

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, SEPTEMBER 5, 2025

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Hello and welcome to this week's Dividend Cafe. I'm your host, David Bahnsen. I'm the Chief Investment Officer at The Bahnsen Group, and I am also right now a volunteer economics teacher at Pacifica Christian High School, where a couple days a week I have the privilege. Of teaching about 25 seniors an honors economics course.

And yes, I'm going to connect to this. To Dividend Cafe today because I think that there is something intensely investible about the lessons of economics, and I think that the way I write about investment markets week in and week out here in the Dividend Cafe presupposes a certain economic framework, a belief system.

That is profoundly important in fortifying investible opportunities in creating the very environment in which investors are able to find great success. I think we take it for granted, for understandable reasons. It's one of the best things about markets is that they are so easy to take for granted.

They do gazillions of things in gazillions of nanoseconds, and nothing lends itself to taking stuff for granted more than a high volume of activity in a quick period of time. And that's really what markets do. So much so that hundreds of years ago, an expression of invisible hand was created to kind of capture this phenomenon.

But the reality is that we are living in a time in which I think those things that gave the United States in particular. An investment superiority, a relative advantage to the rest of the world in terms of investible activity and investible opportunity. I think we need to be doubling down on defending those competitive advantages on recognizing and having gratitude for the things that gave us a leg up, and then making sure that we defend and protect such.

In reality, my conviction is. Wrote about this in last week's Dividend Cafe. I think there are marginal signs that we want to move the other direction that we have been so successful in certain elements of economic experimentation. That we've

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decided we might want to try going about it without the very things that are at the foundation of some of our success.

And I want to call that into question today and, and have a little chat about what that means for investors. So essentially this broad. Narrative about the United States often being the best house in a bad neighborhood is one that I think goes outside of the context that it's often used in. We talk about a lot of countries being in a race to the bottom with their currency, but the US dollar being.

A better bad one than the other bad ones. And, and I talk a lot about Japan ification and the excessive indebtedness to the United States government and its impact on our own capacity for real economic growth. And I don't talk about it, just the, theoretically, I talk about it actually as what has really happened.

I'm not merely predicting but reporting. And yet we still are in a far better position on that front than Japan, than the European Union, et cetera. So the question I guess we have before us is, what is at the heart of this American exceptionalism when it comes to investing and what needs to be done to protect that position?

I would suggest that when I start off with a general appreciation, I guess is a modest term for it, a love affair. With free enterprise that it behooves me to defend this in the right way. It, there's no question. I am an outspoken advocate for free enterprise system, that it is unqualified, that it is the passion of my adult life and that is not merely as it pertains to investment markets and what I do for a living, but that embedded in this overall economic framework or economic worldview I have, I find the vast majority of the things that animate me, give me life, that, that awaken my soul.

I truly believe from the bottom of my heart. In the moral, in the empirical in the historical case for markets as this phenomena that truly drives a quality of life, a standard of living an opportunity. For flourishing that cannot be found elsewhere. And there is a significant economic dimension to this, but it does carry over into other dimensions of human existence as well.

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My focus here in the Dividend Cafe is on the economic aspect of an aspirational society. That where we go about talking about free markets a market economy free exchange. These elements have been the bedrock for the American experiment that is created unparalleled opportunity and value creation.

We have become a wealthier society than any nation in world history because specifically of our devout commitment to a free enterprise system. Now, this is different than saying. I believe there are no imperfections that can come out of a market economy. This is where Thomas Sowell's famous con construct about a constrained vision is important.

And one thing I actually have already talked to some of the economic students I'm teaching this semester about is this notion of compared to what. That when I tout the benefits of a market economy and people point out, there can still be failure, there can still be bad outcomes, there can still be corruption, there can be bad actors in a free economy.

That it, that is not a period at the end of a sentence, but rather. A kind of bridge to further questioning scrutiny and analysis such as well, is the negative element we talk about with the market economy unique to market economy, or is it in fact a better version of what is even worse? Let's say a centrally planned economy, a collectivist division socialism, welfare, stateism, whatever the case may exactly be.

I don't make a case for free enterprise as if there is no room for imperfection, but I do believe that free enterprise system, and this is where investment results come in, investment ramifications come in. I do believe. A free enterprise system is unique in that some of the negative things we talk about, such as risk and failure are actually long-term advantages.

That when we talk about promoting competition, we have hit at the heart of the matter as of what has been, you know, uniquely American, that we think of competition as a good thing. I think investors are competing for investment results, but I don't mean that in a relative analysis sense of like, I got 10%, my neighbor got 11.

