Q4 2025 Letter – Bear Blue/Bull Red: 'Good Riddance' to Market Predictions

Good Riddance
Song by Green Day (1997)

"Another turning point, a fork stuck in the road
Time grabs you by the wrist, directs you where to go
So make the best of this test and don't ask why
It's not a question, but a lesson learned in time

It's something unpredictable,
but in the end is right
I hope you had the time of your life"

Introduction

One lesson "I've learned in time*"* after nearly 30 years in this business is to ignore predictions, especially ones about the year ahead. I recently finished *The 22 Immutable Laws of Marketing*, and one principle in particular stood out: the "Law of Unpredictability." While the authors weren't writing about financial markets, the idea fits them remarkably well.

> The "law of unpredictability" is a popular strategic/marketing idea, not a formal law in physics or finance, and it says that you cannot reliably predict the future, especially competitors' actions, so you must build flexibility into your plans. The phrase is best known from Al Ries and Jack Trout's book *The 22 Immutable Laws of Marketing*, where it appears as one of their "laws." ericsink +1

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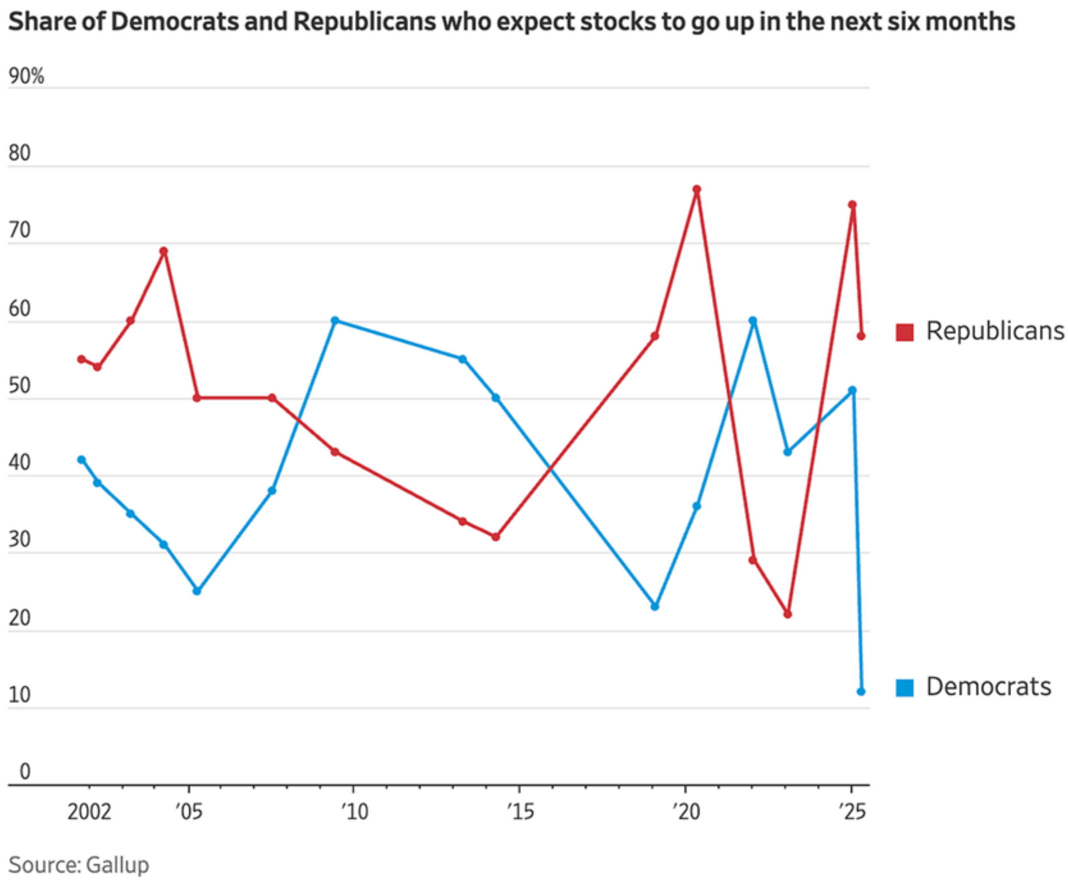
When it comes to the stock market, the most unpredictable forces are often the ones discussed most loudly across media outlets—namely the macro-economy and politics. Right now, every Democrat in the United States seems convinced the market is headed lower in 2026, while most Republicans expect it to move higher. It's no surprise the gap between these views is as wide as it's ever been—and that was before we grabbed Maduro.



[Weekly S&P500 ChartStorm - 22 June 2025](#) [[@GunjanJS](#)]

A large share of 2026 predictions also center on whether we're in a stock-market bubble, particularly within AI and the broader tech sector. Going back to The 22 Immutable Laws of Marketing, the authors make an important distinction between a fad and a trend. Again, they weren't referring to markets, but the concept provides a useful framework for the year ahead.

So the question becomes: Is AI and tech a fad—or a trend?

> A **fad** is a short-lived burst of popularity driven mostly by novelty and social pressure, while a **trend** is a longer-lasting directional shift in behavior, preferences, or markets that builds gradually and can reshape norms over time. A useful mnemonic is that *fads fade*, but trends tend to persist and evolve. `designpoolpatterns +1`

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Part I. Is It the 1999 Internet Bubble Again?

