



## Equanimity - Newsletter

*“Equanimity is a state of mental and emotional calmness, composure, and stability, especially when facing stress, pressure, or misfortune. This inner balance allows one to navigate life's challenges with clarity and resilience, rather than reacting with agitation or distress.” - Google*

How do we begin to understand the world we are living in, the times we are living through? There are more difficult questions than there are answers. But here we are. We, all of us, know that fear is not an emotion that leads to rational decision making. It is there to help us survive, to “make it”, but not to thrive or create the lives that we want to create for ourselves and our families. With this in mind, we want to be present to what is. And sometimes that can be uncomfortable, but it does not have to create fear. Particularly if we plan well and are open to the idea that there is much we don't understand and cannot predict.

For many of you, the decisions you make over the next five years could be some of the most consequential decisions of your lives. Our goal is to help you tap into the best resources and your best thinking to have you create the highest level of success you are capable of. We do this through planning in partnership with you, your other advisors and taking into consideration all of your resources.

Our newsletter is focused on sharing a picture of the world pertaining to economics and markets. This helps us to frame those areas of the picture as we work through decisions together. No one has all the answers, but we think it is worth having a framework for decision making regarding your finances related to the world we are living in.

Over the summer I had a broad reading list that touched on AI (The Coming Wave by Mustaf Suleman), hospitality (Unreasonable Hospitality by Will Guidara), and lots of ongoing reading on investments and macro-economics. I spent a good deal of time studying the work of Ray Dalio, founder of the largest Hedge Fund in the world – Bridgewater and Associates – re-reading “Principles” and perusing “How Countries Go Broke”. Dalio has been one of the best in creating a framework for making decisions and executing in the investment landscape over the last 50 years. Drawing on some of his recent work, and our other resources, we hope you find the picture that is developing helpful in planning for the achievement of your goals – no matter what transpires.

A key trait that has helped Dalio be successful is the equanimity he brings to solving problems. We hope to emulate that approach in our work. Please read on:

Matt and Tom

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### Executive Summary

- **Ray Dalio** – Learning from the Master
- **Stocks** – The bubble is not done inflating. Momentum continues to the upside as the tension between valuation and AI impact grows. The Fed cutting interest rates could lead to more rally even as it signals that the economy is weaker than thought.
- **Economy** – Recent Economic data shows a worsening jobs market but the world of AI investment tells a different story.

- **Bonds** – The economy is clearly slowing which should lead to lower interest rates, but the risk of Fed Independence being questioned, sticky inflation and unsustainable deficits is keeping the risk in bonds up in the near term. What concerns us more is the amount of leverage in the markets.
  - **Strategy** – Dalio preaches diversification and limiting downside risk. He is also emphatic that the thinking that worked over the last 40 years will not work going forward. We cannot predict, but we can plan and prepare.
  - **Create Your Own Economy** – What AI can and can't do for us.
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## Equanimity

### Ray Dalio – Learning from the Master

During the Great Financial Crisis, I got access to the daily writing from Bridgewater and Associates. Bridgewater is the hedge fund that Dalio helped to build over the last 50 years and is known for the legion of PhD's it employs to model the capital markets. What impressed me was that while most of the market was surprised by what was unfolding, to them it was fitting a pattern – the question was just how extreme the moves might be.

In more recent years I have followed Ray Dalio's writings and his appearances on major TV networks. Dalio is telling the story now of a very big picture as he sees it about the changing world order. It can be a lot to take in. In many interviews Dalio attributes his success to achieving a level of equanimity through meditation. This, he explains, has helped him dispassionately learn from his experiences allowing him to create a relatively accurate model for what comes next and how to profit from it. Very useful in running a hedge fund or managing money in general.