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I need to go beat my neighbor. I mean, actually a, a reversal. Of who the actor is that's competing capital. Is competing for the best return. Investments are competing for capital and investors fit in to this interchange between investment and capital. And investors are actors trying to essentially take advantage of.

The wonderful things, the wonderful interplay between investments and capital. But capital is always in forever, rather relentlessly, relentlessly pursuing its most rational and efficient use. Investments are competing for capital. And the reality is all we're saying here is that people are competing in the production of goods and services.

Investments don't exist. Outside of the production of goods and services, at the heart of a market economy are human actors. Making things, building things, creating things, and sometimes needing capital to drive that process. And sometimes these things succeed and sometimes they fail, and therefore sometimes the capital that underlies it gets a positive return and sometimes it gets a negative return.

But in this process, we have a uniquely. Opportunistic system to drive competition, drive the fruits of competition. But if you try to take risk out of that, then you stultify the economy. You deaden the economy, you deaden the society. And I would add. Not just taking risk out of it, which is the extreme version of what will eventually create a corpse of civilization, but in trying to mitigate risk, in trying to, in trying to limit the effects of risk, not all at once, but marginally, you marginally hamper economic growth.

We know that risk taking can result in bankruptcies. We know risk taking can result in job losses. We know risk taking can have a negative impact, and we also know that not having risk taking is far, far worse. But the difference here, and what I really believe is the. Ultimate asymmetrical example of risk reward is that a society that embraces risk taking actually benefits from the negative outcomes of risk.

The price discovery, the lessons learned, the entrepreneurial experimentation, the course correction that happens out of failure. Parlays it into a positive, oftentimes

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an antifraud fragile one that makes for a more robust system, a system without risk, or a system that tries to mitigate risk, mitigate competition, essentially not only limits growth, but keeps itself from being immunized.

From some of the negative things that can happen. Risk taking is an overwhelming positive in a free dynamic society. This has been a uniquely American issue that from its very beginning, pioneering spirit has embraced risk taking as a net positive embraced dynamism. Now people say, you know what?

That's fine. You like risk taking, but rank speculation comes about too. I, I mean, how much time do I spend at the Dig Dividend Cafe? Criticizing speculation and signing objects. That's exactly right. But what is a system where we can have positive speculation in productive goods and services that doesn't also get accompanied sometimes.

By crass speculation. We don't always get the good without the bad, but ultimately, if we had a system of no speculation, no productive speculation, wholesome and healthy speculation, that would be a far worse system. I wanna dynamism that allows no man or woman to be stuck in their station, that people can move vertically into better stations in life.

That vertical mobility that goes in a positive direction means that there is some mobility that people can go backwards as well. And this has become a hallmark of the American economic way of life that has resulted in us being such an overwhelmingly prosperous country now that prosperity is not evenly distributed.

And if our goal was sameness. What a lot of people refer to as economic equality. If we want a much more narrow delta between wealthy and not wealthy, then what we have and see all over the world in countries that have a more narrow result in their economic dispersion of results is a much poorer country.

And I believe that one of the unique American. Components is that we essentially have a wealthier country because our focus is on driving the overall economic pie. Now you say, okay, well that's fine, but if only 10% of the people benefit, is it

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really good? But see our per capita income. Substantially higher than those who have focused on economic sameness.

84% higher in the United States aggregate per capita income than all of Europe. Roger Lowenstein this week wrote an article on the Wall Street Journal. Pointed out that Arkansas, which is one of America's poor states, has a higher per capita income than all of Germany, which is one of Europe's wealthier countries.

So we are not merely talking about how to get the top 10% richer and therefore help the overall pie, but it is distributed. Yet one of the prices we pay for that is a larger gap between our rich and our poor, even though the overall pie itself has grown. And this to me is a uniquely American issue that I think is under attack.

But at one that I believe, again, I understand there's a lot of. Views and opinions as to how we ought to think about distribution of prosperity in a society. But focusing on the division of the pie versus the growth of the overall pie, I think is a recipe for economic dormancy. And ultimately the United States has reaped the benefits of its focus on expanding total economic growth.

It's also reaped the benefits of focusing on robust capital markets. We have financial markets that are sophisticated, that are large, that are diverse, that are deep, that are liquid, and many developed countries around the world have seen financial markets as something to shy away from. They've encouraged dormant capital investment.

They've encouraged a, a sort of staleness in the way that their financial markets have evolved. The United States right now has about \$15 trillion of securitization financial assets, and that's in a \$30 trillion economy. About 50% securitization to GDP ratio. Europe's is 7%. The ability to securitize to create a financial instrument that builds liquidity around various elements that we wanna drive credit to, whether it be residential real estate, commercial real estate.

