

In Major Declines, Safer Stocks Fall Less and Recover Quicker

January 8, 2025

The 10 Largest US Companies on January 7, 2025

Symbol	Name	Market Cap (\$ billion)	Revenue (\$ billion)	Net Income (\$ billion)	P/S	P/E	FRR	FRR v2
GOOGL	Alphabet	\$2,410	\$339.9	\$94.3	7.09	25.6	61	25
AMZN	Amazon	\$2,393	\$620.1	\$49.9	3.86	48.0	71	59
AAPL	Apple	\$3,703	\$391.0	\$93.7	9.47	39.5	79	-53
BRK.A	Berkshire Hathaway	\$973	\$453.0	\$106.9	2.15	9.1	17	93
AVGO	Broadcom	\$1,108	\$51.6	\$5.9	21.49	188.0	100	-166
META	Meta Platforms	\$1,591	\$156.2	\$55.5	10.18	28.6	82	12
MSFT	Microsoft	\$3,181	\$254.2	\$90.5	12.51	35.1	84	-30
NVDA	NVIDIA	\$3,660	\$113.3	\$63.1	32.31	58.0	93	24
TSLA	Tesla	\$1,319	\$97.2	\$12.7	13.58	103.9	95	46
WMT	Walmart	\$734	\$673.8	\$19.7	1.09	37.3	54	-52
Sum		\$21,073	\$3,150.2	\$592.1	6.69	35.59	74	-4

Name	Market Cap (\$ billion)	Revenue (\$ billion)	Net Income (\$ billion)	P/S	P/E	FRR	FRR v2
10 Largest Companies with P/E > 100	\$3,697	\$323	\$10.2	11.45	363.1	94	-47
50 Companies, Market Cap > \$50 Billion, with Highest P/E Ratios	\$1,890	\$186.3	\$13.9	10.15	135.9	90	-99
1,452 Companies with Market Cap > \$100 Million and P/E > 100 or Negative	\$8,846	\$2,709	\$310.0	3.26	-28.5	79	-84

Market risks are concerning; America's top 10 firms command \$21 trillion in market value. For conservative investors, what constitutes a reasonable P/E ratio? Many of today's equity funds have concentrated their investors' holdings in these richly valued stocks, which carry an average P/E of 35.

Consider this: 50 mega-cap companies sport P/Es above 135, totaling \$1.9 trillion in market value. Add to that 1,452 companies with P/Es exceeding 100, many without earnings. Does this represent prudent investment territory?

History offers lessons: During both the 2000-2002 and 2007-2008 market crashes, stocks with the steepest declines typically had the highest P/E ratios beforehand.

The S&P 500's historical P/E patterns over 50 years are telling: P/Es fell below 10 roughly 15% of the time and exceeded 30 about 15% of the time. The performance difference is stark - when P/Es were below 10, subsequent 3-year returns averaged 42%, versus just 13% when P/Es topped 30. The 5-year return gap was even wider: 81% versus 10%.

At least two major risks loom: Rising interest rates typically pressure stock valuations downward, and recessions historically trigger major declines. ERS helps advisors protect their clients assets and grow them safely. Are you prepared for a major decline? Call ERS for strategies built on data science.