A simple way equanimity has been explained to me is – being with what is. It's not that you don't care, it is not being cold or indifferent, but rather, you come from a place of being able to see what is without personal bias or judgement. If you are curious about how he sees the world changing, how credit cycles work and what that means for investing and our larger social structures, I'd encourage you to look up his interviews on YouTube. Spoiler alert, he is not very bullish on the US markets or most developed markets in the world. If I could summarize four key insights from Dalio that he shares on investing today they are:

1. People love when things go up – but the higher they go, the more they fall. Be prepared for the reversal.
2. Good investing is about diversifying – having 10 or more different investments that have different characteristics – not just stocks and bonds
3. Manage portfolios to keep losses to 25% or less. Big losses take too much to recover from.
4. Emphatically Dalio is saying that he does not believe that what has worked over the past 40 years will work going forward – i.e. chasing growth stocks and other assets that have been boosted by aggressive monetary policy.

## Stocks

Another economist/investor that we follow, John Hussman, also promotes the value of meditation and equanimity. One of his mentors is Thich Nhat Hanh the late, well known Buddhist Monk. Hussman, Dalio, Jeremy Grantham, and macro economists David Rosenberg, Henrik Zeberg, Danielle DiMartino Booth, Stephanie Pomboy, to name a few, are all saying the same thing, the gap between the economy and the markets has never been wider.

Hussman is not an extremist. He has a passion for three things, music, Buddhist meditation and markets from the perspective of disciplined mathematics. Hussman sees this market as the most over-valued market in history and his recent missive “Singularity and the Buzzard” published September 24<sup>th</sup>, 2025, is full of incredible wisdom on many levels. One quote worth sharing is the following pertaining to the current bubble in asset prices:

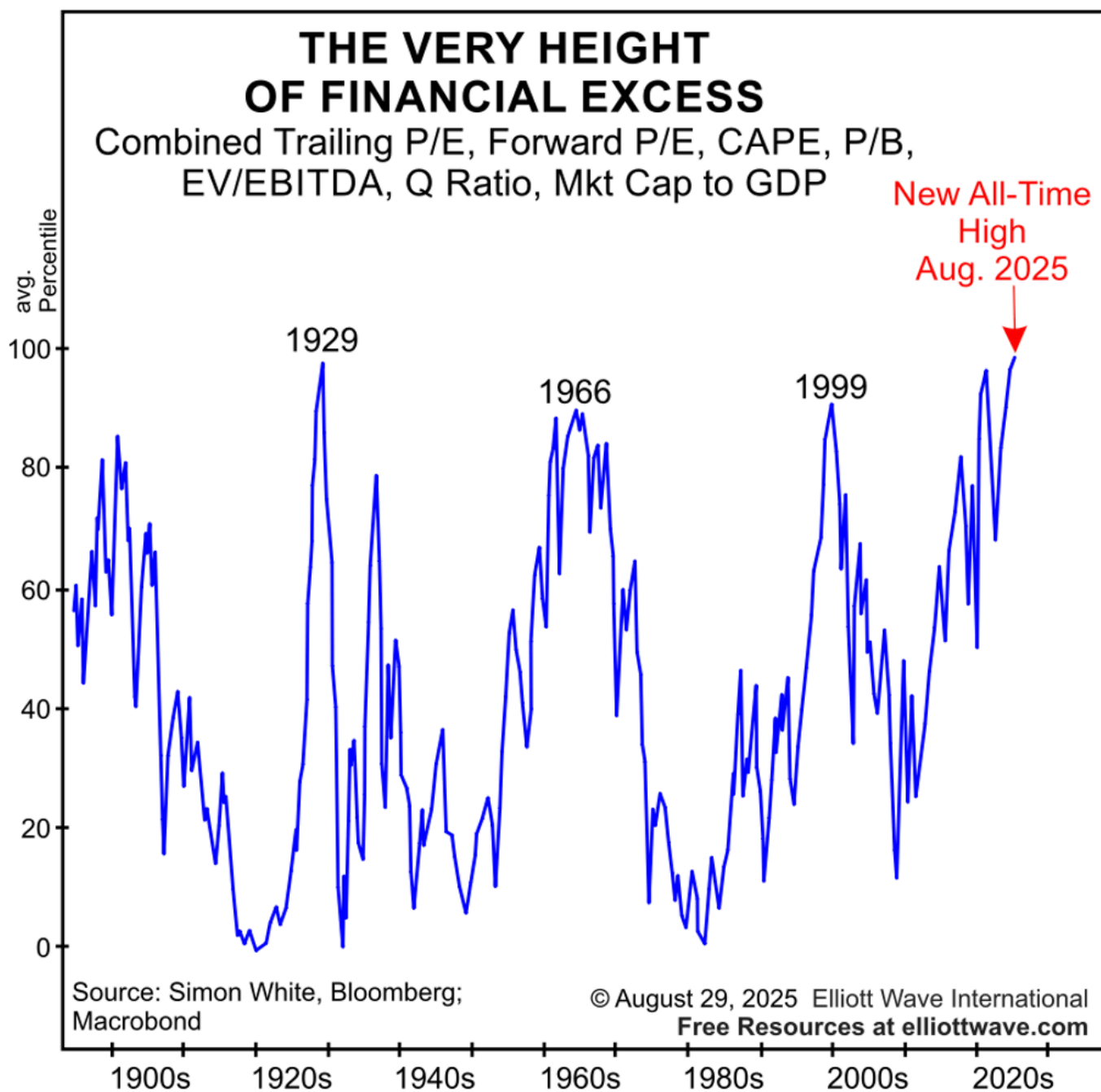
*“The bubble hasn't burst yet because investors haven't quite yet recognized that the highest valuations in history imply the lowest future returns in history. A market crash is nothing but risk-aversion meeting a market that is not priced to*