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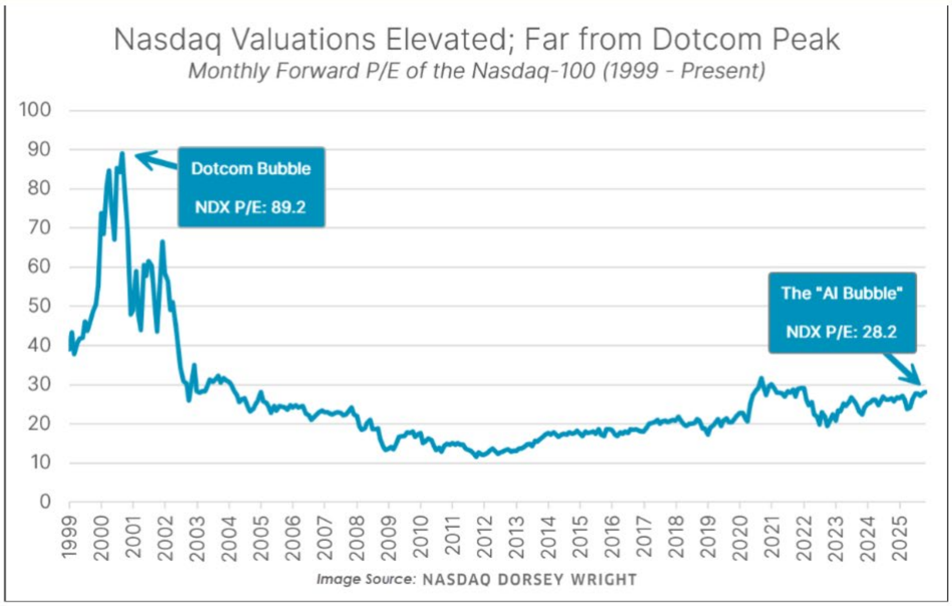
*"We will continue to ignore political and economic forecasts, which are an expensive distraction." -**Warren Buffett***

True market bubbles don't usually end with wall-to-wall media warnings predicting their collapse. That irony is worth keeping in mind. While today's market is certainly expensive by historical standards, it is nowhere near the valuation extremes reached during the Nasdaq internet bubble.

During the dot-com era, valuations peaked at roughly three times today's levels on a price-to-earnings basis.

1999 Nasdaq P/E 90X vs. 2025 P/E 28.2x.

Dotcom vs. Now



The statistics below are borrowed from Tom Lee at Fundstrat. One example worth highlighting: **NVIDIA** currently trades at a *lower* forward P/E than both **Walmart** and **Costco**—hardly the profile of a speculative outlier.

As of December 29, 2025, the latest forward P/E ratios for each company are:

- **Walmart, Inc.** (WMT): 42.57
- **Costco Wholesale Corp.** (COST): 42.82
- **NVIDIA Corp.** (NVDA): 39.92

Y-Charts

Nvidia sold off more than 50% during the 2021–2022 semiconductor bear market and saw another 35% correction during the 2025 sell-off tied to Chinese AI competition. By comparison, **Cisco Systems** was the Nvidia of the internet bubble. At its peak in 2000, Cisco traded at over 200 times earnings, versus Nvidia today at roughly 40 times. Cisco only returned to its all-time high this year—twenty-five years after the dot-com bubble burst.

Part II. Is It a Fad or a Trend?

There is a meaningful gap between today's technology stock valuations and those seen in 1999—but the difference in **profitability** is far more important.

Over the last four years, global technology companies have **doubled their net income**. Since the 2008 financial crisis, technology earnings have grown roughly **550%**, compared to just **50%** for the rest of the market. This is a critical distinction from the dot-com era.

TKL **The Kobeissi Letter** @KobeissiLetter · Dec 29

Profitability of tech stocks is skyrocketing:

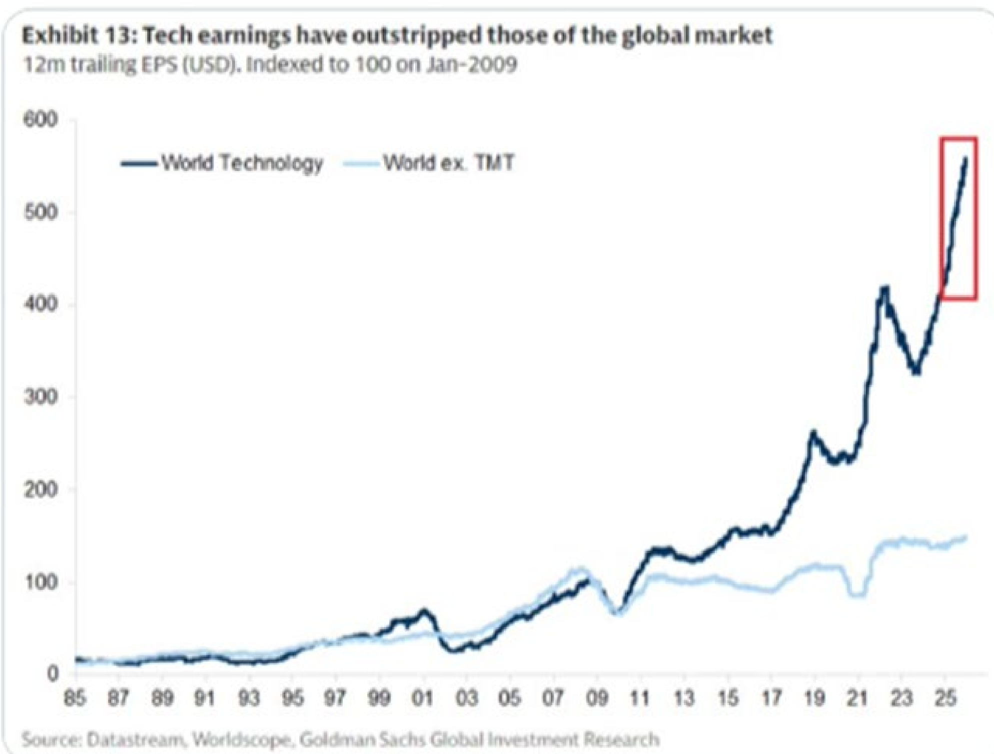
12-month earnings in world technology stocks have surged +550% since January 2009.

