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FRIDAY – OCTOBER 23, 2026

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Hello, and welcome to this week's Dividend Cafe. I am your host, David Bahnsen, and I am here today to talk about a very elusive element in investing, a somewhat deceiving, a kind of, I guess you could say, tricky thing that I think is rather paramount for investors to understand, and I think it's become more important for investors to understand in this current moment than at any point in recent history. We're gonna talk today about the reality of range-bound markets, of flattish markets, of markets that go up and down, up and down, and then end up in a very, very similar place to where they started, sometimes even over long periods of time. And we're gonna talk about that as it pertains to a market, like an index, like the entire S&P 500 or Dow Jones Industrial Average, and we're gonna talk about it as it pertains to a particular stock, a particular sector.

And I'm going to explain why I think this matters so much to all of you. So the thing we're gonna start with, okay, is understanding why this even needs to be talked about. Because if there was a price of an investment that somebody bought and it was at 100, and each day it was 100, 100.1, 99.9, and just sort of floated there for a month, for a quarter, for a year, really right around that range, and then you said, "Oh, it's been two years, it's been four years, it's been six years, and it's still kind of in that same place," no one would need to be told that that's what happened. It wouldn't necessarily even be all that interesting for me to write about it, other than perhaps unpacking why investments that don't move over long periods of time that are relied upon for some particular return objective may not be a very good thing. But my point being that there wouldn't be a lot of confusion for the person who holds it, that they own something that really hasn't moved over a period of time.

And that is most certainly not the dynamic that I'm here to talk about today. That while there are a lot of things that in history and in the present moment, and I will argue, I believe a lot of things right now for the future, that may be subject to a very similar result from point A to point B, that could be subject to a prolonged period of kind of flattish-type returns, it won't feel like it to the person who holds it. Because the various volatility and variance around that entry point, up, down, up, down, periods of very significant rallies give one the feeling that things are kind of maybe doing better than they are, and yet when you pull back a little, you get to see that there is a certain mediocrity or underwhelming nature to the return relative to expectation, relative to the risk one is taking to get the return, and I would argue, relative to the cash flow that may be needed in the present tense for some.

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY – OCTOBER 23, 2026

So this is a real thing in a very practical sense. I wanna start right now with a chart that is the S&P 500 from the year 2000 to 2009. It's a full decade. It's talked about a lot. This is the easy part. We're gonna move on to some things that are far more profound than this. But this, on one hand, in case you can't tell from the chart, is basically a decade where it ended where it started. Now, astute viewers who have better vision than I do might note that it actually was negative from start to finish, and on a price-only basis was actually negative by something in the range of 25%. But when dividends are then factored in, as they should be, they're part of the total return, it ended up being negative about 0.9% per year. So nothing dramatic, and I'm willing to just round up for the sake of argument and call it flat. But a whole decade of what was actually not even flat, but slightly negative, is a pretty big deal.

But one of the reasons that some people might not quite get the gist of what I'm talking about today when we say, "Hey, some folks could have come into the S&P 500 and ten years later been flat, and if we're being generous," is that it was hardly a period of, back to that, hey, bought it at 100 and it just stayed around 100 the whole time. When something is flat because it was down 50%, then up 100%, then down 50%, that's a rather wild way to get to a decade of zero. And that's exactly what happened in the first decade of this rather unsettling new century. Look, I understand that no one is gonna use the word "flat" to describe a down 50, up 100, down 50 market, unless all they were doing was looking at the line from the beginning to the end, because that would be a flat line, and that's, I think, the point I'm making.

No return for a decade. Now, this may very well feel kind of extreme, and it may not feel like a very representative sample, but we're gonna put another chart up now that is, frankly, even more interesting, I think, historically. Now, this is the Dow Jones Industrial Average from 1966 until 1981. And here you see a lot more choppiness up and down. There is, in that 1973–74 range, a 45% bear market. I had to come into planet Earth in the midst of a bear market, of course. But the fact of the matter is that the Dow was around 1,000 in 1966, just as we went through one of the most embarrassing periods in American history, the late 1960s. And then as Ronald Reagan was coming into office and preparing for massive marginal tax rate reduction and to end the Cold War and the huge bull market that would begin in the 1980s and stick throughout the 1990s as well, a period of incredible small business growth and corporate profit growth and all sorts of other factors that play in.

