

What is the Buffett Indicator?



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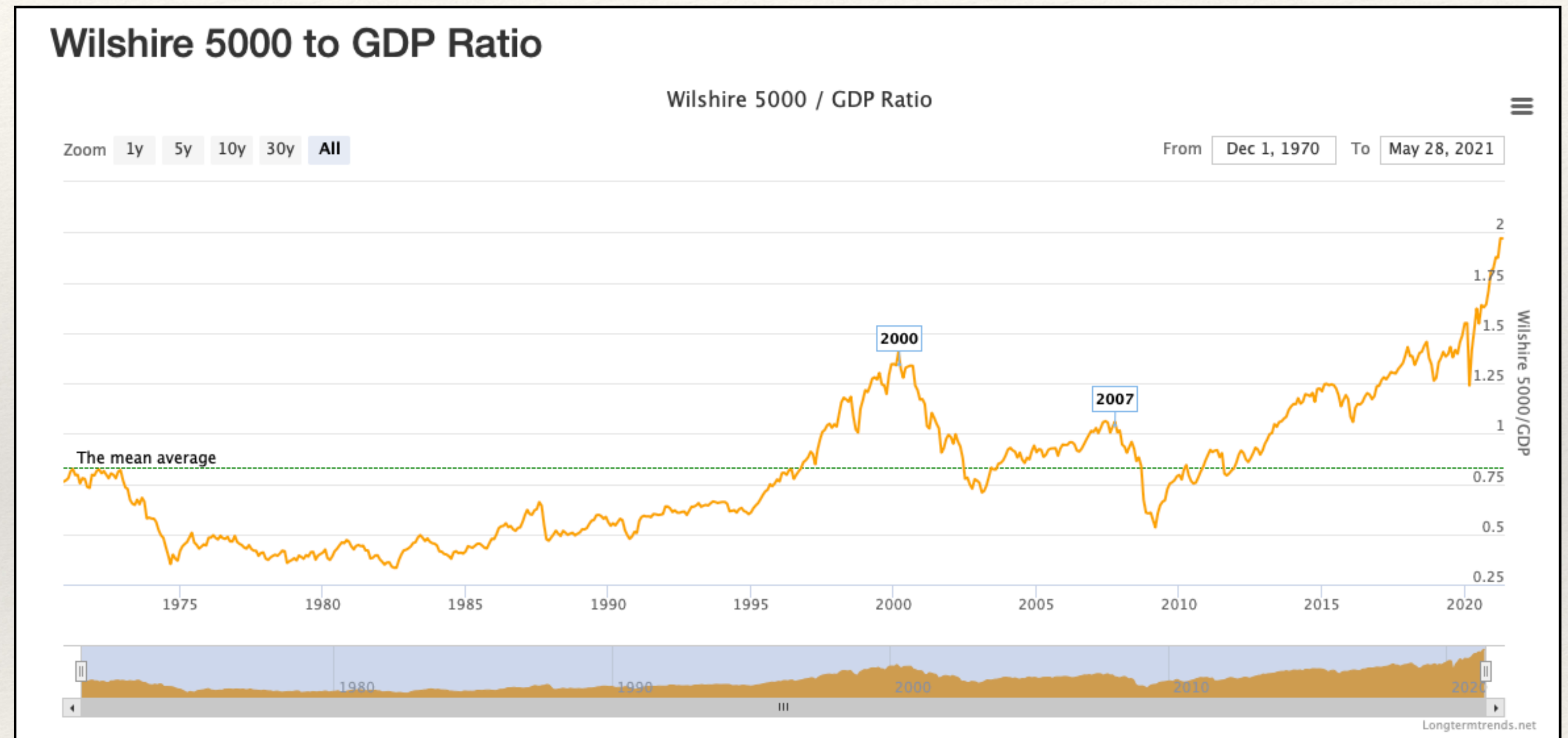
- ❖ This is a handy metric to assess broadly whether a country's stock market is over valued or under valued.
- ❖ “Probably the best single measure of where valuations stand in any given moment”
Warren Buffett, 2001 Fortune Magazine

What is the Buffett Indicator?