Receivables of debt instruments, you know, the pooling of various cash flows. There's robust securitization, markets in aviation, in, in automobiles, in all sorts of elements of the American economy. Sometimes these things result in losses. What

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we have is a very sophisticated ability to draw capital to securitization and thereby lower borrowing cost for economic actors to create liquidity to, to drive benefits using not Wall Street deal making, but rather Wall Street deal making driving benefits to the real economy.

And, and so I believe that. Our embrace of capital markets has given us a huge advantage in other countries and economic regions that have had disdain for financialization have suffered. At the end of the day, the heart of the matter regarding our competitive advantage is not merely an economic incentive excuse me, an economic framework that incentivizes risk taking.

One that does so for the right reason, a value on the dignity of the individual, these principles that lie in our American founding, that there are natural rights. That come from a creator that the government is there to secure and that that government serves at the consent of the governed. This set about an American experiment that then very naturally evolved into tremendous wealth and prosperity.

I don't think we can sustain it. We forfeit our belief in the dignity of the individual. If what we do is say, economic acting is not primarily about the dignity of a human person, but some social experiment that requires a lot of managerial oversight. You end up with politicians on corporate boards, you end up with all sorts of things.

I don't want to have to get overly political about it because at the end of the day, I think I'm speaking business common sense. When you mix up the incentives in the way in which you go about setting these matters of policy, you get a society. That is far less competitive and innovative and dynamic than what the American economy has been.

You know, that the United States has created over 250 brand new companies in the last 50 years, over \$10 billion of value, and that those companies put together right now represent over \$35 trillion of value. 250 companies of that size in the last 50 years. You know how many Europe has created that are new companies?

They have a few very large companies. You know how many new companies they've created of that size? 10 billion plus, 14, 5% as many as we have created in

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the United States, aggregate value about 400 million. About 1.1% of the value. This, this is the European Union, okay? This is not an obscure third world country.

This is a major block of, of developed nations that are in democracies, okay? And yet have done a great deal to dead end economic vibrancy, the free enterprise system. Left to its most powerful forces in competitiveness and risk-taking rooted to this understanding of the dignity of the individual drives amazing economic prosperity and outer that investible markets, deep investible markets where yes, risk is real, failure is real, and so are tremendous success stories.

I believe that we are in a point of vulnerability. Our competitive advantage I speak to is not impenetrable. I spoke last week about my concerns on this intel deal on a sovereign wealth fund. I've spoken all year about using central planners to try to economically protect certain sectors against others and, and where the whole tariff policy comes in.

I've spoken about various policy elements I've disagreed with for years and years. I disagree with the growth of the welfare state, the growth of. Unproductive allocation of capital that both fiscal and monetary policy have helped promote. There's a lot of negative elements, but I come back to that analogy I started Dividend Cafe with, which is that we have been the best house in a bad neighborhood and there is very little we can do to improve the entire neighborhood.

I pray for that. I hope for it, but what I believe has to be the burden of us as investors. Is to vigorously protect the house itself, not just the relative standing of the house within the neighborhood, but the absolute standing of the house. I'm not that pessimistic. I do believe that we'll make a lot of mistakes and in fact right now making some, and that what is positive about the American economy will ultimately prevail over what is negative.

But I do not take that for granted. What I would say is that the advantages we enjoy in the United States as investors are a byproduct of philosophical tenants that are time tested, that are real. I think the question we have as investors is not merely

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whether or not superior investment region, the United States will want to become like the weaker investment regions.

Or whether the weaker investment regions will want to become like the stronger the United States. I think the question is that, and is there the risk that we will both make the wrong decision. That both various economic geographies will seek to go to the root of risk mitigation. An economic weakness and that the stronger, like the United States will want to follow suit both and of bad economic decision making.

I think it's our kids and grandkids that have the most to lose here. And for their sake, I hope we will make the right decision and our investment philosophy must be rooted to investing in that which is strong and stronger, and that is risk taking and entrepreneurial savvy. A view of risk and reward ultimately rooted to the dignity of the individual.

Thank you so much for listening, watching and reading the Dividend Cafe. Have a wonderful football filled weekend and I look forward to being with you in the Monday Dividend Cafe. Talk about where things are. We had a new unemployment report today. A lot to update you with. The Fed interest rates, and I'll be doing all of that in the Monday Dividend Cafe.

Have a wonderful weekend.