MEICAP Results Pertaining to Stock Valuations

The MEICAP model was originally developed to shed light on the stock market and the returns we can expect going forward. As the model gained complexity, it's insights became broader and broader. But in the end, it's greatest strength is still its predictive power for P/E ratios and stock prices as a whole.

As with the other result categories, MEICAP has accurately modeled the stock market's performance for the past 40 years and there's no reason to believe its future predictions won't be equally accurate. The primary difference with the stock market is the ease with which securities can be bought and sold. As compared with real estate, this makes the stock market far more volatile.

MEICAP calculates broad long-term trends in perfectly smooth patterns. As such, investor confidence and short-term economic shifts are not reflected in the model's results. You will notice the actual returns displayed to the right in red over-shot the model's predictions in the late 90s, only to retreat back down thereafter. This type of variance could easily happen again in the future. But in terms of the long-term trend, investors can't expect the types of gaines we've become accustomed to these past few years.

Looking forward, P/E ratios are expected to fall and economic activity is expected to grow at a much slower rate, resulting in virtually flat stock market valuations for the coming 15 years.