- ❖ So what is it?
- ❖ Market Cap to GDP Ratio
 - ❖ Market Cap to GDP
 - ❖ Value of all public stocks in a country / the gross domestic product of a country

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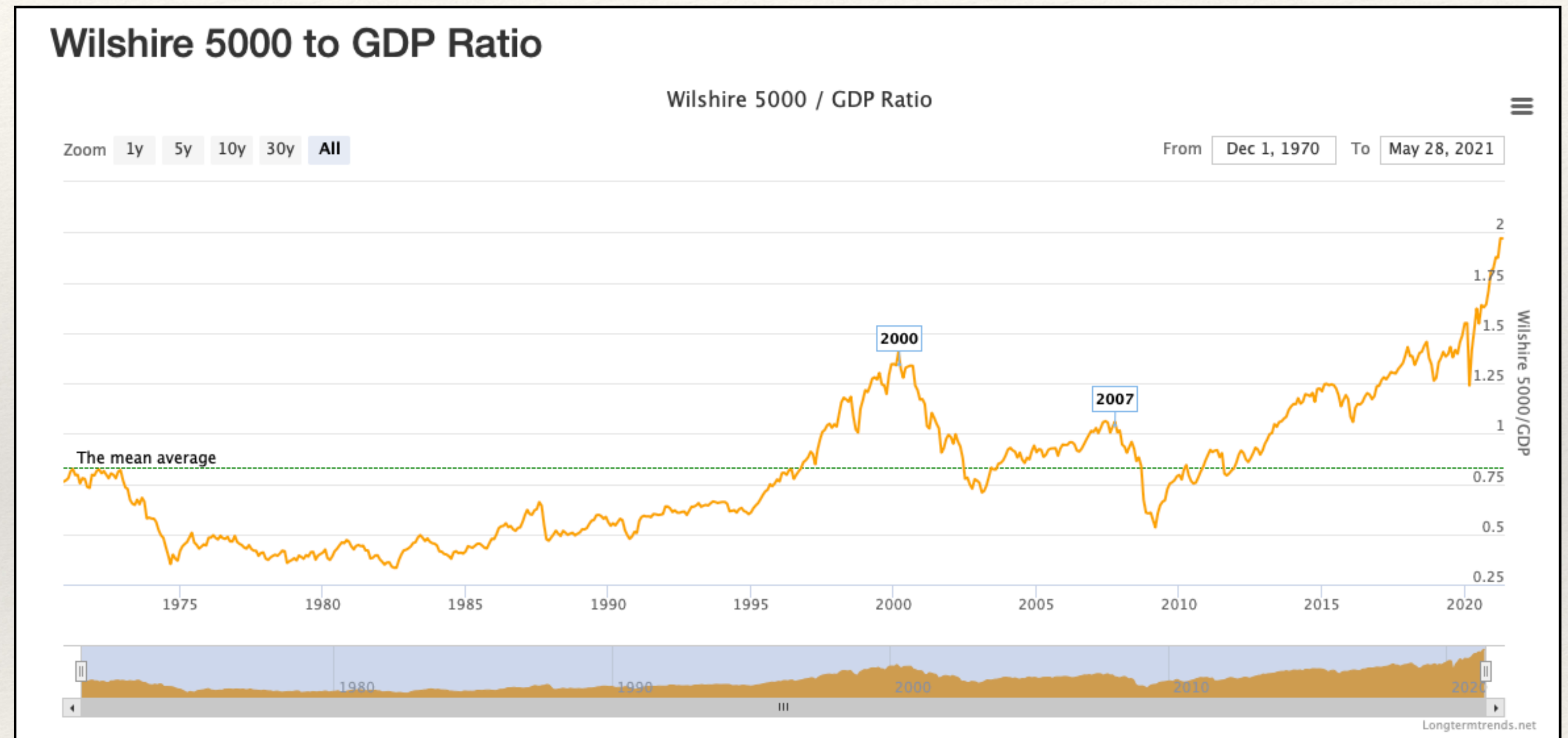
- ❖ This shows the ratio of the Wilshire 5000 to GDP
- ❖ It goes back to 1971



