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Nearly 50% of CFOs think shares overvalued

Commentary: Surprisingly bearish finding of Duke CFO survey

By Mark Hulbert, MarketWatch

CHAPEL HILL, N.C. (MarketWatch) — As if stock market bulls didn't already have enough to worry about, with a looming government shutdown and the threat of a U.S. Treasury default.

Yet they do: It turns out that nearly half of companies' chief financial officers think the stock market is overvalued.

That surprisingly bearish result is among the findings of the latest Duke CFO Magazine Global Business Outlook survey: 40.2% of chief financial officers who responded to the latest survey said they thought the stock market is overvalued and will correct downward.

Duke finance professor Campbell Harvey, one of the survey's authors, says that he finds this high a percentage to be "striking" because CFOs "usually tell us that their stock is undervalued."

In fact, Harvey added, the Duke survey for the last several years didn't even ask CFOs whether they thought their stocks were undervalued, since when they did ask the question in the years before that the CFOs' answers were "stuck above 95%."

The Duke CFO survey is conducted quarterly. This latest survey is based on a poll of 530 CFOs in the days leading up to Sept. 6. The [Dow Jones Industrial Average](#) (DJ:DJIA) on that day, it is interesting to note, closed just below the 15,000 level — about 200 points below where it trades today. So, even taking into account the market's pullback over the last week, the decline that many of the CFOs were then anticipating has yet to materialize.

Washington turmoil spooking business world

Washington's budget standoff is spooking businesses and consumers, threatening the recovery even if law makers avoid a government shutdown or a potentially catastrophic default on the nation's debt.

It behooves us to pay attention to this survey's finding because, as Harvey pointed out, CFOs usually "have the best handle" of anyone in the corporate hierarchy on expected cash flows.

Though the CFOs no doubt had many reasons to believe the stock market is overvalued, one common theme may be the threat of higher [interest rates](#). Only 7% of them believe that long-term interest rates will fall from current levels.

You might be inclined to question these results on the grounds that "talk is cheap:" It would be a far more bearish omen if CFOs, along with other corporate insiders, were backing their words with actions — aggressively selling shares of their companies in the open market. And that doesn't appear to be the case.

I wouldn't be so quick to dismiss the survey's results, however. Anonymity in this case might actually induce the CFOs into being more willing to reveal their true feelings. After all, they may see their job as being a cheerleader for their companies' stocks. Therefore, when speaking on the record, or executing open-market transactions in their companies' shares before all the world to see, they may feel compelled to behave more bullishly than they really believe is justified.

If so, get ready for market fireworks in coming weeks and months.

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