Where is the S&P500 Going? An Unscientific Look.

Measure with a micrometer, mark with a chalk, cut with an axe. So much for the scientific and quantitative analysis. I am going to simply eyeball a chart and draw a straight line through it. The chart in question is the S&P500 since 1928 to Feb 2009. I have plot it on a log scale and then simply drawn a straight line (Ordinary Least Squares in Log Space if you have to know) through it. Here is what it looks like:

I have arbitrarily assigned 650 as the level of the S&P500 based on the index overshooting my straight line on the downside by as much as it has overshot it in on the upside the last 15 years. And it doesn't look too ridiculous.

Here is what the corresponding annual returns chart looks like:

With the S&P at 788 as of 18 Feb 2009, a further 17% fall doesn't look far outside the realm of possibility. It would take us back to levels last seen in 1996, wiping out 12 years of excess and also, unfortunately, 12 years of progress. If, however, you believe that progress has been made in the last 12 years, then perhaps the market is undervalued at 650. The S&P was last at 800 in 1997, so perhaps even at current levels, there is value in the market. But where is the method in all this, where is the deep fundamental analysis? Here's my excuse: I have an axe to cut with and a chalk to mark with, what am I doing with that micrometer?