Source: [Longtermtrends.net](https://longtermtrends.net)

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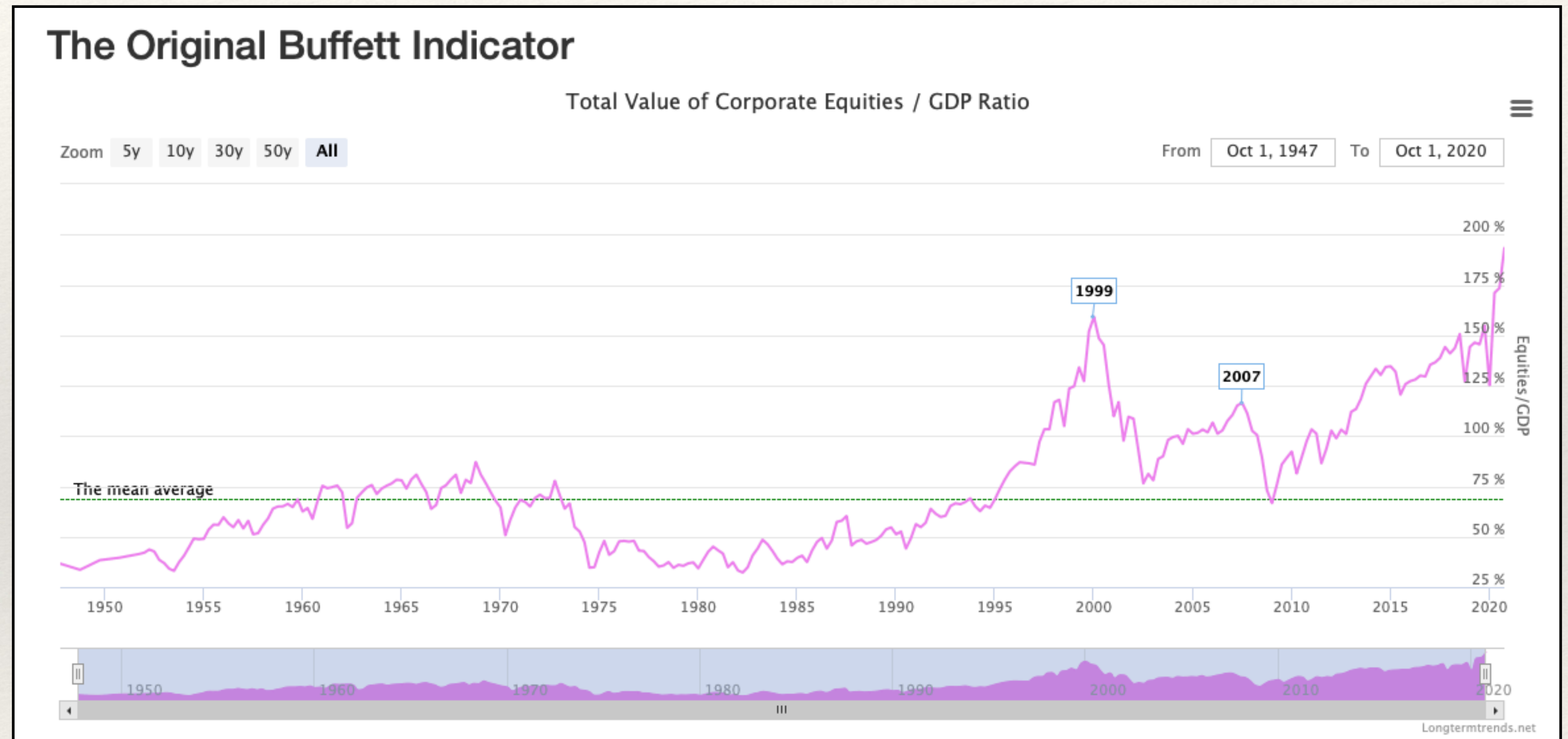
- ❖ The Wilshire 5000 is widely accepted as the definitive benchmark for the US Equity market and measures performance of all US equity securities with readily available price data