Furthermore, global tech firms have doubled their net income over the last 4 years.

By comparison, world stocks excluding tech have grown their earnings by just +50% since the start of 2009.

In other words, the profitability of world technology stocks has grown 11 times faster than the rest.

The AI Revolution is in full swing.



The Kobeissi Letter

To put the late-1990s environment into context, here's how Perplexity summarizes profitability heading into the internet bubble's collapse:

"Profitability was indeed shrinking or nonexistent for the sector as a whole: 74% of surveyed internet companies had negative cash flows, with most burning cash on marketing and growth rather than generating sustainable earnings."

Key profitability stats

- Tech leaders like Cisco had P/E ratios above 148x, yet aggregate sector operating margins were volatile and low, with a proprietary Profit Stability Score (measuring margin strength and consistency) at just 1.29 for the Nasdaq—far below today's levels of 5.6. wisdomtree +1
- Average price-to-sales ratios for 2000 IPOs hit 48.9x, underscoring that valuations were driven by hype, not profits; most dot-coms operated at net losses. internationalbanker

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In other words, valuations were high and profits were scarce.

Today's environment looks very different. Higher profitability has translated directly into market outcomes. Over the past 20 years, growth stocks have outperformed value stocks by more than 730% on a cumulative total return basis.

Over the last **20 years**, the **Russell 1000® Growth Index** has significantly outperformed the **Russell 1000® Value Index** on a total return basis. As of September 30, **2025**, growth stocks had a cumulative performance differential of more than **730%** compared to value stocks over that 20-year period.

That kind of long-term outperformance doesn’t come from hype alone. It reflects durable earnings power, scalability, and sustained demand. This is the definition of a **trend**, not a fad.

In 2000, when the bubble burst, technology stocks were trading at far higher forward P/E multiples, profitability across the sector was weak, and the Federal Reserve was raising interest rates. Today, valuations are lower by comparison, profitability is meaningfully stronger, and the Fed is lowering rates.

Does this mean the stock market won’t go down in 2026? Of course not. The stock market goes down every year at some point.

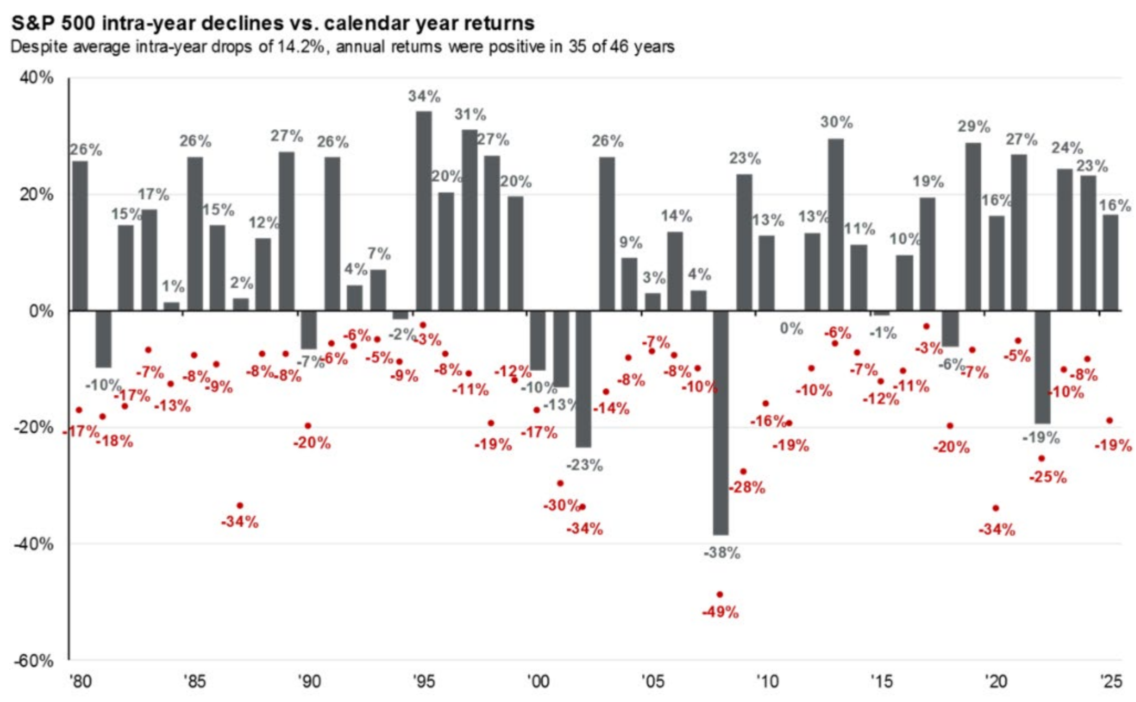
But volatility is not the same thing as a bubble—and understanding the difference matters.

