

FRIDAY – MAY 1, 2026

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Well, hello, and welcome to this week's Dividend Cafe. I'm your host, David Bahnsen, and we are going to talk today about one of the very most important topics in all of investing: the issue of corrections, bad markets, the issue of manias, excessively good markets, and what lessons history has to offer about all of the above.

When I say one of the most important lessons in all of investing, I can't think of very many things that an investor who invests long enough in public equities will not face more than the reality of things going poorly and the reality of things going too well, and what to do about that—really what to do about either. And I want to set the stage for this a little bit.

First of all, let me tell you what we're going to get into here. We're going to talk about some “unprecedented” things. Okay, I just gave you the key word—is anything ever unprecedented? When we talk about things in market history and refer to stuff that seems new, is it actually unprecedented, or is there nothing new under the sun? We're going to talk about very preceded moves up and down in the markets year to date, where there is a certain incoherence around some of the narratives that have been painted.

I want to make a distinction for you between two terms that are very, very important. One is that of a drawdown, which is just a period of time in which the market goes down from a certain point to a lower point. That could be 5%, 10%, or 20%. But I want to distinguish that from a bubble, when a bubble is bursting, which also happens throughout history but is much less frequent. I want to apply some of these things to the AI conversation, the moment we're in now with AI, where some of this applies and some of it may not. And then I want to give you a series of investment conclusions that I think will make you a better investor.

Let me give you a few numbers just for you to chew on here. On January 28th of this year, the S&P 500 hit 7,002 in the middle of the day and closed at 6,978. Right now, we're sitting at 7,209. So the S&P, during the Iran war issues of March, had been as high as 7,000 early in the year. Throughout February, before the war, it dropped about 1.4%. But then by mid-March it hit 6,317.

So from that January 28th high to mid-March, about two months later, it was down 9.8% intraday. On a closing basis, which is how we're supposed to measure it, it was down 9.1%. Now we're back up around 7,200, so you're up about 14% in roughly 30 days. The S&P is now up over 5% on the year.

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So in just a couple of months, we went from down nearly 10%, to up 15%, to net positive on the year. That has left people wondering where we are, especially given that the historical context coming into this year was three years in a row of above-average returns.

Let's talk first about corrections. I want you to imagine there was no Iran war, no oil spike—just a two-month period where the market dropped about 9%. If you look at the historical data, that's not unusual. In fact, even in strong up years, the average intra-year drop is about 10%.

We didn't need a war for that to happen. Yet we saw a narrative of panic, followed by a narrative of mania again. These things can't both be true at the same time. This kind of emotional whiplash is not a reflection of reality—it's a reflection of human behavior.

I want to show another point. Since March of 2009, the market has averaged strong returns, yet within that time there have been 26 drawdowns of 5% or more. That is the normal course of markets.

So what is an investor supposed to do about it? I would say there are three options. The first is to try to time your way around these drawdowns. That is, by far, the worst idea. It is not done successfully. It cannot be done consistently. And anyone claiming they can should be asked one simple question: "Can I see the confirms?"

The second option is to accept drawdowns, what we call buy-and-hold. That has worked historically. But it still frames drawdowns as something negative to endure.

The third option is to embrace them—to benefit from them. Dividend growth investors, particularly those reinvesting dividends, actually improve their long-term returns during these periods. They are not merely tolerating volatility; they are using it.

This approach also requires proper asset allocation. Most investors get into trouble not because they fail to time the market, but because their portfolio is not aligned with their temperament or financial needs. Good asset allocation reduces the temptation to make bad decisions.

Now let's turn to the opposite issue—manias. How do we know when markets are too hot? Is the AI moment a bubble?

A bubble is different from a drawdown. Drawdowns happen frequently. Bubbles are less common and often involve assets that are either overpriced or fundamentally unsound. In some cases, good assets become overpriced and correct significantly. In others, bad assets collapse entirely.

Where are we with AI? That's the key question.

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Diversification is the obvious defense against bubbles. But many investors believe they are diversified when they are actually concentrated, especially in indices that have become top-heavy.

I will make a few cautious observations. I believe it is very likely that one or more hyperscalers will deliver subpar returns due to excessive capital expenditures. That does not mean catastrophe, but it does mean disappointment.

I also believe some AI labs will fail outright, while others will succeed. I am not confident in predicting which ones. And I believe the broader ecosystem—particularly among pick-and-shovel companies—will see a mix of winners and losers, with some failures inevitable.

This does not mean the entire space is a bubble destined to collapse. Many companies have real value. But valuation matters. Some may fall 50–70% if overpriced, while others may never recover.

I like to think about Charles Kindleberger’s model of bubbles: displacement, euphoria, bubble, distress, and revulsion. It is easier to identify after the fact than in real time. AI may follow this path in parts, but not necessarily as a whole.

Even if parts of the AI ecosystem enter a bubble phase, history shows that quality companies can emerge stronger afterward, while weaker ones disappear.

Let me conclude with a few thoughts. Market action this year has been normal. A larger correction than the one we just saw is inevitable at some point. Attempts to avoid it will likely do more harm than good.

Dividend growth investors are well-positioned because they are diversified, focused on quality, and benefit from reinvestment. Standard drawdowns are healthy. Bubble collapses are dangerous.

The AI story is complex and layered. It is easier to predict that there will be winners and losers than to predict the fate of the entire space. Limiting exposure to higher-quality components and maintaining diversification is prudent.

And finally, whatever negative developments occur in AI will likely create opportunities on the other side.

My friends, prudent investors know what to do, but more importantly, they know what not to do. We do not try to avoid corrections. We embrace them. But we also avoid concentration in areas that could experience bubble-like outcomes.

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We live in interesting times, but not unprecedented times.

Thank you for listening. Thank you for watching. And thank you for reading the Dividend Cafe.