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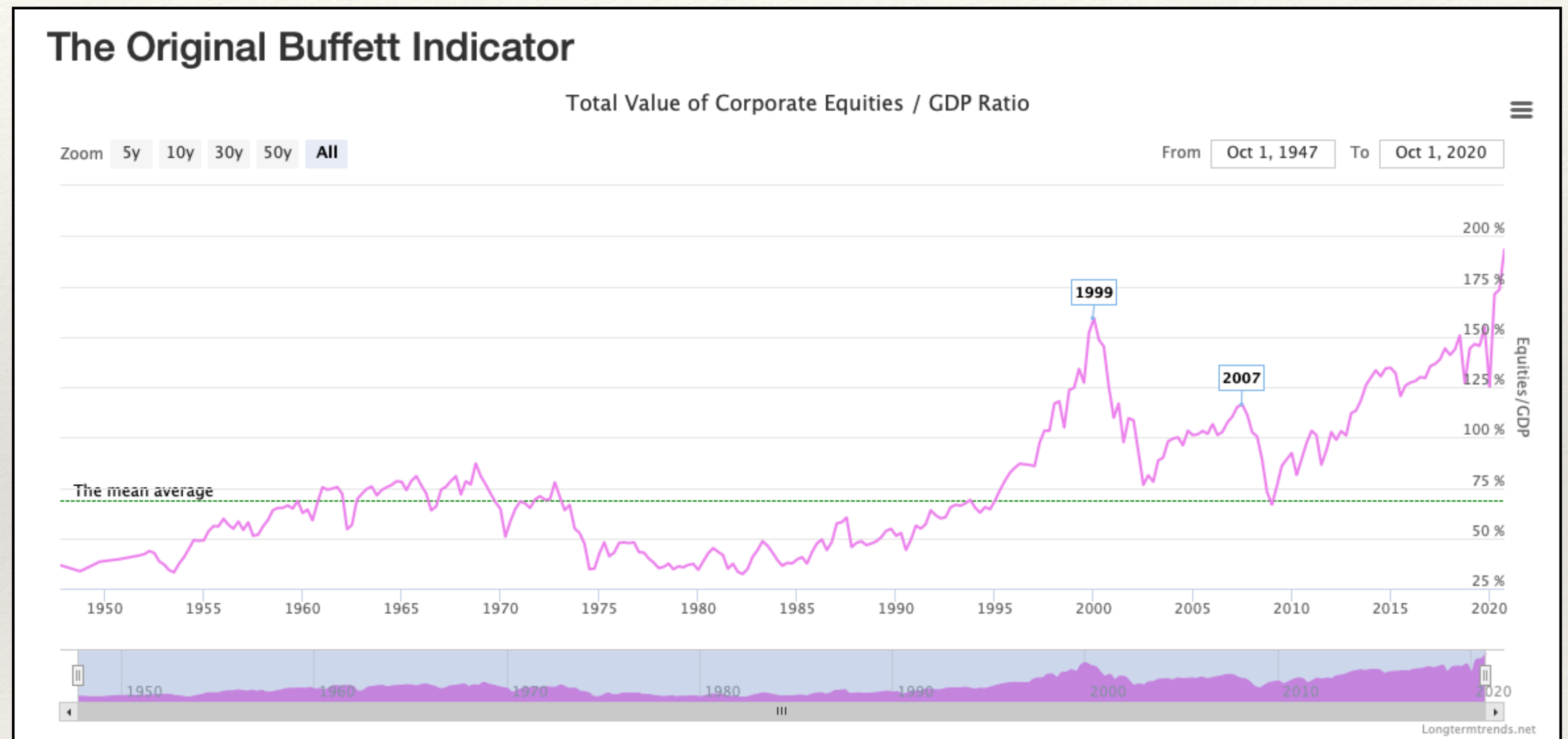
- ❖ The original measure for market capitalisation is the “Market Value of Equities Outstanding” which gets published quarterly by the Federal Reserve
- ❖ It always slightly lags the Wilshire 5000
- ❖ Data back to the 1940s