Part III. Market Corrections vs. Bear Markets

“The biggest section of investment graveyard is set aside for macro forecasts.”
-***Warren Buffett***

There is a larger-than-usual group of well-known investors predicting a 10–15% correction in 2026. That’s not much of a forecast—something along those lines happens almost every year.

As the chart below from JPMorgan Asset Management illustrates, the S&P 500 experiences an average intra-year drawdown of roughly 10% annually. The red bars show the intra-year declines, while the gray bars represent where the market ultimately finished the year.



JPMorgan

Just look at the last three years. We saw pullbacks of approximately **10%**, **8%**, and **19%**, yet the market finished those years up **24%**, **23%**, and **16%**, respectively. By contrast, the dot-com era was a true bear market—the Nasdaq declined nearly **75% peak to trough**.

That distinction matters.

There's an additional wrinkle for 2026: it's a midterm election year. Historically, this phase of the election cycle has brought higher volatility and weaker first-half returns. This year also includes a potential Fed chair transition and a Supreme Court ruling on tariffs expected in the first half—both sources of short-term uncertainty.

However, as the next chart shows, one-year returns following midterm-year correction troughs have been positive 100% of the time.

Midterm Years Tend To Bottom Later In The Year And See Larger Corrections

S&P 500 Index Peak-To-Trough During A Midterm Year

Year	Date of Low	S&P 500 Index Return: Peak-To-Trough	S&P 500 Index Return: Return 1-Year Later
1950	7/17/1950	(14.0%)	30.9%
1954	8/31/1954	(4.4%)	43.9%
1958	2/25/1958	(4.4%)	36.3%
1962	6/26/1962	(26.4%)	32.7%
1966	10/7/1966	(22.2%)	33.2%
1970	5/26/1970	(25.9%)	44.5%
1974	10/3/1974	(37.6%)	34.6%
1978	11/14/1978	(13.6%)	11.3%
1982	8/12/1982	(16.6%)	57.7%
1986	9/29/1986	(9.4%)	40.6%
1990	10/11/1990	(19.9%)	28.8%
1994	4/4/1994	(8.9%)	14.3%
1998	8/31/1998	(19.3%)	37.9%
2002	10/9/2002	(33.8%)	33.7%
2006	6/13/2006	(7.7%)	24.5%
2010	7/2/2010	(16.0%)	31.0%
2014	10/15/2014	(7.4%)	8.7%
2018	12/24/2018	(19.8%)	37.1%
2022*	6/16/2022	(23.6%)	?
Average	August 14	(17.1%)	32.3%
Median	September 4	(16.3%)	33.5%

Source: YCharts 8/19/2022 *Low for the year isn't official, as the year isn't over yet.
@ryandetrick

CARSON

Carson Group

Will this exact pattern repeat in 2026? There are no guarantees. But that's precisely the point.

A forecast calling for an S&P 500 10% correction is meaningless unless you're running a hedge fund. For long-term individual investors, it's noise—and it should be ignored at all costs.

Part IV. The Speculative Economy

Cryptocurrency

"Life is infinitely stranger than anything the mind could invent."
— Sir Arthur Conan Doyle

According to The Wall Street Journal, here were some of the most widely cited Bitcoin price targets for 2025:

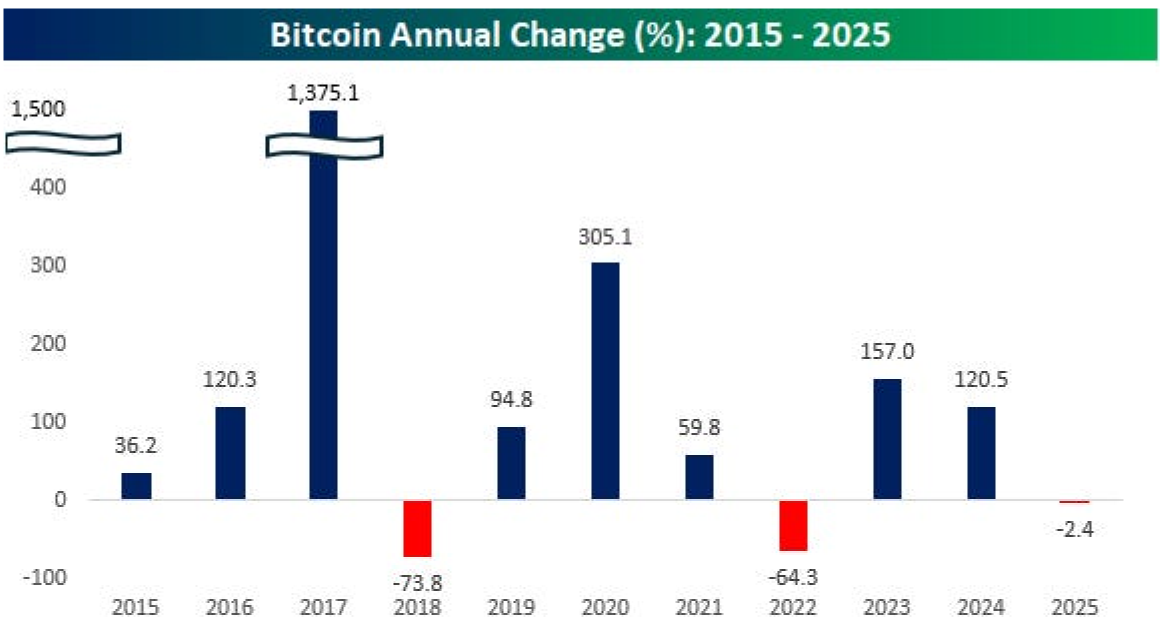
- Bernstein: $200,000
- Bitwise: $200,000

