"BELIEVE'"

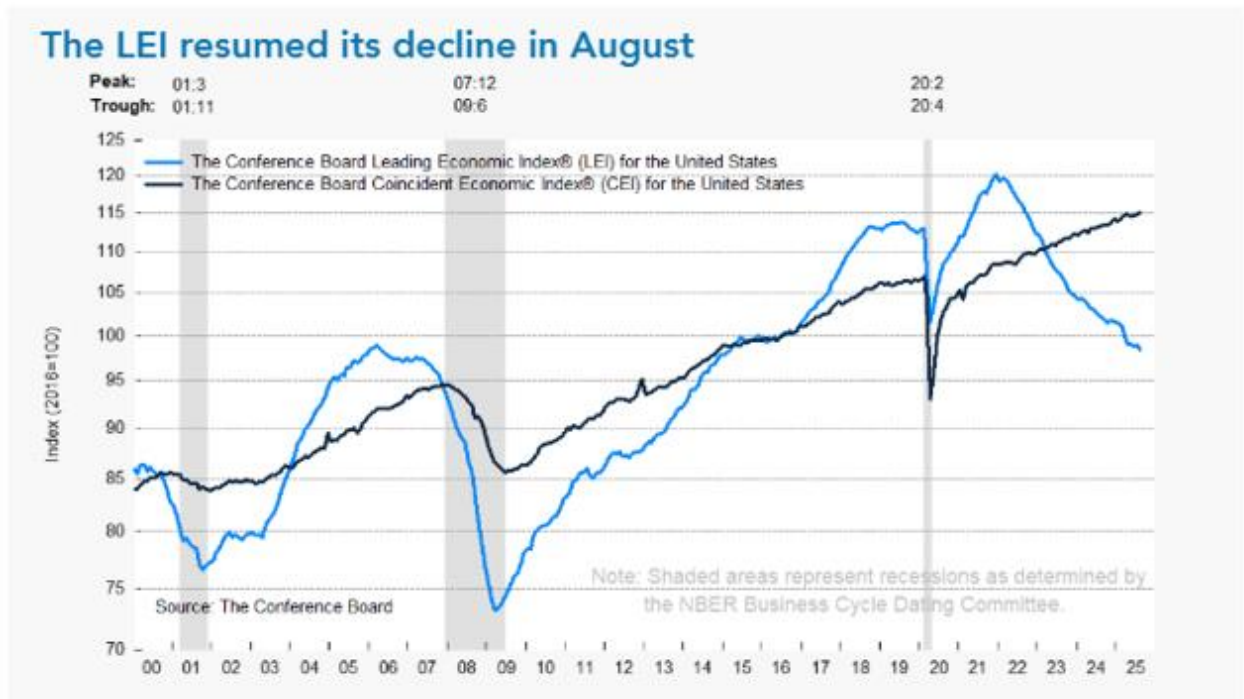
November 2025

By Brahm Satov

As equity markets have surged in this remarkable melt-up, the heroes of the story have been the economists and investors who stayed long no matter what. In fact, if you ignored the data entirely, disregarded the leading economic indicators, and simply held the *Magnificent Seven* or cryptocurrencies, you've likely done even better. But we know there's another side to this story: **risk**. When assessing returns, one must always consider the risk taken to achieve them. An investor may have earned a 20% return last year, but if their entire portfolio 100% was exposed, that result carries a very different meaning than another investor who earned 18% with only 20% of their capital at risk. Many focus solely on the return, but anyone who has lived through a major correction doesn't just *believe* they *know* that risk matters just as much. I'd like to thank Cher for the inspiration behind this title: **"Believe."**

Most of the time, when the leading economic indicators (LEI) trend lower, the economy eventually follows. Yet since the summer of 2021 when the LEI first turned down we have not seen a recession. Many have speculated why: perhaps due to surging AI investment, unprecedented government spending (sometimes on AI itself), or even the liquidity created by cryptocurrencies and leverage through large financial institutions like JPMorgan. Whatever the cause, a growing number of investors have come to *believe* that markets no longer go down in a meaningful way. They remind us endlessly to "buy the dip." But one of these dips, I suspect, will eventually become something far more serious and you'd better believe I intend to be prepared when it does.

Source: https://en.macromicro.me/charts/53/leading-gdp



Source: https://www.conference-board.org/topics/us-leading-indicators/

My friend and economist, David Rosenberg, recently reminded me that after the 2008 collapse, not a single investor called their broker to ask why they had been moved to safety. The same held true for those who stepped aside before the 2000 or 2022 corrections. Reducing exposure as markets become overvalued and rotating across asset classes doesn't just preserve capital—it enhances *risk-adjusted returns*. It's easy to forget that during times of exuberance. And while these periods can last far longer than anyone expects, they all end the same way.

Thank you for taking the time to read this, please feel free to e-mail me any feedback or comments.

Sincerely,

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