But from '66 to '81, you had up, down, up, down, up, down, and a number of different periods within the 15 years. By the way, the 1975 rally was in one year, 38% to the upside, one of the biggest years in history, which I think is historically interesting to point out that Gerald Ford still somehow lost to Jimmy Carter the next year. But my point being that a lot of choppiness and a 15-year period. Now, I do need to jump in here as a dividend growth guy, first of all, because it isn't accurate that the '66 to '81 Dow was flat. That's price only, and those dividends mattered a lot more than the dividend impact from the S&P 500 did in our first chart, where you actually

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY – OCTOBER 23, 2026

ended up at a 4% to 4.5% per year positive return in the Dow over that 15-year period when dividends are included, as they should be.

What this does is reiterate and reaffirm the importance of dividends, and that's gonna lead me here to our next chart, which is actually taken directly from page 57 of my new book, *Profit from the Profit*. But there are periods in which the portion of total return that dividends represent becomes very important. In the 2000s, it was over 100% of the return, meaning that you still had a negative return even with dividends. And then in the 1970s, dividends represented not all of the return, but the vast majority of it. So you might think to yourself, "Well, David's a dividend growth guy, has this dividend growth book. This is what they do at their firm." But the fact of the matter is that the point I'm making today is actually different than just, "Hey, when you're gonna go through a long kind of flat market like the Dow did from '66 to '81 or the S&P did from 2000 to 2010, make sure you're getting dividends on the way to make the return better." That's not—for—that's a very good point, but that's not the point I'm making today. I wanna go somewhere with this that's very, very connected to the AI story.

Let's do a little bit of math real quick here about the S&P 500, shall we? It has averaged about, as most people know, a 10% return, give or take, for 100 years. It's averaged about a 10% return, give or take, for the last 30 years. And in the last 30 years, you had that 10-year period where it was actually negative for a whole decade. So obviously, there has to be other periods within that 30 well above and beyond the 10 average to get to 10 when you went 10 whole years with something negative. Well, it's averaged 15% a year for the last 15 years. It's averaged 16% a year for the last seven years and, hear me out, 22.9% for the last three years. So you basically have two options here mathematically. One is that the long-term historical average of the S&P, 10% to 11%, is gonna become higher, okay? Or there has to be something negative to revert the 22.9% of the last three years, the 16% of the last seven years, back towards the mean of 10% to 11%.

I'm not making a market call here. I'm certainly not doing any kind of a timing forecast. I'm merely pointing out the math, that the only way 23% becomes 11% is if there's some number lower than 10 to bring it down. And how does 23 and X get to 10, 11, or 12? X either has to be a big negative that goes quickly or a slow, moderated pace of something maybe not negative, but below the mean. And history has precedence for both. You can get to the mean with an above-average number by a very quick, violent, sudden below-average number or by a sort of choppy, flattish extension.

This is history. We've looked at a couple charts of broad market indices in the past, and it is math. And I wanna talk about this exact same principle with individual stocks. And I'm gonna ask you a question. What do you think right now is the poster child of the AI moment? What is the stock most people think of when they think of a public company in this tremendous AI

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY – OCTOBER 23, 2026

moment? I think that almost everyone would say NVIDIA, and for very good reason. Unbelievable returns after ChatGPT was announced from late 2021, and then late '22, in '23, '24, '25. Just really substantial growth as they became the pick-and-shovel company to feed the AI moment, provide chip, provide that compute that is necessary. And by the way, not only a major supplier of the whole AI ecosystem, but what's become a pretty significant financier of it as well.

No one's gonna complain about NVIDIA's results since AI became investable. Their revenue growth is massive. Their margins have been impressive, to say the least. The revenue growth, all of it. One might even say it's like a Cisco 1990s level of amazing. Now, in this moment of all of that success, all of that revenue growth, and the trailing 12-month period being 100% revenue growth after already having huge revenue growth percentages in the year before that, and the year before that, and the year before that. In this moment where companies like Anthropic are getting ready to go public, OpenAI, where SpaceX already went public, trillion-dollar, two-trillion-dollar valuations. In this moment where the predominant investment economic market technology theme is AI, what do you think NVIDIA's done over this last year with me giving you both that qualitative and quantitative context?

