

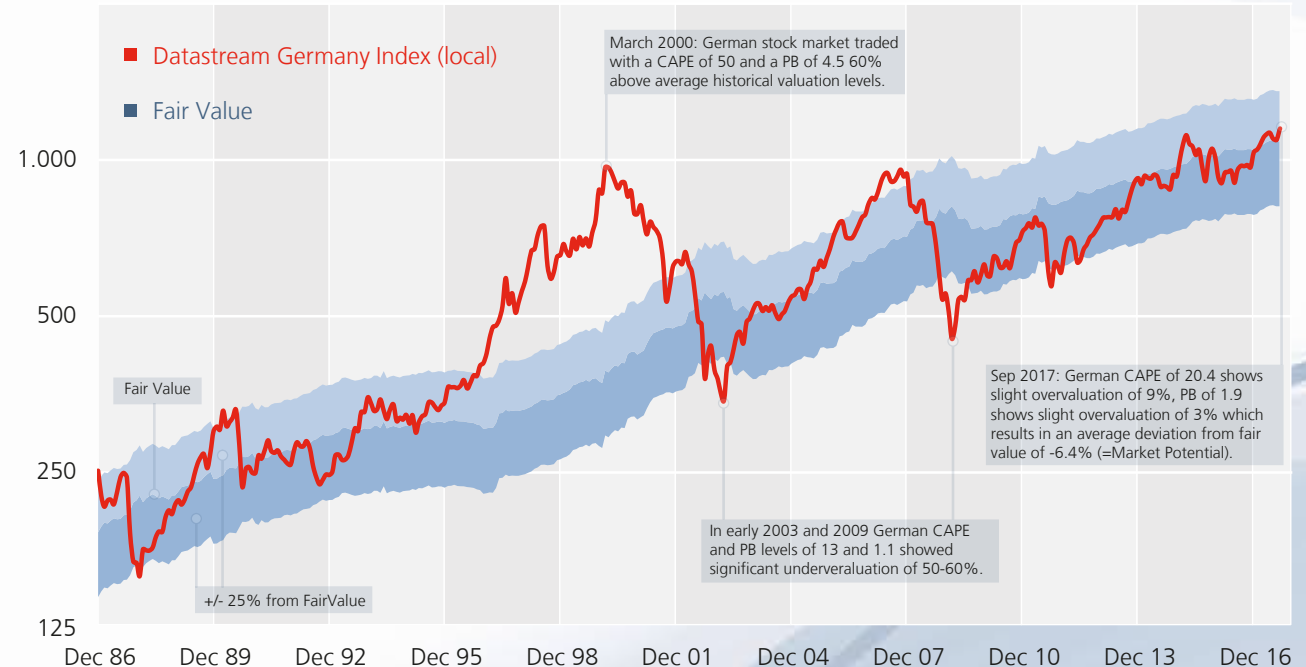
# German Stock market trades slightly above Fair Value

## Southern Europe and Emerging Markets undervalued, US stocks trade 39% above Fair Value

CAPE and PB based Market Potential

Country	CAPE	PB	Market Potential
Australia	17,3	2,0	0,0%
Brazil	12,4	1,8	24,0%
Canada	21,2	1,9	-7,2%
China	17,3	1,0	47,1%
France	20,9	1,8	-4,8%
Germany	20,4	1,9	-6,4%
Hong Kong	17,3	1,6	10,2%
India	20,9	2,8	-23,6%
Italy	16,6	1,4	22,6%
Japan	27,0	1,4	0,7%
Netherlands	23,2	2,0	-15,4%
Russia	5,6	0,8	175,5%
Singapore	12,9	1,2	50,2%
South Korea	15,3	1,1	40,4%
Spain	13,8	1,6	23,8%
Sweden	22,2	2,2	-16,6%
Switzerland	24,8	2,7	-28,9%
Taiwan	21,0	2,0	-9,1%
UK	15,7	1,9	6,9%
USA	29,0	3,1	-39,2%
World AC	23,2	2,1	-16,5%
Developed Mkts	24,3	2,2	-19,7%
Europe	18,6	1,9	-2,6%
Emerging Mkts	16,5	1,7	8,3%

Example: Fair Value of the German Stock Market Index since 1986



Our research paper "**Predicting Stock Market Returns Using the Shiller-CAPE: An Improvement Towards Traditional Value Indicators?**" has shown that there exists a strong relationship between fundamental valuation indicators like the Shiller-CAPE or the Price-to-Book ratio and long-term equity returns. In the period from 1979-2015 we observed an average CAPE of 18.3 and an average PB of 1.8 in 17 countries. Based on the assumption that these average valuation levels approximately represent a fair valuation level we calculated Fair Values for the most important stock markets worldwide. The „Market Potential“ depicts the percentage-deviation of the market from its Fair Value.

The market potential has been calculated for 20 Datastream country indices with the highest market-capitalization-weight in our database. Source: StarCapital as of 09/30/2017.