tolerate risk. Every fresh record high in valuations amplifies the downside when that occurs, but examining the collapse of past bubbles, the “catalyst” typically becomes evident only after the market is in free fall.”

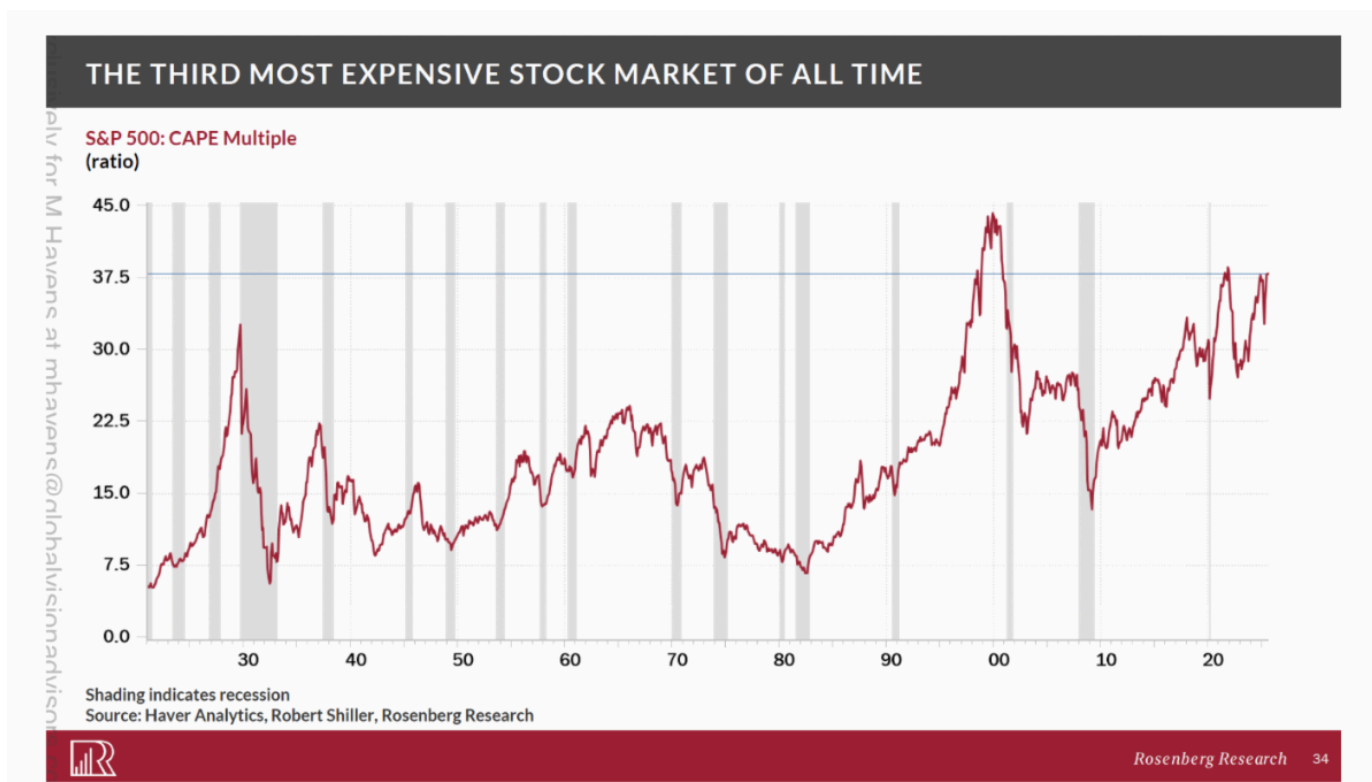
We don't know what might change to change investor behavior. Nor do we need to know. Hussman would argue that we just need to understand what the right price to pay for any given investment is. Still, the bubble is not done inflating. Momentum continues to the upside as the tension between valuation and AI impact grows. Here is how David Rosenberg put it recently:

**“We are in a classic price bubble, but it keeps on getting bigger, as it did in 1999 into early 2000. Every valuation indicator is 2 standard deviations or higher. Price-to-sales, price-to-EBITDA, price-to-book, the Buffett Indicator, CAPE, and a dividend yield that is about half the average of the past two decades.”**

The picture below takes multiple different valuation measures – including the ones Rosenberg mentions and puts them into one chart. They show the market is more expensive than ever. This is just what is:



Focusing in on the most benign valuation measurement the Shiller Cyclically adjust Price Earnings we can see that there are two times that the market was more expensive, 2000 and 2021:



But Rosenberg also points out that at these levels you should expect the forward returns on the S&P 500 to be -2% per year for the next 10 years.

### FORWARD RETURNS GET CANNIBALIZED AT THESE CAPE LEVELS...

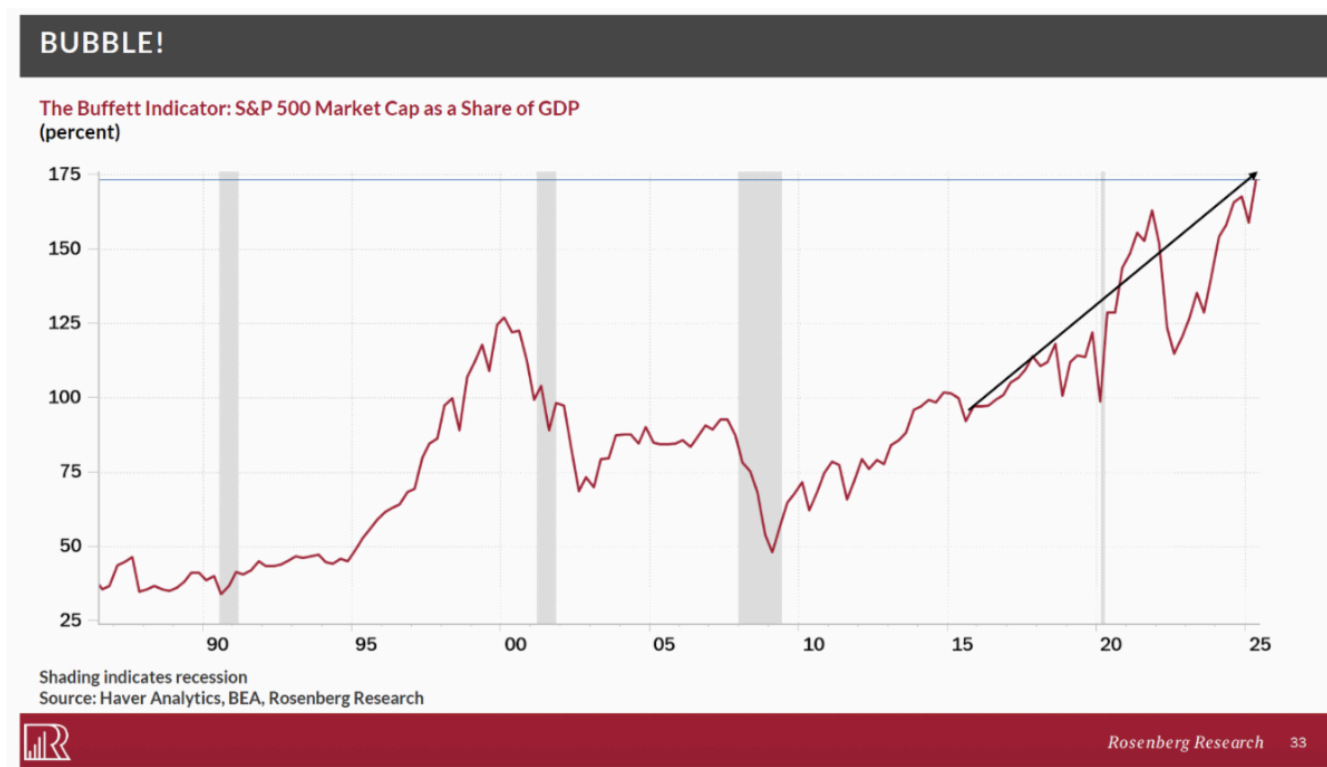
The higher the multiple, the lower the future return potential