- Fundstrat: $200,000
- BlackRock's Larry Fink: $700,000 if every large investor buys
- Cathie Wood: $1.5 million by 2030

These are all credentialed people at excellent firms, far smarter than me, yet Bitcoin finished 2025 down roughly 6%, closing near $93,460.

That outcome doesn't indict Bitcoin. It indicts prediction. Highly speculative assets make fools of one-year forecasts, even when those forecasts come from the most sophisticated corners of finance.

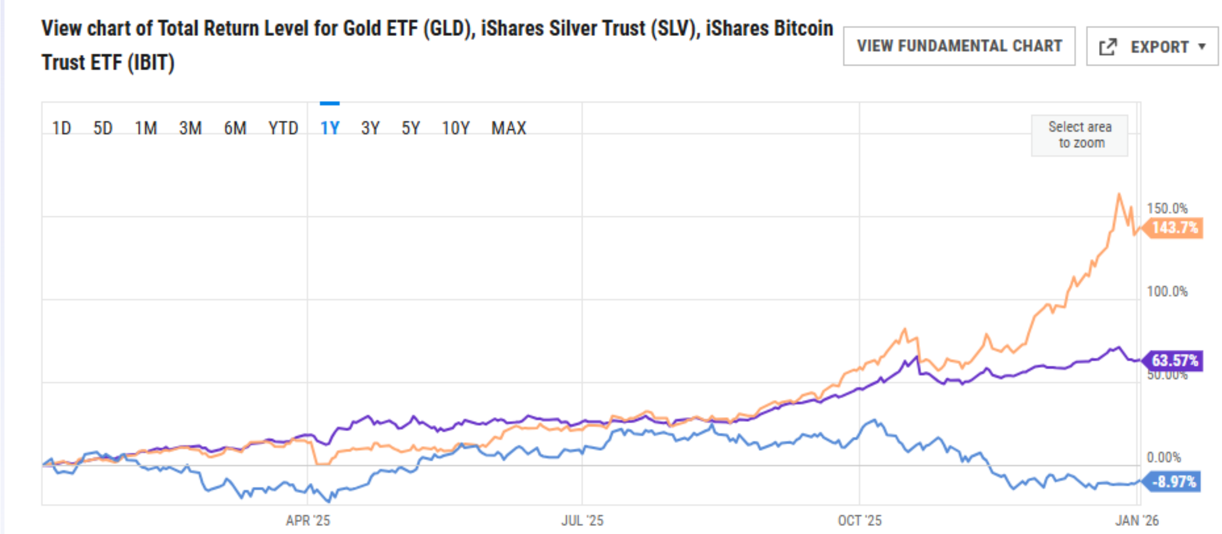
Here is the 10-Year history of Bitcoin. Good Luck with a one-year prediction.



The longer-term Bitcoin chart makes the point even clearer: massive gains, violent drawdowns, and price paths that defy tidy narratives. In the same year Bitcoin declined, gold rose more than 60% and silver surged over 140% — an outcome almost no one had on their bingo card.

Summary of 2025 performance (Total Return from 12/31/2024 to 12/31/2025):

- **SPDR Gold Shares** (GLD): +63.68%
- **iShares Silver Trust** (SLV): +144.66%
- **iShares Bitcoin Trust ETF** (IBIT): -6.41%



Y-Charts

Options Trading (My Only Prediction)

“Risk comes from not knowing what you are doing.” ***Warren Buffett***

“The range of derivatives contracts is limited only by the imagination of man (or sometimes, so it seems madmen).” ***Warren Buffett***

Just before Christmas, an options trader known online as “Captain Condor” and his followers experienced a catastrophic wipeout that erased tens of millions of dollars in days. The strategy relied on the Martingale system, doubling down after losses in the hope that a small win would eventually recover everything. It works…until it doesn’t. When it breaks, it breaks all at once. (Source: MarketWatch)

MARKET EXTRA

‘I experienced a catastrophic financial loss’: How options trader ‘Captain Condor’ led his followers to a $50 million wipeout

Captain Condor’s rise coincided with a boom in retail investors trading risky ‘0DTE’ options

By Joseph Adinolfi Follow

Note to self: Captain Condor is a WWE wrestler’s name — not the person who should be giving you financial advice.

