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## Do Price-Earnings Ratios Drive Stock Values?

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### Abstract

Does a high price-earnings ratio indicate high or low earnings growth or higher or lower future stock prices? Data for the S&P 500, the MSCI World Index, the Europe Index, and the EAFE are examined using regression analysis. The results suggest that subsequent prices rise but subsequent yields decline with high P/E ratios. Adjusted for statistical issues such as autocorrelation, heteroscedasticity, unit roots, and non-stationarity, the findings suggest that P/E ratios may not have as great an impact on prices as once expected, and that they have no impact whatsoever on subsequent yields.

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