



CAPITAL INVESTMENT COUNSEL

The Columns

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How high is too high? 2025's been a strong year, but many stocks missed the train and are still sitting at the station. As of November 17th, the S&P 500 had 234 stocks that were **down** year to date. (Bespoke Investments) On top of that, tech stocks are looking stretched. When valuations hit these levels, expectations can feel almost impossible to beat. Then comes this from Bank of America last month:

"The S&P 500 trades like it's the **new risk-free rate**... Perhaps we should anchor today's multiples as the new normal rather than expecting mean reversion to a bygone era."

My take? That's a dressed-up way of saying *this time it's different*.

Spoiler: I've never found that to be true. Back in the late '90s, it was Pets.com and Webvan. Today, it's AI and mega-cap perfection. Let's use Figma (FIG) as a real-life example. Last quarter FIG grew revenue at a 41% rate. That's seriously impressive but Wall Street's reaction may surprise you. FIG's reward was a dip that turned into a dive. Since late August, FIG has dropped 53%. What's up with that? Simple math. FIG isn't trading on the numbers it posted; it's trading on the dream.

And that dream looks to already be priced in. Even after that beatdown, FIG still trades at a nosebleed **165x earnings**. At that valuation, even perfection isn't enough. That's the paradox of high-growth darlings: the faster they run, the more the market demands. So, let's ask my question again. How high is too high? Well, when the stock is priced like it walks on water, don't act surprised when it sinks a little.

Yes, some parts of the market may be too expensive, and we need a pullback. Having said all that, I still feel there is upside potential over the next year, and I've got 4 positive data points to help potentially back up my belief. Let's go!

#1 The S&P 500 just completed a record-breaking run. It closed over the 50-day moving average for over 140 days: the longest run in 18 years. History suggests that kind of momentum can carry. Three months out, and the market's been up 100% of the time, averaging +4.5%. Stretch that to six months and the edge fades: still higher 80% of the time, but only +5.5% total. In short, the first three months do the heavy lifting and after that, you're grinding hard for only an extra percent.

#2 We're now into the last 50 trading days left in the year, and seasonality is starting to matter. The record's pretty good: since 1980, the S&P 500 has averaged a +3.3% gain in that stretch and finished the year higher 78% of the time. Even better, when the market's already up by this point, momentum helps get the ball over the line and that final push averages +4% into year-end.

#3 When the S&P's already up 10% by October, history shows the momentum may potentially keep rolling. The market closed the year higher 36 out of 41 times going back to 1900. From here, the average year-end gain is +5%, and the worst drop is only 2%. I like that risk-reward setup.

#4 When the Fed starts cutting rates, the market may stumble in the short term and that's what we've done the last two weeks. Some are arguing about cutting only 25 basis points versus 50 but that misses the point. I see the October cut as a **"maintenance"** cut. The good news is there's no financial disaster lurking out there like 1998. There's no housing crisis to deal with, like 2008. This rate cut was like you or I cutting the grass every week: it needed to be done. Probably the best news is that when the Fed has cut in similar situations with the market near all-time highs, stocks were higher 10 out of 11 with an average gain of 15%. (JP Morgan)

During this season of thanks, I want to pause to say how grateful I am. I'm thankful for all of you because you allow me to do a job that I honestly can't believe I get paid to do! You know I'm big on experiences, and I had a remarkable one earlier this month.

We have a family member in the Army Special Forces who recently put together a day to remember. It was originally meant just for my dad, but I got to tag along at the last minute, and I'm so glad I did. Dad served from 1953 to 1993, and the military has always been part of his DNA.

We spent the day at Camp Mackall watching the final rounds of Green Beret selection. For these Green Beret candidates, two years of training was all coming down to these make-or-break tests. The physical side was impressive, but what really struck me were the role-playing scenarios: watching these men work through real-world problems with calm precision. Their combination of brain and brawn is something else.

I've always had deep respect for our service members but seeing it up close took it to another level. It meant a lot to walk the same ground where my dad trained as a young man and to see the next generation carrying that legacy forward.

Veterans Day always reminds me how lucky we are to have people of this caliber defending our way of life. Freedom isn't free, and we owe them more than we can ever repay. To all who serve: thank you. It's easy to get wrapped up in tickers and trends, but moments like these reset the compass reminding me that the real gains are measured in purpose, not points. 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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