratio, the CAPE ratio aims to indicate whether a stock is undervalued or overvalued.

Limitations

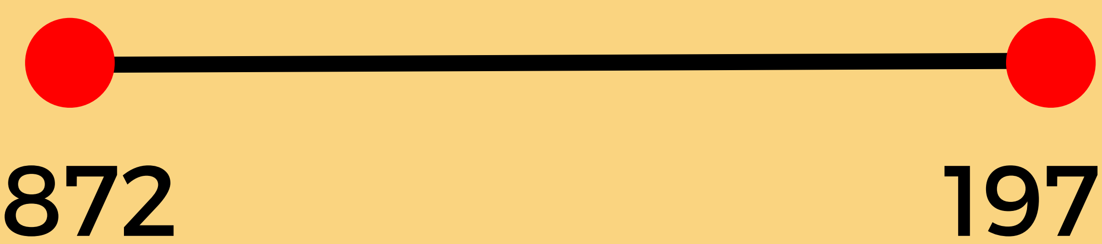
- Inherently backward-looking
- The ratio relies on GAAP (generally accepted accounting principles) earnings, which have undergone marked changes in recent years.



Founder and History

Robert Shiller and **John Campbell** presented research to the Federal Reserve that suggested stock prices were running up much faster than earnings.

In the winter of 1998, Shiller and Campbell published their groundbreaking article "Valuation Ratios and the Long-Run Stock Market Outlook," in which they smoothed earnings for the S&P 500 by taking an average of real earnings over the past 10 years, going back to 1872.



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Source: Corporate Finance Institute, Investopedia