If your adult children are trading options or zero-day-to-expiration (0DTE) contracts, please beg them to stop. Pay them to stop. Some of the biggest hedge funds in the world prohibit their traders from touching certain options strategies, yet we now have the mass public trading complex derivatives on their phones.

Seeing the explosion in options volume, my one clear prediction is that this will end in financial tears.

increase in options trading volume chart 2025

Options trading volume in **2025** reached unprecedented levels, setting a **sixth straight annual record** with a market-wide average of **59 million daily contracts** through September, a **22% increase** from 2024.

Options Average Daily Volume (ADV) by Product Type (2025 Year-to-Date)

Key Insights

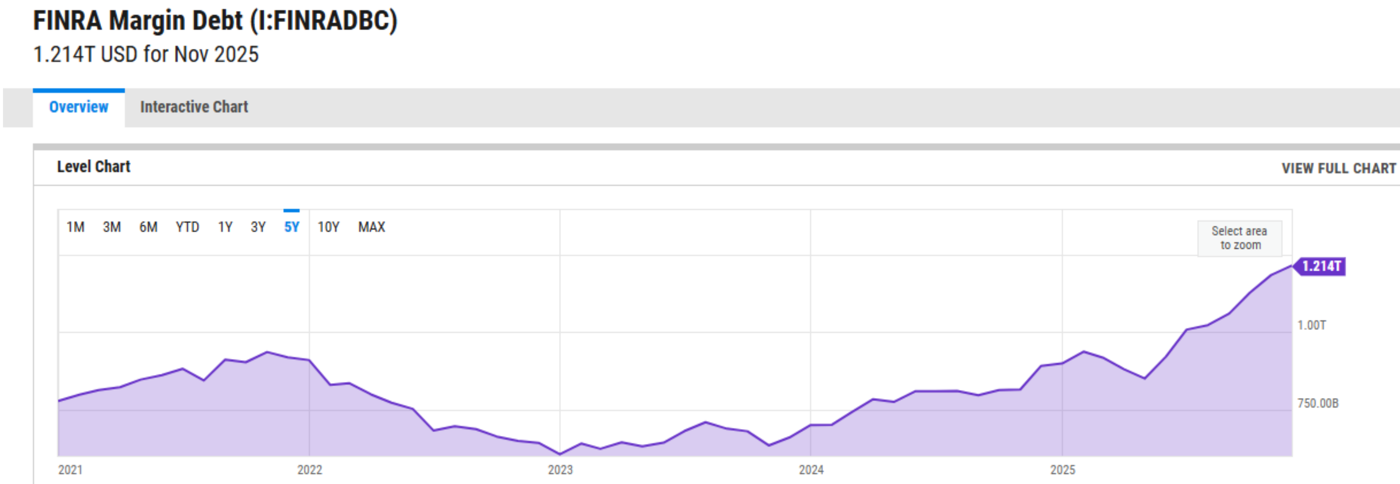
- **Record Highs:** The year 2025 is on track to top **13.8 billion contracts** in total volume, driven by high equity returns and macroeconomic volatility.
- **Retail and Institutional Flow:** Growth was fueled by increased retail engagement (accounting for nearly **half of total daily options volume**) and a resurgence in large-block institutional trades.
- **0DTE Popularity:** Zero-days-to-expiry (0DTE) options continued their rapid growth, with over **2.15 million** or **57%** of the S&P 500 Index (SPX) average daily volume being 0DTE contracts.
- **Single-Day Records:** New single-day volume records were set multiple times, peaking at over **110 million contracts** across the U.S. options industry on October 10, 2025.

GoogleAI

Warren Buffett once warned that derivatives are "financial weapons of mass destruction." That line gets recycled often, but rarely does it feel this current. The combination of leverage, speed, and overconfidence is exactly how small losses turn into life-altering ones.

Margin Debt (My One Worry)

My 2026 worry is the record-breaking margin debt at the end of 2025. Always and forever, things go south when investors become over-leveraged. As the chart below shows, margin debt has surged above the borrowing highs reached during the 2022 meme-stock era. The options activity discussed above is directly contributing to this increase.



Year-over-year margin borrowing is up more than 36%. That is not yet at historic crisis levels, but leverage rarely announces itself at the moment it becomes dangerous. It tends to reveal itself only after markets move against it.

Can you tell me the highest year over year growth in stock market margin borrowing history?

Reviewed 10 sources ›

There is no single, universally cited "record" year-over-year growth number for U.S. stock market margin borrowing across all history, but past extremes give a ballpark. Historical FINRA/NYSE data show that the largest 12-month surges have typically been on the order of roughly 60–80% year-over-year during major bull-market blow-offs (late-1990s tech bubble, 2006–07, 2020–21), rather than anything like a doubling in one year. ftportfolios +1

More recently, margin debt rose about 66% from the post-bear low in December 2022 to June 2025, and has posted trailing 12-month gains around the high-30% range in some recent episodes (for example, roughly 38.5% YoY through September 2025), which analysts note as comparable to the run-ups ahead of the 2000 and 2008 peaks. morningstar +1

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The common thread is not Bitcoin, options, or margin debt individually. It is the belief that markets can be predicted, engineered, or gamed into consistency. That belief flourishes late in cycles and disappears quickly when volatility returns.

