The "Equity Bubble". Reality or new valuation criteria?

We live in a world that has been creating artificial money since 2010, and where this money creation speed has accelerated because of the pandemic. In turn in a world still in recovery we see that equity values, the so-called Equity does not stop climbing, accepting that it is probably creating a gigantic bubble, so big or more than the credit. But is it possible that this is not so? Is it possible that the excess money creation has changed the calculation criterion?

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I imagine the disbelief caused by many small investors what is happening in the markets with equities, which rise and upload as if it did not have an end. The explanation that we all give is that the equity has remained as the only invertible asset before a clear credit bubble with close expiration date.

"The new consumption habits have mistreated not only to the income accounts of many companies but to their assessments"

The most likely change of life habits generated by the pandemic that affect companies, where many live a parallel realization in a market, sometimes so breathed as the real estate or where raw materials are overvaluated. In a world where the real use of gold has been practically relegated to jewelry and where those now valuable raw materials, “rare earths” are mostly in governmental hands such as Chinese and finally where the Private Equity market is still bleeding by chaos that have caused the confinement in their porfolios where they invest, leave the Equity as an active refuge of an expected profitability.

"It seems incredible that the risk asset par excellence has been left as the only asset to invest"

But we do not stay alone here, sweetened the previous explanation with which currently and "thank you" to the quantitative expansion that we live, getting money from banks is "free", while having to have it in the bandwill of a current account, will cost us from the surroundings of 0.5%.

Then the million dollar question is if Is there or not a bubble at the Equit? Well, after taking a long time I have to tell you that I'm not sure. I speak with the frankness that I am always talking and I am going to expire the reasons, not of the frankness but about the doubts and probably after reading the following those who think in one way or another happen not to be so sure already to be in the truth.

"Why do we give the same value to money when valuing assets, if, since it is a scarce good, its value is influenced by the amount of it in circulation?

Some time ago, Ana Altuzarra, our Vicepresident of Pperations put on the table a thought that since then has brought me down the path of bitterness. “If money is a scarce good and therefore its value, among other things, depends on the amount of mass in circulation, why do we continue to give it the same value, when valuing assets, as when was this mass in circulation less? "

The value of money is implicitly included in the PER. "If it costs me less to get the money, I will be willing to pay more than before for an asset that gives the same results." You will agree with me that as a theoretical doubt it is very reasonable.

"If asset discount rates are no longer stable, we enter a vicious circle of an equation where there are only unknowns (rate and benefits)"

But before this thesis two questions arise. The elementary: then at what rate should I discount it now? And the second: if we have been creating a massive money supply since 2011, why until 2019 were the PER multipliers more or less stable?

This last question could stand alone to thwart the thesis, but then why are markets going up and up? Why is a company like Adidas, which has had to receive a huge loan from the German government, now worth more than 20% more than before the pandemic? Cash flows discounted at the same rate as before minus the new debt, it should give me a lower value or at the same maximum, but no, it is much higher. Or is it that now everyone is going to wear sneakers all the time and Adidas is going to sell twice as much?

If you realize it, I don't have a clear answer to the why of the current situation, but I lean much more to the theory of our director of operations, especially because it is an analytical theory.

But then what is the appropriate multiplier in this situation? The simple answer would be that money has lost value in the same proportion that the money supply has grown over inflation. But if we are as simple as this, we would come to the conclusion that the multipliers in Europe and the USA should be multiplied by two or even three, which per se is irrational, and very far from the current situation.

So, we come to a malevolent conclusion, we cannot efficiently calculate the value of companies. And if you don't look at JP Morgan or Goldman Sachs, let them comment on exaggerated valuation errors, unbecoming of the invaluable professionals who work there.

"We have lost the power of fine calculation, at least until the market stabilizes or a mathematician and future Nobel Prize winner will recalculate the profit multiplier based on the excess money in circulation"

So, we don't invest? Do we play where to invest? Much less to both questions, we simply look for alternative methods in times of moving, as valid as the others, although it may not seem like it.

Without going into a theory of asset valuation and to be simple, we must look at some qualitative data that we like to value so little and get out of the spreadsheet where many of us live to focus on looking at what happens around us, and said incidentally, which should be the first thing we always do.

Humanity, but fundamentally the one with the money, has literally lived locked up for a year. This closure has generated a quantitative monetary amount, quantified only in the USA, at 1.7 trillion USD (roughly almost twice the annual wealth generation of the 14th world economic power, Spain) and another qualitative value: a desperate desire to get out and spend it.

"There are two types of spending, the one that produces physical well-being and the one that produces emotional well-being"

I like to say that there are two types of expenditure, the one that produces well-being to the body and the one that produces it to the mind. And so you can see the difference, the first is that we do by going to the supermarket to buy food to eat and the second, which performs the same vital function as the first, is the one we do in a restaurant because we like it. enjoying the company, the environment, or simply not cooking. Well, those 1.7 billion,

just from the Americans, is going to go to this second guy.

If we add this analysis to the fact that many companies due to their lack of activity have dropped their valuation by more than 80%, the equation comes out perfectly.

We could think that this is already discounted in the valuation of all companies, but if we accept the previous assertion that the multiplier of the PER now has to be another, and that despite the fact that we use to value the estimated results, in some In the cases of 2023, there is no doubt that we must not look for the value in the default of the quotation but in the ability to capture that expenditure that produces well-being, because they will not be 1.7 B, they will be much more.

"If we accept the theory that excess money changes the multiplier of profit to calculate the price of security, nothing is expensive, or at least we do not know"

To finish and as always, we give an investment idea. In this case, the cruise sector. And this because its narrowness, only three large companies are listed, now this apparent weakness is an opportunity for the investor and because its main barrier to growth, which is the number of tickets available, now plays in its favor, because reserving them -You will be anticipated and the visibility of the business in the medium and long term will be much better.

These companies have recovered a great deal, but they are still a long way from their pre-pandemic values. And if there is a place that people with money can be assured of viral disease, it is the ship. Most companies require that the entire passage be fully vaccinated and when they disembark on an excursion they move in "bubbles" with which the chances of reinfection are scarce.

Therefore an "infection" is highly unlikely and therefore its potential reputational damage is limited. The investment benefit seems assured.