

# Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



## Profit from an Overpriced Stock Market

There is increasing concern about the fact that stock valuations are at a ten year high. CNBC reports that prices have maintained despite lower earnings.

*The S&P 500's price-to-earnings ratio, which compares the price of the S&P to analyst projections of what S&P companies will earn over the next 12 months, has risen to 16.6, according to FactSet. Not only is that above historical norms, but it is the highest that metric has been since March of 2005.*

*What's unusual is that stocks have gotten more expensive in terms of valuation, even as the market itself has been relatively stagnant: The S&P has logged only mild losses on the year through Friday's close.*

The CNBC article notes that much of the expected decline in earnings comes from the energy sector but those stocks have also taken a beating as oil prices have fallen. It would appear that fundamentals are predicting a market correction. Our question is how can you profit from an overpriced stock market?

### Take a Little Profit

If you have been in the stock market since it started to recover you have likely had a nice ride. One way to profit from an overpriced stock market is to take a little profit before the market corrects. Then you can hold on to your cash until such a correction happens and step back in to pick up a few bargains. *Reuters* reports profit taking in the gold market as traders anticipate the EU stimulus program.

*The ECB is poised to announce a plan on Thursday to buy government bonds, resorting to its last big policy tool for breathing life into the flagging euro zone economy and fending off deflation. The stimulus measures should increase demand for bullion, but investors are cautious about the impact of such a move on the euro and the dollar.*

One view is that if you really want to profit from an overpriced stock market you ought to take a little profit and hold on to a little cash.

### Other Options

An article in *The Street* remarks on how stock market volatility appears to be here to stay.

*The volatility in the stock market this year is simply incredible. We have been expecting this volatility and it appears that it is here to stay. In addition, this stock market has no memory from day to day.*

*After being up more than 200 points on Thursday, the DJIA lost 141.38 points on Friday to close at 17,672.60. The S&P 500 was down 11.33 points to finish at 2,051.82. The Nasdaq was higher by 7.48 to close at 4,757.88 while the Russell 2000 was down 1.44 to close at 1,188.93.*

*It seems that the global, unelected central planners are intent on keeping this manipulated stock market bubble growing bigger and bigger. When this bubble will pop is anyone's guess, but it appears that we are near the end of the rainbow.*

Volatility is often seen at the end of market rally before the correction, or crash. A time honored method of dealing with such a market is to buy put options on stocks. You may believe that the market has way to go before it corrects and thus you may not want to miss out on more profits. But you also may be getting anxious. You can profit from an overpriced market by purchasing puts. These stock options give you the right to sell at the contract price which is at or near the current stock price even if the market collapses. But you keep the stock if the market continues to rise simply using the put contract as a little insurance.

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