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**GREEN THUMB**

## S&P 500 Looks On Cheap Side Amid Turmoil

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Looking to take advantage of all the market turmoil? For ordinary investors with strong nerves, there could be an opportunity here -- in big, blue-chip companies.

The large-cap stocks in the Standard & Poor's 500-stock index aren't dirt cheap. But thanks to their tepid returns since March 2000, and the market pounding of recent weeks, their valuations are pretty attractive.

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**How to buy value:**

- **P/E ratios** on blue chips are at their most-attractive levels in over 10 years.
- **For investors** who have been chasing hot returns, there's a message: Maybe the best values aren't in the most exotic sectors.
- **Intrigued?** Consider investing in an index fund such as Vanguard 500 or Schwab 1000.

The S&P 500 companies are collectively at less than 17 times their earnings for the 12 months through June, according to data from Standard & Poor's. The last time the S&P 500 regularly traded below 17 times reported earnings was in 1994 and 1995 -- before the late-1990s stock-market surge.


There is a heap of uncertainty surrounding today's economy, and corporate profits could weaken later this year. Still, for investors who have spent the past few years chasing the hot returns among small-capitalization stocks, high-yield junk bonds and emerging markets, there's a message here: Maybe the best values aren't in the most exotic sectors.

A decade ago, of course, the S&P 500 was the hot sector. In the second half of the 1990s, big companies were the stock market's heroes, with the S&P 500 notching 20%-plus gains for five consecutive years. That startling performance turned prosaic S&P 500 index funds into trendy investments.

Then the trend died. Blue-chip stocks were crushed during the 2000-2002 bear market. They recovered nicely in the bull market that followed, but couldn't keep pace with natural-resources stocks, real-estate investment trusts and other sizzling sectors that have infatuated investors in recent years.

Result: As of Friday's market close, the S&P 500 was still 5% below its March 2000 peak, putting the index close to its eight-decade historical average of 16 times reported earnings -- and far below the 46 times earnings recorded earlier this decade.

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"The irrational exuberance that existed in March 2000 has been totally squeezed out," argues Alan Skrainka, chief market strategist at Edward Jones.

That doesn't mean big-cap stocks will post huge gains. But we should get decent performance. Mr. Skrainka notes that if share prices climb 6% a year, the stock market will double in value over the next 12 years. On top of that, investors will get the S&P 500's dividend yield, currently 1.9%.

Intrigued? Consider index funds such as Vanguard 500 Index or Schwab 1000 Index. "An index fund is the easiest the way to go," reckons Richard Schroeder, a financial planner in Amherst, N.Y. "The expenses are minimal. You don't have to worry about the manager."

For a more-focused bet, try iShares S&P 100, an exchange-traded index fund that invests in mega-cap stocks, says Jeremy DeGroot, co-chief investment officer at Litman/Gregory Asset Management in Orinda, Calif.

"We're not pounding the table for large-cap U.S. stocks," he says. "On an absolute basis, they're OK. But we find them attractive on a relative basis, especially relative to small-cap U.S. stocks."

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