CAPITAL INVESTMENT COUNSEL

The Columns

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Well, 2025 has not played out like I hoped it might. I get it, it's dangerous to have expectations, but it's not outrageous to want economic stability and a market that doesn't have a nervous breakdown on a daily basis. However, out of great turmoil, there can be rewards at the end. Remember how excited we've all been the last 18 months about AI? Well, AI is still very much a thing and the good news is many of the key players are on sale. You may be able to invest in the promise of tomorrow at a significant discount to where things compared to where things stood just a few months ago.

Let's look at two key building blocks in the AI world: Nvidia and Marvel.

As I write this, Nvidia is down 21% year-to-date and Marvel is off nearly 48%. Even the semiconductor group as a whole is down 15% since then. Volatility feels uncomfortable in the moment, but history shows it can lay the groundwork for future gains.

Last year was tricky. The economy was rolling along nicely, but stocks reflected that – it was difficult to find things to buy. Now, finding new buys is not a problem. I've done this for 38 years in September and have seen almost every way the stock market can scare a person. I enjoyed 2 months of the late 80's bull market before watching it all fall down with the 22% Black Monday 1987 drop. It was the best learning opportunity possible: never let a good crisis go to waste.

I remember sitting down with Bobby Edgerton and Richard Bryant going through client statements like it was yesterday. We were buying across the board as the best companies in the world were on sale. Sound familiar? It's similar to what's happened since the market peak this past January. The 1987 crash was blunt force trauma. Unpleasant but over quickly. The 2025 beatdown took longer but the selloff was similar in size with a roughly 17% drop over an 80-day period. The worst part about the 2025 version was the unrelenting drive lower. Looking at the stock futures down big every morning takes a toll on us all. But I always try and find silver lining. If you have to go through it, then why not take advantage of it.

I enjoy Jay Kaeppel's research on X. He never actually offers an opinion but is great at pointing out stats to consider. His latest banger involved the S&P 500 Hi/Lo range. Kaeppel's work showed for the week ending April 11th the difference between the highest close and the lowest close on the S&P 500 was 10% or more. In other words, the market swung wildly with a 10% peak to trough in a single week. That's nowhere near normal and is rare outside of crisis or panic phases. Let's face it, if the Tariff Tantrum of 2025 doesn't qualify as a panic, I'm not sure what does!

The eerie part is how fast it all changed. For most of January and February, the markets were calm, almost sleepy.
Then BOOM as the pressure valve blew. Volatility exploded out of nowhere.

Although it's unpleasant, that kind of big, sudden volatility can mark a bottom.
It's the kind of environment where you start seeing big institutional money quietly step in and buy. That's the way we're currently leaning and have been steadily adding to our favorites as prices dropped. Historically, when we've seen this type of extreme hi/low reading, the market's next move has tended to be positive. Out of 31 past instances, stocks were higher six months later about 84% of the time, with an average gain of 12%.
One year later, they were higher 80% of the time, with an average gain of 19%. No guarantees, of course, but the odds are seemingly leaning in our favor.

Here's the thing. We all want know the "WHY" - it's human nature. Why did the market do this, why are treasury bonds selling off? Why did semiconductors drop so much? In the future, we'll find out the "why" but by then, the price will have already likely moved higher. In my experience, it's best to buy things when they are the worst and two weeks ago it felt like that time.

My mother was a trailblazer. A businesswoman who was one of two women in her business school classes at Chapel Hill in the late 50's. She loved the market and loved to buy when the outlook seemed the bleakest. Her ironic catchphrase was, get the women and children off the street! Of course, you can't actually say something like that in 2025, but what you can do in 2025 is measure investor discomfort.

I talk often about volatility and its primary indicator is the VIX. The VIX usually ranges between the low teens when complacency is high and the upper 20's to lower 30's when fear runs high. On April 7th when the world appeared to be coming apart, the Vix spiked to 59. By April 22nd, the Vix closed below 30. What's the big deal?

In my experience, this shows the healing process may be underway for the markets. That move from extreme fear with the Vix at 59 is typically about as bad as it gets. The move back below 30 triggers a scenario outlined by a favorite of mine, Jason Goepfert. When this played out in the past, stocks were higher six months later 75% of the time, with an average gain of 11%. A year later, stocks were higher 100% of the time with a gain of 18%.

I get it, the last two months have been a wild ride.
It feels chaotic, even a little scary. But when you strip it down, it's simple:
One person lit the fuse on this selloff, and he's been backing off ever since.
Even better? Most major market analogs suggest that, historically, stocks *tend* to be a lot higher a year after similar periods.
Stay sharp. Stay patient. The tide looks like it may be starting to turn. If you have any comments, feel free to contact me at heddins@capital-invest.com or call at 919-656-0836.

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Capital Investment Counsel, Inc. 100 E. Six Forks Road, Ste. 200; Raleigh, North Carolina 27609