OFF THE NEWS

The Mystery of Valuing Markets

"Four megacap companies—Amazon, Facebook, Google (Alphabet), and Microsoft—together valued at more than $2 trillion, account for 10 percent of the [S&P 500] index and, as a group, trade at a PE ratio of 29. Excess cash among the remainder accounts for another $1.2 trillion. (The S&P 500's total market capitalization at the time of this writing in December was $23.4 trillion.) Excess cash distorts the index because it generates very little in earnings, leading to an implied high PE multiple. This is the case with the unusually large levels of cash held by a number of companies today. Removing the four companies mentioned above from the calculation and adjusting for the excess cash that companies hold as they await changes to tax laws before repatriating foreign profits reduces the current PE ratio to 16.9. This is much closer to the range typical in "normal" economic times such as the mid-1960s, the late 1980s and early 1990s, and the years 2003 and 2004, when the U.S. economy was growing and inflation was under control."

—McKinsey

A World Run by Gangsters

Seventy-one countries suffered net declines in political rights and civil liberties in 2017, with only 35 registering gains.

—Freedom House

I. Down with Going Public

In 1997, more than 7,500 American firms were listed publicly in the United States. Nearly two decades later, in 2016, the number had dropped more than half, slipping to 3,618 firms.

—Quartz

II. Up with Mergers and Acquisitions

A total of $308 billion in deals have occurred so far this year, the strongest start since 2000.

—Dealogic

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Beware the Big Three

"Demographics, automation, and inequality have the potential to dramatically reshape our world in the 2020s and beyond. Our analysis shows that the collision of these forces could trigger economic disruption far greater than we have experienced over the past sixty years."

—*Bain Macro Trends Group*

The Egads Department

"Among a group of twenty-one developed markets monitored by the [Institute of International Finance], the combined outstanding debt of households, governments, corporations, and financial institutions rose from the equivalent of about 290 percent of their combined gross domestic product at the end of the 1990s, to 380 percent at the end of 2008. Since then, it is broadly unchanged.

"But, since the crisis, debt in emerging markets has surged. In China, it rose from 171 percent of GDP at the end of 2008 to 295 percent at the end of last September. The combined debts of a group of twenty-six large emerging markets monitored by the IIF rose from 148 percent of GDP at the end of 2008 to 211 percent last September."

—*Financial Times*

The Definition of Regret

When Amazon.com Inc. went public, it was a three-year-old startup valued at $660 million. Investors who purchased shares in the public offering in 1997 and held on have earned returns of 96,389 percent. The return of the S&P 500 over the period was 364 percent.

—*FactSet*

Amazon founder **Jeff Bezos***, 1994.*

Investor Seachange

"Asian investors directed nearly as much money into startups last year as American investors did—40 percent of the record $154 billion in global venture financing versus 44 percent, the *Journal*'s analysis of data from private markets data tracker Dow Jones VentureSource found. Asia's share is up from less than 5 percent just ten years ago."

—*Wall Street Journal*