Speculation always looks smartest right before it stops working.

Long-term investing, by contrast, is boring, humbling, and remarkably resilient. It does not promise certainty, only participation. And history suggests that participation, patience, and discipline remain far more reliable than the next bold forecast or clever trade.

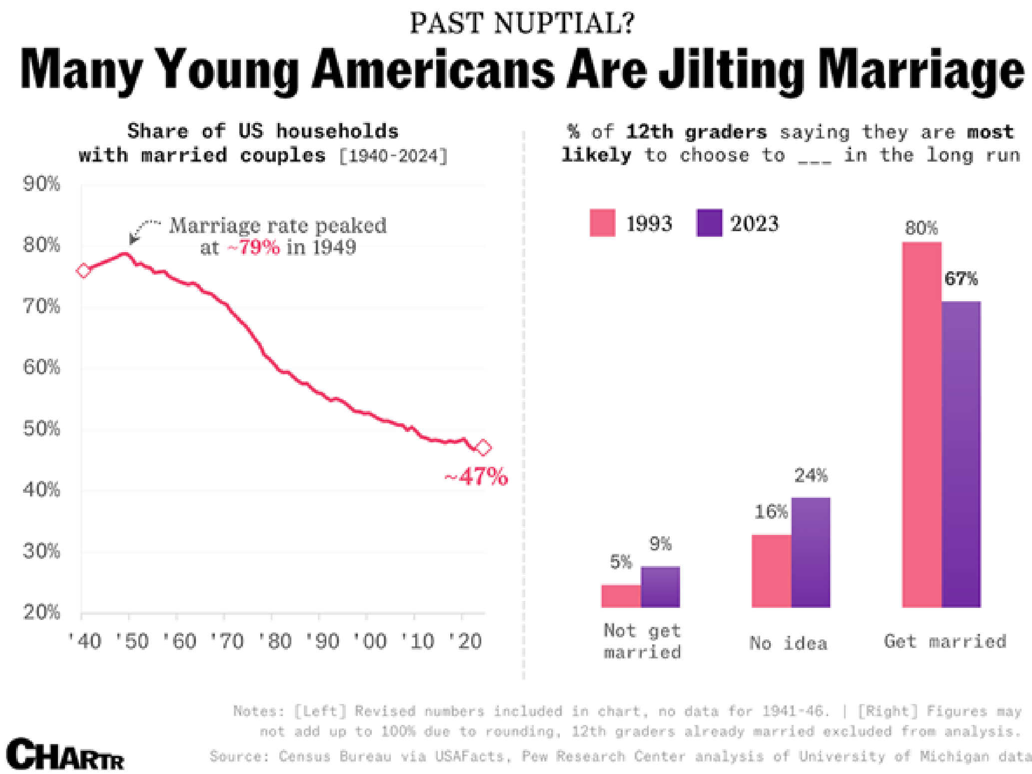
Part V. What Should Americans Be Worrying About?

I know many readers are waiting for a political commentary but thank God I do not comment on politics. Staying consistent with the theme of this letter around predictions, demographics are one area where trends have a high degree of long-term predictability.

Right now, two demographic trends stand out. Marriage rates are falling sharply and educational outcomes are deteriorating. That combination is not encouraging.

Married-Couple Households Are Plummeting

I am not here to judge anyone for being married or unmarried. That is not my business. But the economic implications are straightforward. Fewer marriages tend to mean fewer children. Fewer children lead to slower population growth, which ultimately translates into slower long-term economic growth.



The data confirms this shift. According to research cited by the Wall Street Journal, the share of Americans who have never married by age 40 has risen steadily for decades. Between 1960 and 1980, only about 6 percent of 40-year-olds had never married. By 1990, that figure rose to roughly 10 percent. By 2000, it reached 15 percent. By 2010, it was 20 percent. By 2021, one quarter of 40-year-olds had never married, including 28 percent of men and 22 percent of women.

Marriage rates also vary significantly by demographic group and education level. Nearly half of 40-year-old Black Americans have never married, compared with 27 percent of Hispanics and 20 percent of whites. Americans with a high school diploma or less are roughly twice as likely to be unmarried at 40 as those with a bachelor's degree or higher.

This matters not for moral reasons, but for economic ones. Demographics are destiny. Slowly, quietly, and relentlessly.

The State of Education and the Decline of Reading

The second long-term concern is the condition of our public education system. I will leave much of this analysis to Professor G, who captures it powerfully in a single slide.

