

# Price-Earnings Ratios for Big 6 Over Time

July 26, 2016

We compute PE ratio using daily stock price data from CRSP and dividing by the 12-month moving average earnings per share (excluding “extraordinary items”) from Compustat. To get the 12-month moving average, Compustat sums the prior three quarters’ EPS with the current quarter’s EPS.

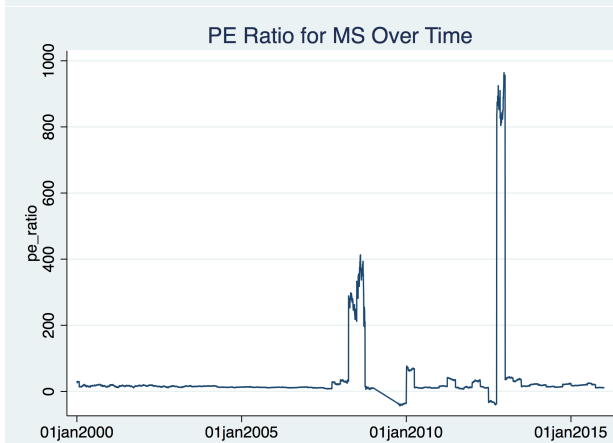
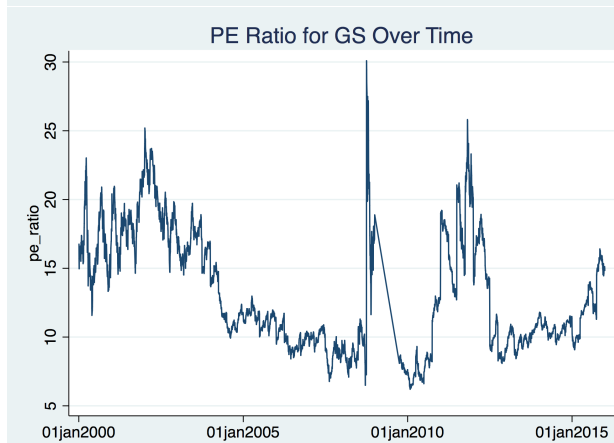
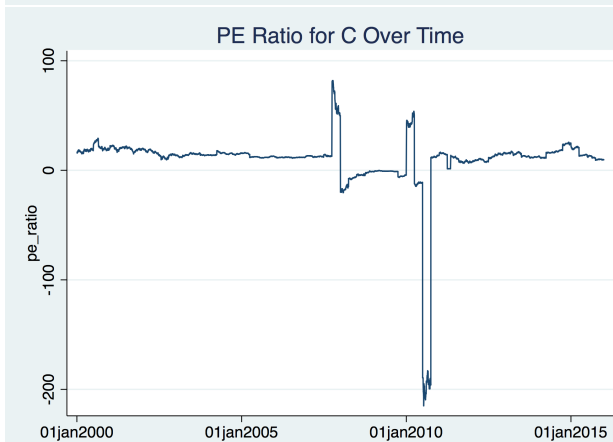
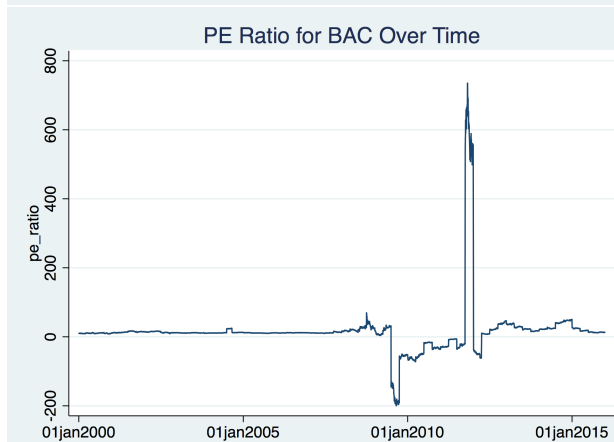
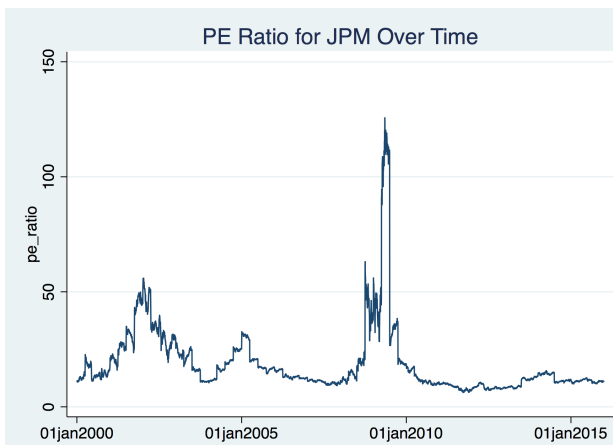
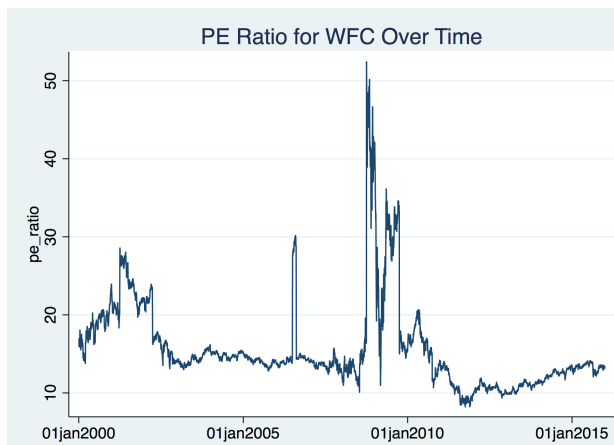
Taking the ratio of price to EPS gives us the historical PE ratio. As you’ll see, there are some large swings and some super high PE ratios when earnings are low in particular quarters (i.e. the 12-month moving average for Morgan Stanley earnings in 2012 was around .02).

Overall, though, at first glance these graphs (on next page) seem to suggest that PE ratios have declined relative to the pre-crisis period. We have also pulled this data for the rest of our top-50 US financial institutions so can produce tables like those in our paper for this measure if we so choose.

This seems to be consistent with Rajan (2005) who compared the PE ratios of banks in the US relative to the market (his measure is percentage of S&P 500 PE ratio) and proposed that the declining PE ratios relative to the market implied that the market is discounting bank earnings with an increasing risk premium, suggesting that they have *not* become less risky. I also pulled from Compustat the S&P Composite monthly earnings per share and price to do a version of this Rajan (2005) plot, which looks similar to our first set of graphs of the PE ratio overall.

NOTE: Our data is only available through 2015, so that is where we end these plots.

# 1 Price-Earnings Ratios



## 2 Price-Earnings Ratios as Percent of S&P 500

