

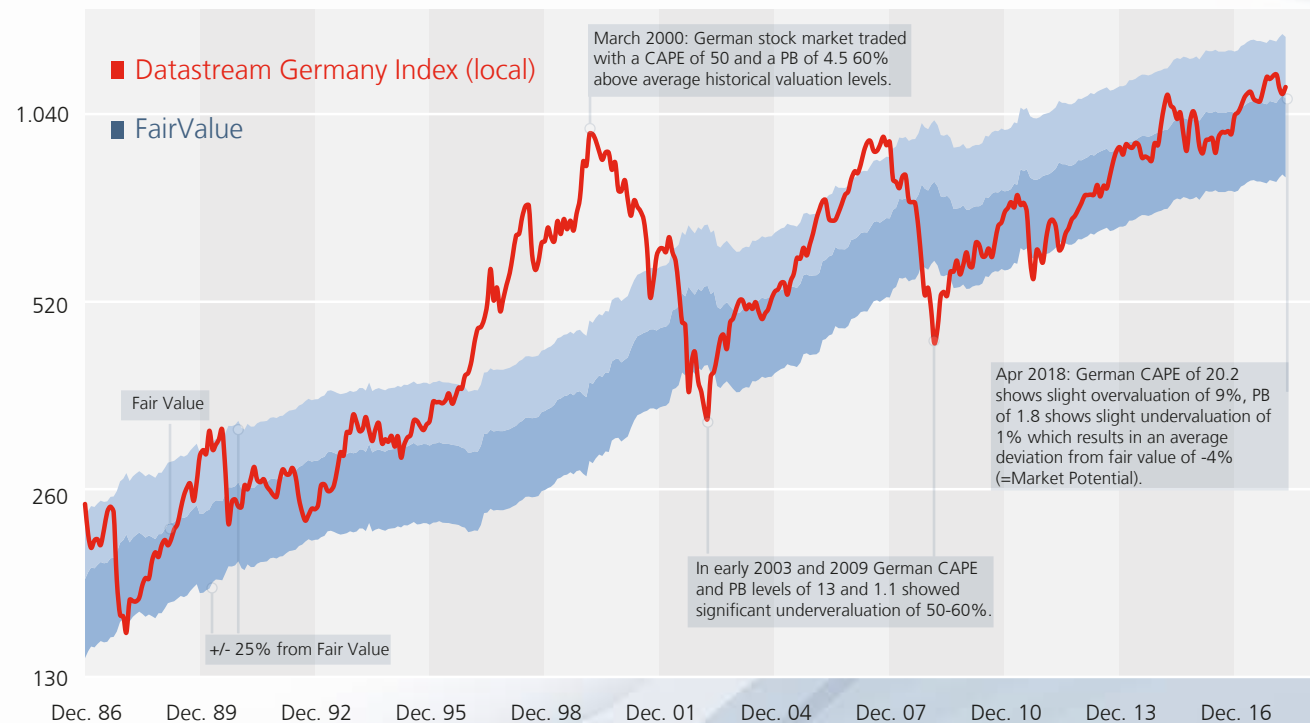
German stock market trades slightly above Fair Value

Southern Europe and Emerging Markets undervalued, US stocks trade 41% above Fair Value

CAPE and PB based Market Potential

Country	CAPE	PB	Market Potential
Australia	18.3	2.0	-4.0%
Brazil	14.5	2.1	8.3%
Canada	21.0	1.8	-5.8%
China	18.3	1.0	42.3%
France	21.7	1.8	-7.2%
Germany	20.2	1.8	-4.0%
Hong Kong	18.0	1.7	5.5%
India	23.2	3.1	-30.6%
Italy	19.1	1.4	14.1%
Japan	27.9	1.4	-0.6%
Netherlands	24.0	2.0	-16.7%
Russia	6.4	0.9	147.6%
Singapore	14.8	1.2	36.8%
South Korea	15.9	1.1	39.2%
Spain	13.8	1.6	24.8%
Sweden	21.7	2.0	-12.4%
Switzerland	24.9	2.5	-26.3%
Taiwan	21.2	1.9	-8.3%
UK	16.3	1.8	6.5%
USA	29.8	3.2	-40.5%
World AC	24.0	2.1	-18.0%
Developed Mkts	25.1	2.2	-21.0%
Europe	19.1	1.9	-2.5%
Emerging Mkts	17.3	1.8	5.2%

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 04/30/2018.