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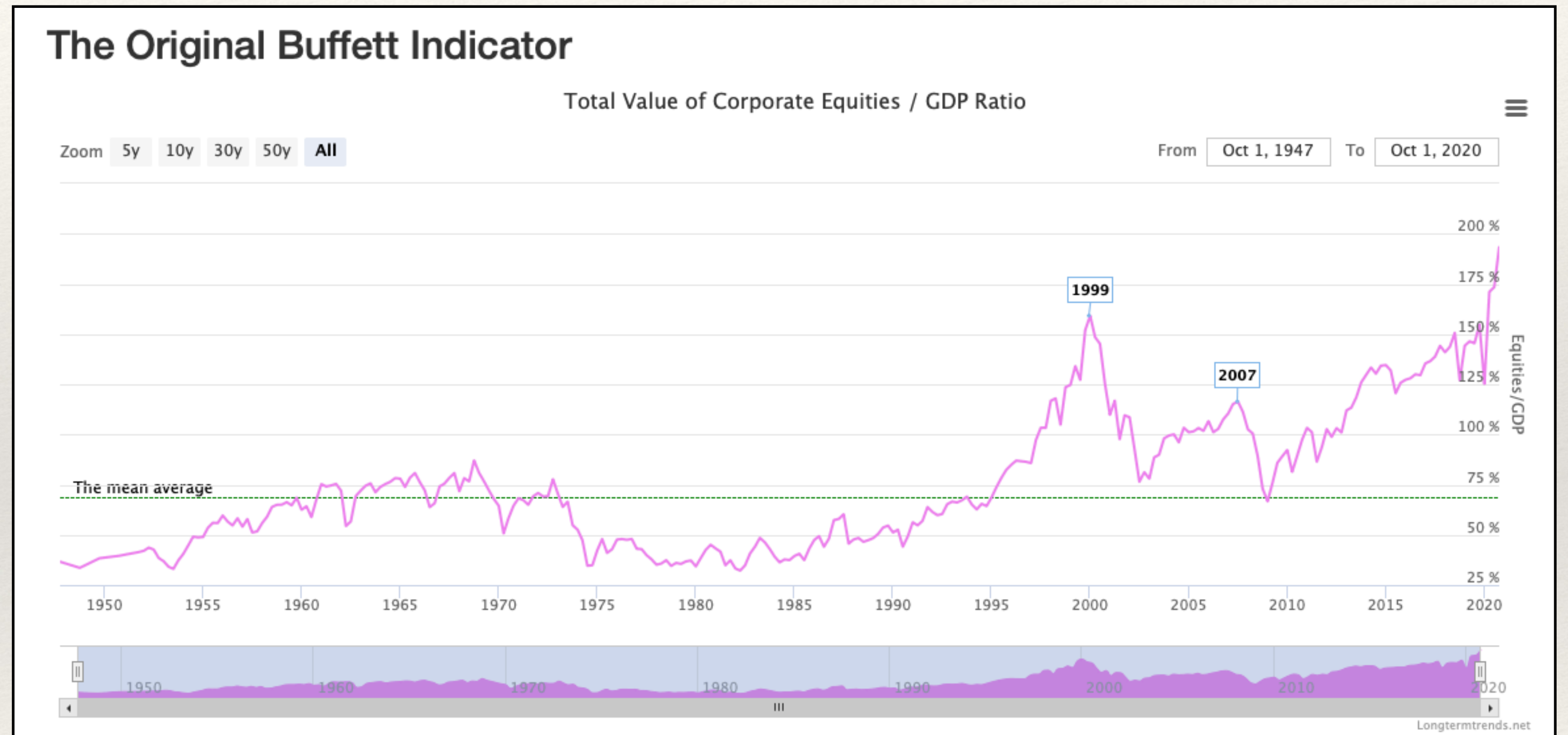
- ❖ The trend since the financial crash of 2008 has been consistently upwards



Source: [Longtermtrends.net](https://longtermtrends.net)

What is the Buffett Indicator?

- ❖ While this indicator is a general gauge of market valuation it is not useful for short term market timing



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