> In one particularly important field, **education, U.S. kids are falling behind.**
> In public schools, reading scores have reached their **lowest levels in decades.** Only **35% of 12th graders** are now considered ready for entry-college reading. They're showing up to college unprepared:
> UC San Diego, which is one of America's highest-ranked public universities, has made headlines for its students' **abysmal math abilities.**
> Thirteen percent of UC San Diego students could not perform at a **first grade level in math.**
> Here are some questions that UC San Diego **expects** students to be able to answer:
> Solve $(10 - 2)(4 - 6x) = 0$
> Sarah had 9 pennies and 9 dimes. How many coins did she have in all?
> About **20% could not correctly count t**he number of coins, and over **80% solved the equation incorrectly.** Let us know what you think the answer is in the comments.
> Raising a **less-skilled generation** comes with **real economic implications.** A Stanford report estimates learning loss over the past decade has cost the U.S. more than $90 trillion in future growth. If we raised student achievement to 2013 levels, the **average lifetime earnings** of the average student would **rise by 8%.**

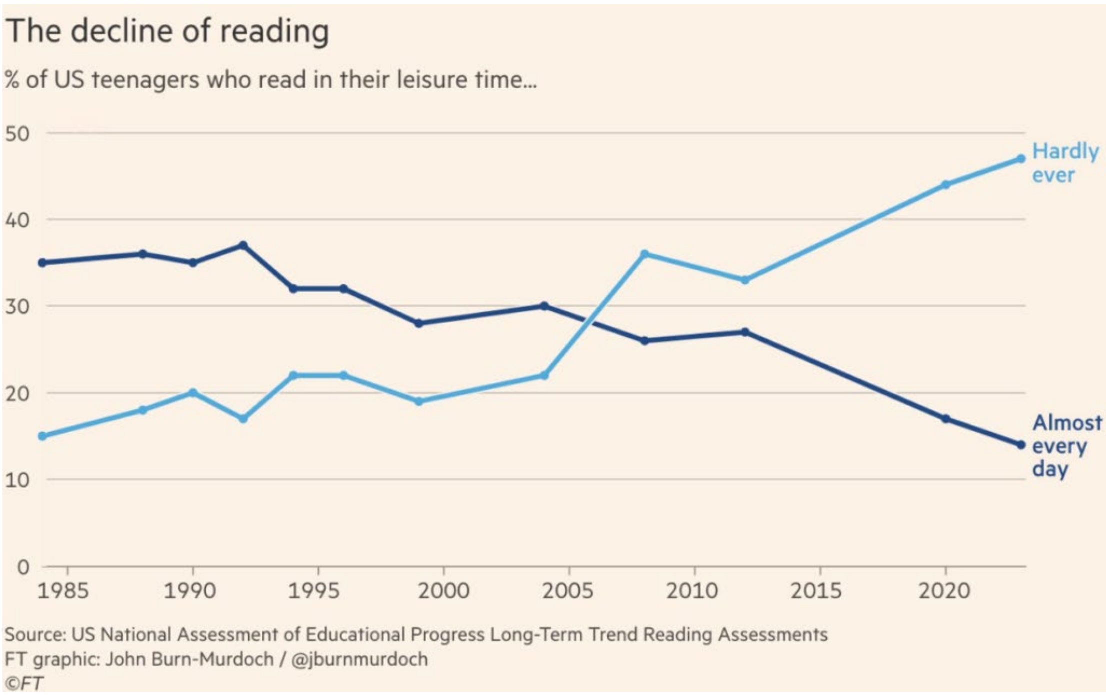
Professor G Media

At the most basic level, reading — the foundation of learning — is declining.

As Charlie Munger once said:

"In my whole life, I have known no wise people (over a broad subject matter area) who didn't read all the time — none, zero."

Yet data from the Financial Times show a steady decline in the percentage of teenagers who read for pleasure in their leisure time. Screens have replaced books, and passive consumption has displaced deep thinking.



The contrast with other parts of the world is stark. While American children scroll social media, Russian children are being prepared for war beginning in the earliest grades. According to reporting by The Wall Street Journal, military-style training is now embedded in Russia's school curriculum. By eighth grade, weapons training — once extracurricular — is mandatory. Students are taught military discipline, history, weapons assembly, and drone operation.

One does not need to endorse such an approach to recognize the seriousness with which education and national preparation are treated elsewhere.

The Bigger Picture

Markets fluctuate. Forecasts fail. Speculative excesses come and go.

But demographics and education change slowly — and when they move in the wrong direction, the consequences compound over decades, not quarters. If Americans want to worry about something beyond the next election cycle or the next market pullback, these are the trends that deserve attention.

They may not dominate headlines, but they shape the future far more reliably than any market prediction ever could.

Conclusion

In conclusion, the market is "**something unpredictable**," especially when forecasts are built on politics or macroeconomic narratives. In 2025, we moved close to a world of Republican bulls and Democratic bears. My previous letters have consistently argued against making investment decisions based on political affiliation. Markets do not care about party lines.

The stock market is unpredictable, **but in the end it** tends to be **right**. The real force at work is not forecasting skills but the quiet power of buy and hold compounding, often referred to as the eighth wonder of the world.

Predictions of ten percent pullbacks are not prophecies of any kind. They occur regularly and almost every year includes one, particularly during midterm election cycles like 2026. Fixating on the next correction or the next bubble misses the point. Investors would be far better served paying attention to America's aging demographics and the state of our education system than trying to outguess the market.

So here we are again, another year of good riddance to predictions. In the end, it is worth listening to Einstein on compound interest. "He who understands it earns it; He who does not pays it."

Good Riddance

Song by Green Day (1997)

Another turning point, a fork stuck in the road
Time grabs you by the wrist, directs you where to go
So make the best of this test and don't ask why
It's not a question, but a lesson learned in time

It's something unpredictable, but in the end is right
I hope you had the time of your life"

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