



Written by [Bob Adelman](#) on February 12, 2021

## These Are “Dangerous Times” for Wall Street, Says Veteran Investor

David Rosenberg, 36-year Wall Street veteran and founder of Rosenberg Analysis, said “From my lens we ... have a market ... that appears egregiously overpriced, overbought and overextended.” When he spoke those words the cyclically adjusted price-to-earnings ratio (CAPE) was at 32.44.

[That was in November.](#)

Today the CAPE is closing in on 36. The metric is used by Rosenberg and other Wall Street seers to determine whether the market is overvalued or not. As Investopedia reminded its readers:



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This ratio was at a record 28 in January 1997, with the only other instance (at that time) of a comparably high ratio occurring in 1929.

Shiller and Campbell [who renamed it the Shiller PE Ratio] asserted the ratio was predicting [then] that the real value of the market would be 40% lower in ten years than it was at that time.

That forecast proved to be remarkably prescient, as the market crash of 2008 contributed to the S&P 500 plunging 60% from October 2007 to March 2009.

Looking at the CAPE/Shiller PE Ratio on Monday, Rosenberg [said](#) that Wall Street and its investors are in “dangerous times” and that it proves there is a “speculative bubble” that is nearly certain to end badly. He noted that “the [stock] market is up ... 15 percent from a year ago when the market believed profits would be almost 20 percent higher than [they are today].”

But, said Rosenberg on Wednesday, “everyone wants the party to continue” and so are ignoring the warning signs.

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The pin prick that pops the bubble could be the enormous debt the U.S. Treasury has taken on during the virus crisis: The total debt — household, corporate, and federal, state, and local government — is \$77.4 trillion, or \$620,000 per household. Rosenberg warned:

Contemplate that figure.... It was \$260,000 per household at the height of the 2000 tech bubble, and \$475,000 at the peak of the 2007 housing and credit bubble.

And it’s only going to increase. The Congressional Budget Office (CBO) [just projected](#) that the budget deficit for the fiscal year 2021, which ends in September, will top \$2.3 trillion. This will bring the national debt to an incomprehensible \$30 trillion.



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And that doesn't include the Biden proposal of another \$1.9 trillion for his "coronavirus relief package."

All of this echoes what Jeremy Grantham wrote back on January 5: "The long, long bull market [in stocks] has finally matured into a full-fledged epic bubble.... I believe [when it pops it] will be recorded as one of the great bubbles of financial history."

Grantham's investment outlook is that all markets eventually come back to Earth: They "revert to the mean." His study of history revealed that "every single one of [those past bubbles] has broken all the way back to the trend that existed prior to the bubble forming." He added that there has "never been a great bull market that ended in this kind of bubble that did not decline by at least 50%."

The two financial gurus also agree on the timing: sometime this summer, no later than the third quarter. Said Rosenberg, "get ready for a July reckoning."

The timing could be propitious for those concerned about the present administration's attack on the country through executive orders. [As \*The New American\* noted:](#)

With any luck at all investors who will have seen their trading accounts and their 401k plans shrink to half will have an opportunity to get even.

They are likely to blame the sitting president and extract extreme revenge in the mid-term elections in November 2022.

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