Well, let's put another chart up on the screen and we'll show you exactly. Over the last 12 months, dead flat. Now, first to say it doesn't feel like it. I mean, you had a really big rally in April, a really big rally, I think it was kind of the end of August into September. There's been periods of drop and then recovery. Recovery's been good. It's moved up, down. But my point is, from November 3rd to where we are right now, it's at the same dollar price, \$211, \$212, something like that. And this is actually in no way, shape, or form me picking on NVIDIA. All of the metrics have been phenomenal about revenue growth, their leadership. There's a lot of risks there. Right now, a single company that is worth more than the entire stock market of every country on Earth, basically, besides, I believe, Japan and obviously America. And dealing with the law of large numbers. However, being flat over a year is better than some companies.

So I took three companies that all have 100% year-over-year revenue growth. Doubled top-line revenue in the last year alone, and that's coming off of years before that where they had more than doubled revenue, and that are not Pets.com laughingstock companies in the AI moment comparable to that dot-com silliness. But I'm saying legitimate, bona fide leadership names in the AI moment with equal revenue growth. All three of these names, NVIDIA, CoreWeave, and Palantir, 100% year-over-year revenue growth. Palantir is now down 7% over the last year, and that's with a 75% rally in the last three or four months. CoreWeave is down, I wanna get this exactly right, 60% over the last year, but it's down 70% since June of 2025, and that's with 112% revenue growth.

FRIDAY – OCTOBER 23, 2026

So what you have here is not a situation where, wow, these companies really just dropped the ball and stopped growing. The growth is there, the story's there, the narrative's there, and the stock prices are flat in NVIDIA's case, down a little and highly volatile in Palantir's case, and an utter debacle in CoreWeave's case. What gives? What could slow this AI story down more? What are we dealing with that's causing all of this? First of all, I wanna point out, it isn't hypothetical, okay? As we just pointed out, there's some companies already dealing with a lot of turmoil. The AI CapEx story has been called into question. There are situations where many feel that the revenue models are already vulnerable. There is at least, unlike in 2025 and certainly '24, there is in 2026 some skepticism out there. It isn't systemic. You have not seen a 70% Nasdaq crash type of situation. But a lot of these things are not, you know, oh, someone predicting doom and gloom into the future.

There's a lot of it playing out in real life. And I will just repeat a point I made at early September Dividend Cafe. The biggest vulnerability is capital. And I think that it is a very real scenario, I consider it a base case, you don't have to consider it a base case, but I consider it a base case that there will end up being a change in the hyperscaler expenditures. And I don't know when, and I don't know what degree, and I don't know the impact specifically to whom, but again, cost of capital increasing, data center builds becoming prohibitive politically, logistically, what have you, expected rates of return on invested capital not warranting a continuation of this level of CapEx. Those are things that I think represent a real vulnerability into the whole story. This week we just saw credit default swaps, the cost of insuring the debt of a massive profitable company like Facebook, Meta, and all of a sudden you had a 700-point, 2.5% down day in the Nasdaq on Thursday. And I know that day's action may not have been totally monocausal, but it was certainly the primary factor going on there.

Vulnerabilities in the capital structure of the AI story is the largest looming potential catalyst. But I wanna be clear that you don't have to be worried about a big catalyst to reversal or a sell-off or a down 60, down 70 scenario. I've said this 1,000 times, I'll continue saying it, it's one of the hardest parts about being a skeptic of the AI mania, which I am and have been for some time. You do not have to doubt the efficacy of the technology and its relevance to economic growth and the opportunity it represents for the future, and you do not have to be predicting a doom-and-gloom Nasdaq March 2000 bust moment to simply point out that there may end up being a subpar investor outcome from all of this.