	<10	10-20	20-30	30-35	35+
<b>1-Year Forward Return</b>	17.3%	8.1%	6.5%	7.4%	-1.1%
<b>3-Year Forward Return (Annualized)</b>	14.0%	6.9%	5.2%	7.2%	-3.3%
<b>5-Year Forward Return (Annualized)</b>	13.9%	6.1%	5.4%	3.6%	-3.0%
<b>10-Year Forward Return (Annualized)</b>	7.6%	7.3%	4.5%	1.4%	-1.8%

Source: Bloomberg, Rosenberg Research

So, the question is, “Is this a good time to buy stocks?” From a valuation perspective the answer is not generally. But from a momentum perspective it seems to be “The trend is your friend”.

Another indicator is the Market Cap to GDP ratio. This is often referred to as the “Buffett Indicator” because Warren Buffett uses this as his favorite measure of market valuation:



For this indicator to go back to where it was at the peak of 2007 would require a 50% decline in the S&P 500, provided that GDP does not decline as well. This should not be surprising, nor should it sound extreme. We have seen two 50% drops in the S&P 500 in the past 25 years.

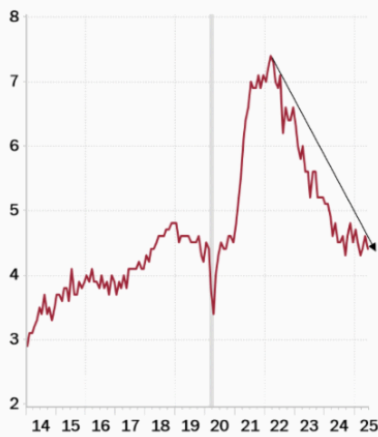
Again, this is just what is so. Stocks in general are expensive, but we will only know where the peak is when it is in the rearview mirror. Andrew Ross Sorkin, Financial Journalist and CNBC Anchor just released a book called “1929” and draws parallels with that time and now. He was featured on CBS’ 60 Minutes recently and was asked if he thought stocks were going to crash. His answer “Yes, I just can’t tell you when or by how much.” He is just one voice of many, but the conversation is getting some serious airtime.

