***BILL GROSS GOT IT WRONG … IT'S DOW 6000!*** With the third quarter having ended Monday, we thought it would be a good time to update our P/E ratios using NIPA profits. We first discussed the advantages of using these ratios in the 7/25/2002 ***Chart of the Day***. Given the 17% decline in Q3 stock values, we estimate that the P/E for all corporations fell to 18.9, down from its peak of 37.8 in Q1 2000. The sobering news is that in order to get back to the 50-year mean of 14.4, the value of corporate equities would need to drop another 24% (assuming no change in earnings)! That's equivalent to Dow 5770 or 620 on the S&P 500! Gulp!

Similarly, we estimate that the P/E for nonfinancial corporations plunged to 22.1 at the end of Q3, down from its peak of 51.5. To get to the mean value of 17.4 would require a drop of 21%, equivalent to Dow 6000 or 644 on the S&P 500.

***Low inflation, low interest rates, and high productivity may justify a slightly higher P/E ratio than the average would otherwise indicate. But if the economy goes into a "double dip" next year and earnings slide again, then Dow 6000 could be a real possibility.*** -- Joe Kalish