Winter 2025

The story goes that, for years, Grace and Clarence Woolsey, two married farmhands in Lincoln, Iowa saved their bottle caps in a one-gallon jar. When the jar was full, sometime in the winter of 1961, they began making small sculptures with the caps. They continued on with the “hobby” for 10 years, creating everything from bicycles to animals to aliens, before deciding to display their creations in what they called the “World’s Largest Pioneer Caparena.” Admission? A quarter.

A client of ours was kind enough to share a photo of her Woolsey creation, an alien, created at a time, remember, when the space program was active and appreciated by the populace.

If it’s not something you’d make a trip to see, or pull the car over for, you’re not alone. Turned out, there wasn’t much of a market, at least in Iowa, for viewing bottle-cap creations. After just two shows, the couple gave up on their decade-long passion. All the pieces were stored in Grace’s brother’s barn. And in 1993, after both Clarence and Grace had passed away, the entire collection was sold at auction to a few local antique dealers for less than a hundred bucks.

Then a funny thing happened…the pieces started finding their way into the hands of antique dealers from across the country. (One report estimates just nine of the 400 pieces remain in Iowa; another that none remain.) And they were selling—smaller ones for more than $100 and large pieces for more than $5,000.

Clearly, one man’s trash is another man’s treasure. Or, to use another cliché, tweaked for our purposes, *value* is in the eye of the beholder.

The handful of antique dealers who bought the pieces for, collectively, under $100, agreed on the price, but clearly saw much more value than the auctioneers. The same principle holds true for investing where every transaction represents an agreement on price, but disagreement on value.

That's where information, analysis, and experience come in. As buyers, and sometimes sellers, of companies or assets, One Capital Management constantly gathers facts, interprets those facts, and determines value. That's what helps us decide how and where to invest or allocate capital.

Which brings us to today's clamorous debate over the valuation of the U.S. stock market. Some believe it's high. Some believe it's way too high. Others see opportunity.

A quick refresher: stock market valuations are traditionally measured using price-to-earnings (P/E), a metric that compares a stock's current price to its earnings per share (EPS). A P/E of 10 reflects the buyer is willing to pay $10 for $1 of company earnings. Flipping the numerator and the denominator expresses the value as an earnings yield. In our example, $1 of earnings divided by a $10 price yields 10%.

For comparison, if the same company trades at $20 per share, the P/E is 20 and the earnings yield is 5%. We can use this calculation to approximate the expected return and compare investments. Admittedly, this is an oversimplification, but it makes the point. We, of course, include many other variables to our analysis, such as expected earnings growth, inflation, expected global growth, and demographics, to name a few.

Currently the S&P 500 index is trading at 24.6 times expected earnings for this coming year, or about 16% higher than normal. "The Magnificent Seven," mentioned in previous *folio*s, have an astounding forward P/E valuation of close to 38 times earnings. Remove them from the S&P 500 index, however, and the 493 remaining companies would be valued at 20 times next year's earnings, close to historical norms. This might indicate that, at first blush, stocks aren't as overvalued as one might think.

We evaluate stocks based on proven data. Then we evaluate current events and forecast how potential changes might impact companies and industries. What growth can be expected and how can companies improve their offerings to entice more consumers? What impact will inflation, rising or falling, have on them? Will government tax or business policies help or hurt? How might changes in interest rates impact the business?

The behavior of overzealous investors is also a contributor to overvaluations. Because the fervor drummed up by huge investments in cryptocurrency, pharmaceuticals, and anything with AI, can influence overall market valuations. Enthusiasm breeds enthusiasm. But investments based on enthusiasm rather than calculated valuations can be fragile. We only need to look back to the late 90s for scads of examples. (Nobody's cruising the Mediterranean on a yacht named "Pets.com.") Expected returns based on a timeline that's untethered from reality can also be fragile. Ubiquitous, lag-free online streaming and, subsequently, self-driving cars were clearly inevitable soon after being introduced. It's just taken, and is taking, a decade or more for them to become viable.

Most of all, we're asking: where is there opportunity?

Which brings us back to 1993, and that famed farm auction in Iowa where the antique dealers were also looking for opportunity. While most people saw little value in old bottle caps in the shape of an imagined, tentacled E.T. created by farmhands with too much time on their hands, the antique dealers, with their analysis and experience, saw the opportunity in the Woolsey's creations. And they knew, or had an educated or experienced belief, that there was a large swath of folks who would, *eventually (expected returns)*, value these unusual sculptures and be willing to pay far more than the current price for them.

The U.S. stock market is, regardless of climate, an auction. Buyers and sellers simultaneously place bids and offers. When bids and offers match, a price is established, but not a value. That's where we come in. In this and every market climate, we aim to be those experienced antique dealers, looking to buy the next Woolseys.