

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, DECEMBER 19, 2025

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Hello, and welcome to the final Friday Dividend Cafe of 2025. What a year it has been. And as you're about to see in today's Dividend Cafe, what a quarter century it has been. We're going to look back at the first 25 years of this new century, which I would also add is the first 25 years of this new millennium, and have a little look at what these 25 years might be able to teach us as investors.

If there's only one, what is the one major takeaway that investors ought to learn from these last 25 years? I had an awful lot of fun writing it. This happens more often than I'm willing to admit, but I did think I was going to sit down and write a 2,500-word Dividend Cafe, which is always my target. I did end up writing closer to 5,000 words.

So that is not because I lacked discipline or brevity or self-editing. I'm sure all those things are true too, but in this case, you really could not possibly do justice to the first 25 years of this new century in 2,500 words. So it took a little longer to do it, but let me not be guilty of the same here on the podcast or the video.

The last 25 years happens to also be, in addition to a nice calendar coincidence to the beginning of this century, where we're a quarter of the way through the century, the 25 years that make up the bulk of my adult life so far. I was a young man 25 years ago—at least, I think I was young. I was in my mid-twenties and beginning a career in wealth management, in professional financial services. Joleen and I were married in 2001, so there's just a lot to reflect on.

But this is not going to be biographical. I gave you enough of that last week with my reflections on my late dad. But when I think of the last 25 years—what's happened in the country, what's happened in the world, what's happened in markets—it's impossible not to think back to the way a lot of this has overlapped with things in my own life.

I want to go through, in order, and I'll do it as quickly as I can, just some degree of history, and particularly focused on what it meant to markets, so that we can then derive, extract, and reflect upon this really significant market takeaway.

First of all, let's be clear that just coming into the new millennium—and I'm cheating a little bit here because I'm including the year 2000, which is technically the last year of the last century,

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and the first year of the new century should be 2001—but we'll look at it as something with a two in front of it instead of a one at the end of it.

Let's also be clear that a lot of people believed coming into the new millennium that the very first event of the new century was going to be an apocalypse. The two missing computer digits were going to bring down the electrical grid, the military, the banking system, and the bulk of civilized society. Thank God we got through that one and that Y2K was just a joke.

By the way, there were a lot of computers that needed to be fixed, and the reason why it was a joke was not because that problem wasn't real in certain database technology. It was because they fixed it. Where the school of thought came from that they ever were not going to fix it is just beyond my ability to comprehend. But this is not, in this case, me Monday-morning quarterbacking. I'm a Monday-morning quarterback on a lot of things, like most people, once I gain the gift of hindsight, but this was something I held in mockery in 1997 and certainly throughout the peak craziness of 1999.

Either way, the Y2K thing did not bring down the world. However, what did become a real significant event and a real-life source of drama just months later was the implosion of the NASDAQ bubble. You can refer to it as the tech bubble, the dot-com bubble, but in March of 2000 the NASDAQ had hit 5,132, and in the fall of 1998 it had been in the 1,500s. You were just looking at a blown-out bubble top.

It fell, and it fell violently. It would be down 50% by November of 2000. By the time it troughed, it was down 77%, and that wouldn't come until October of 2002. You had an unwinding of totally irrational exuberance—an unwinding of what was an overinvested, overextended, and overestimated sector of the market.

This hit both quality and low quality. It hit companies with no earnings and no revenues—the so-called dot-coms that I refer to as the Super Bowl commercial sector—but it also hit very viable internet infrastructure companies.

I want to make a quick point here. There's a school of thought that says bubbles are impossible to label until they burst, and I'm very sympathetic to this view. I basically have a nuanced view where I think it's technically accurate that, as a point in time, the bursting of the bubble is what enables us to officially label it descriptively a bubble, whereas until a bubble bursts, labeling it as such is a prediction, not a description. It is an opinion.

I think it is entirely possible that the vast majority of the time these things get called early. There were people in 2004 who said housing was in a bubble, and by 2007 they were being

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vindicated. But until it happened, it hadn't happened. This is more a matter of vocabulary and semantics than anything else.

When Greenspan said that bubbles can only be identified in hindsight, he was attempting to say that there's nothing policymakers or the Fed can do that may not make things worse. What looks like a bubble might actually be, in some cases, new technology, new innovation, new productivity, and that the Federal Reserve using monetary policy to prick a bubble could become problematic.

I don't disagree with what Greenspan said. I do disagree with what he meant, which is that therefore the Fed shouldn't be criticized for doing things to promote a bubble. It's one thing to say you can't go prick, burst, or pop a bubble—whatever the right verb is—but it's very different from saying that the Federal Reserve should be accommodating bubbles. And that is most certainly what they did in a couple of more recent history examples.

However, that dot-com proved to be a bubble is very, very true. I am certainly cognizant of the fact that opinions about bubbles get validated after a burst, and that labeling only gains precision and legitimacy *ex post*. So yes, I have 20/20 vision about the tech bubble, but it was the beginning market event of this last 25 years.

Then you get to later in the year, and I think an event that is out of mind for most people. We've had so much political drama since that we forget that we actually had a point in our country where it took 36 days to identify who the President of the United States was going to be. We had a point where the presidential candidate called and conceded to the other candidate, and then moments later called and unconceded.

I of course refer to the unbelievable razor-thin margins of the Bush v. Gore election of 2000, which ultimately had a lot of drama around it with hanging chads and this and that. But in both recount validation and what was declared at the time and ultimately upheld by the Supreme Court, it amounted to 536 votes in the state of Florida, granting those Electoral College votes—and with it, the presidency—to George W. Bush.

