

Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



Real Earnings Yield of Your Investments

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The bull market that started in the depths of the Financial Crisis and survived the Covid Pandemic Plunge has been driven by historically low interest rates and persistently high earnings in the tech sector. Unfortunately, not all companies in the S&P 500 have stellar earnings despite the index reaching new highs. In fact, the real earnings yield of the S&P 500 is now minus 3% which is the lowest since 1947. What is the real earnings yield of your investments? Is it comparable to saving today with [negative real interest rates](#)?

Real Earnings Yield of Stocks

The real earnings yield of a stock is its return on investment adjusted for the current rate of inflation. Investors put their money in stocks based on their assessment of long term profit potential using the [intrinsic stock value](#) approach. Or, they invest based on hope that the “story” of a stock will work out or that a rising market will simply keep going up because, in their brief experience in the market, it always has gone up. A company that embodies both the intrinsic value approach and the “story” is Tesla which today has a negative 5.2% real earnings yield. Previous times when the S&P 500 had a negative real earnings yield were in 2000 prior to the Dot Com crash and twice during the [stagflation](#) of the 1970s and 1980s.

How Does the Real Earnings Yield of a Stock Get Better?

This depends on what you think the problem is. Is it inflation driven by a supply chain nightmare making things like [computer chips](#) scarce and thus driving up the price of things like cars? If that is the case, inflation will get better as production and shipping get straightened out. Or companies can raise their prices which will raise profits, assuming that high prices do not drive away business. Unfortunately, higher prices contribute to higher inflation so while it could help one company in your portfolio it could hurt the rest. Or, the market could correct or crash bringing stock prices down to where the real earnings yield is positive.

Will the Negative Earnings Yield Become the New Norm?

The Covid-19 pandemic and the k-shaped recovery have created a unique situation. While many in society have been hurt badly and are still hurting, many are sitting on piles of cash and savings as they are still making money and have had no place to spend it. This seems to be part of the reason for the market going up and up. Until the Fed raises interest rates higher bonds and treasuries offer negative rates. And, despite almost continuous predictions of a market correction or crash that has not happened with the exception of the Covid-10 Crash and that was not due to an overpriced market but rather the near-complete shutdown of everything. Now that society is learning to live with [more Covid variants](#) and a potentially permanent Covid pandemic we may see investors being willing to accept the risk of pouring money into overpriced stocks as they believe this to be the best of a set of poor choices for investing their money.

Stocks with Strong Real Earnings Yields

Interestingly, a stock that we mentioned in our article about [investing in fertilizer companies](#) has an excellent earnings yield. Mosaic Company, which sells potash and phosphate fertilizers, was touted in a *Yahoo Finance* article about [high earnings yield stocks](#). This brings us back to the intrinsic value approach for picking stocks with long term potential more so than exciting story stocks that tend to get overpriced.

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