First of all, let me be clear about something. I do not know that the AI story will end up doing all that it's talked up to be. I'm just simply willing to assume it will. I should point out that it isn't me, it's the AI companies that mention that they might destroy humanity or usher in a nuclear war or something like that. There's a couple of links in Dividend Cafe on some of this stuff. The doom-and-gloom scenarios are not coming from skeptics, they're coming from the biggest cheerleaders and pumpers of the whole thing. I'm referring to an investment analysis, and I'm

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY – OCTOBER 23, 2026

providing a bullish and generous forecast of the transformative capability of AI. Okay? I'm operating from that vantage point, not the doom-and-gloom negative.

And what I would say is even if you take a Nasdaq March 2000 moment off the table, the double-digit compounding of magical new-normal returns is not necessarily going to come as easy as people are investing for. That the base-case scenario, to me, and you could argue is best case, is itself not very good. The idea for the companies that don't pull a CoreWeave, that don't get stuck in existential moments, that don't face future capital constraints that limit their ability to move on, that in a scenario where everything goes really, really well and huge revenue growth and no big kind of left-tail-risk event, that flattish, muted, moderated returns, far different from the risk profile people have taken on, have to be assumed to be a very big possibility here.

Now look, there's some folks who are saying, "I don't know, these AI guys are telling us this thing's gonna be huge, and look how big the capital expenditures are that people are putting into it all." And that's all fair enough. But allow me to point out that I actually believe in the transformative future of AI not because of what the big tech folks say, but despite it. They are the ones who told you the metaverse was gonna change the world and that we were all gonna be captivated by the prospects of buying online real estate and that crypto and Web 3.0 was the big future. It wasn't exactly ancient history that all this VC money was going into these non-fungible token things that now are essentially only talked about when someone's been arrested, okay? That's how quickly this stuff can move.

You say, "Well, the media is kinda covering this and on top of it." And again, I'm gonna put up a graphic real quickly. Ben Carlson, a great investment writer, this week pointed out The New York Times this week, as you see on your screen, a headline saying, "Weak Links Start to Show in AI Borrowing." Two weeks ago, same newspaper, same story, same theme, "High Interest Rates Aren't Slowing the AI Boom." They don't know. The big tech folks don't know. The unknowability is a facilitator of range-bound, flattish, choppy-type markets. The regulatory environment's unknown. The competition from China is unknown. The American political environment around all this is unknown. Power demand, interest rates, there are so many factors. Unknowability is inherent in this, and that's not a negative. It's not being critical of any of the folks. It's certainly unknowable for me. But my point is that when you combine unknowability with excessive valuations, that's where you get a possibility of a very satisfactory company and sector result being accompanied by a very unsatisfactory stock market result.

And I think that this is not rooted to doom-and-gloom forecast, but it is, in fact, a very likely to materialize situation. Any one of those other vulnerabilities could materialize. There's not one of them that I'd rule out of really significant headwinds with China, Washington, D.C., technology, power, capital constraints, blah, blah, blah. But in benign circumstances, flattish

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY – OCTOBER 23, 2026

investment results despite a monumental risk, and by risk I mean something, an outcome not materializing, there being a failure of outcome, or volatility, just simply up-and-down movements of being a very present reality along the way. My proposition to you, first of all, is this historical reminder that this stuff happens all the time. With full markets, with individual stocks, it is very, very common, and it desensitizes us to the math, it distorts our perception of what's happening in real time, and it's completely understandable.

I do believe that dividend growth provides you a completely different outcome, a benefit to choppy markets, an enhanced return in range-bound markets, both from the defensive mechanism of the dividend and the offensive mechanism of regularly reinvesting during that period of volatility. For those, of course, income-oriented, it provides the peace of mind of being insulated. It provides the sustained, durable, growing income that people need and care about. But it provides much less left-tail risk, left-tail risk sensitivity to the very dynamic I've spent this Dividend Cafe describing. This is the end to which we work at The Bahnsen Group, what we believe in, how we are defending against and thinking about in this very sensitive and, I think, historical moment where there's a lot of unknowability.

And very good scenarios could happen and very bad ones could happen. But I believe too many people are unaware that in some of their good scenarios that they think through, the investment results may not be what they're expecting. History is clear. A lot of present tense is clear. As we think about the future, I hope this message rings through loud and clear.

Thank you for listening. Thank you for watching. Thank you for reading The Dividend Cafe. Have a wonderful weekend. Reach out with any questions anytime, and I'll see you again on Monday as always.