Now, the market was down 6% throughout that escapade. That's not very much, and I don't really buy into the idea that even the uncertainty of a presidential outcome was responsible for the 6%. We were already in a bear market at the time. The NASDAQ had already been collapsing. The earnings results for the quarter before in the technology sector had been atrocious.

It's entirely possible that we have a correlation that is not causation, but I can admit that the presidential volatility didn't help. My point being, as we kick off that year, you basically have a

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dot-com implosion, a tech sector implosion, a NASDAQ bubble burst, and then a presidential uncertainty that was quite unprecedented at the time.

And really none of this brought us anywhere near where things would go by September of 2001. The story in markets that had been there for a good decade plus—a peace dividend—enabled multiples to be higher as a result of the fact that the Cold War had ended. What had loomed over markets for most of our post-World War II period, the threat of a nuclear Soviet Union, the threat of a Cold War, had gone away. Markets were able to price in a broad and somewhat undefinable, but nevertheless real, concept of a peace dividend.

That was called into question at about 9:30 in the morning on Tuesday, September 11, 2001, when jihadis attacked American soil. Nearly 3,000 American lives were lost and hundreds of billions of dollars of damage was done. You had people from Vice President Dick Cheney all the way to Warren Buffett saying it was basically inevitable at this point that there would someday be a nuclear attack on American soil.

The market was closed altogether for four days, the longest closure since the Great Depression. When it reopened the following Monday, September 17, the market dropped 7% that day and was down over 14% that week, in the midst of what was already a very, very bad market. Some sectors were worse than others—airlines and insurance companies were particularly pummeled—but the whole market dropped.

What ended up happening was the Fed responded with rate cuts, enabling people to start borrowing from their home equity lines to go to the mall. I'm sure that's going to end well.

Then, just a couple months later, you get the six-time Fortune Magazine “most innovative company in America” imploding in the largest accounting scandal in American history—Enron. Tens of billions of dollars of market cap evaporated. You might say, “Well, it's kind of an obscure energy company in Houston, Texas,” but even if that were true, it certainly didn't stay true.

MCI WorldCom, Adelphia Cable, Global Crossing—you had a whole bunch of other companies caught up in the drama of accounting scandals. So now we enter 2002, questioning the security of our country in light of terror attacks, the accounting and financial security of corporate America, and the economic well-being of a mild recession.

When all is said and done, it was a really difficult first few years. Peak to trough, the S&P 500 was down 49% to its October 2002 low. The Dow was down 38%. The NASDAQ was down nearly 78%. Even worse than the violence of the downside was that it lasted over 30 months. Two and a half years, with lots of little rallies but none with sustained follow-through.

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By October 2002, valuations had massively re-rated, with the S&P 500 going from over 29 times earnings to about 15 times.

Let me sarcastically say: maybe we learned our lesson. Maybe we would avoid leverage, be cognizant of valuation, and never get into this kind of concern again. What would actually happen would lead to the mother of all bubbles.

Markets did recover 100%, but remember: down 50%, up 100% equals zero. That rally from October 2002 to mid-2007 just brought people back to where they were at the beginning of the decade. That rally was fueled by valuation recovery, earnings growth, multiple expansion, and a borrowing binge in housing that led to another bubble.

The pets.com of 1999 became the Vegas condos of the 2000s. Bear Stearns collapsed. Fannie and Freddie collapsed. Lehman went bankrupt. AIG collapsed. Merrill, Wachovia—the whole financial system came under threat. The S&P 500 dropped 57% peak to trough. Credit markets imploded. Housing collapsed.

This was a cultural, political, and social moment that changed everything and led to both left-wing and right-wing populism. From March 9, 2009, until 2013, markets recovered, even while the economy lagged. Markets discount the future.

From 2010 to 2019, risk assets did very well. The S&P 500 was up 255%, about 14% annualized, with lower-than-normal volatility. But let's not forget the European debt crisis, the flash crash, 2016 China fears, or the 20% drop in Q4 2018. These were real problems with real risks and real opportunities for bad behavior.

Then came COVID: down 36% in about a month. Terrifying headlines. Then 2022: one of the worst years ever for a traditional portfolio, with both stocks and bonds down double digits. Then 2023, 2024, and 2025: strong years for risk assets, though not without drama.

What I haven't talked about is presidents. Over these 25 years, political power has been remarkably balanced. Markets have been largely apolitical, driven more by pandemics, terror attacks, and financial crises than by party affiliation.

So what is the lesson? If I had told you all of this 25 years ago, would you have backed the truck up for risk assets? A million dollars became seven and a half million. Markets didn't outperform history; they slightly underperformed their long-term average.

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Everything we've lived through can be reduced to instability—and instability is normal. Using instability as a reason not to invest is clinically insane. The world is systemically unstable. Trying to jump in and out of markets based on fear has been a money-losing endeavor for decades.

I don't know what the next 25 years hold. I do know that fearmongering has had a terrible 25 years, and disciplined investing in profit-making enterprises has had a wonderful one. Dividend growth investing, in particular, has offered both offense and defense through all of this volatility.

People will want the same returns in the next 25 years that disciplined investors earned in the last 25. I swear to you, that is the end to which we will work at The Bahnsen Group.

Thank you for listening, watching, and reading Dividend Cafe. Please enjoy the chart of the week at DividendCafe.com. Have a wonderful weekend. I'll be with you on Monday for our final communication of the year. Thanks so much for being a part of Dividend Cafe.