## Economy and AI

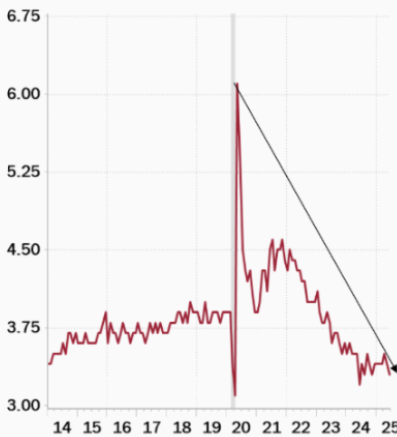
There is mostly agreement about the weakness in the broad economy. We have shared traditional measures such as unemployment and ISM Manufacturing etc. Below are two charts showing weakness in the labor market and the Conference Board Leading Economic Indicators showing the high probability of recession:

## WE GO INTO THE TARIFFS WITH THE U.S. LABOR MARKET LOOSENING UP

Job Openings Rate  
(percent)



Hires Rate  
(percent)



Quits Rate  
(percent)



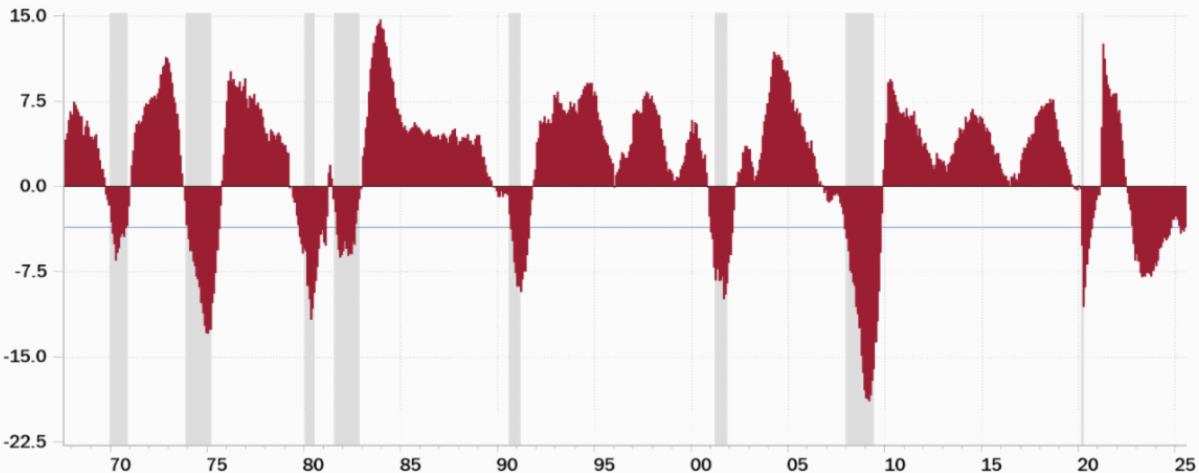
Shading indicates recession  
Source: Haver Analytics, BLS, Rosenberg Research



Rosenberg Research 46

## AN UNDENIABLE RECESSION INDICATOR

Conference Board Leading Economic Indicator  
(year-over-year percent change)



Shading indicates recession  
Source: Haver Analytics, Conference Board, Rosenberg Research



Rosenberg Research 54

Without the investment in AI the economy would be in contraction. But the investment in a is huge right now and some feel that this sector can help bridge any weakness and soften the slowdown that we are seeing in other sectors. This could be true.

Here is the headline from David Rosenberg's Sept 26<sup>th</sup> Daily Missive:

**“Fully 90% of S&P 500 Earnings Growth and 100% of 2025 GDP Gains Have Come From the AI Boom!”**

Mark Twain liked to say: “History doesn't repeat itself, but it often rhymes.” Those of us who lived through the Dot Com bubble can see some parallels. There are important differences to be sure, but the belief that massive capital spending, directed at keeping ahead of new technology, driving massive profits, can continue forever, is very similar to the 2000 bubble. Furthermore, every new technology phase from the steam engine, railroads, electricity, automobiles, computers, the internet, all saw big capital spending, big profits, big bubbles and big busts.

It is clear, as it was in 2000, that chip companies are making huge profits. There are a host of related industries also benefitting from the AI “Super Cycle” like energy, data centers etc. Yet it is still unclear what the profit prospects from AI will be over the next 10 years. And this is crucially important given how all this investment is being financed.

Michael Cembalest of JP Morgan has been writing about this and Andrew Ross Sorkin mentions this as well in his concerns about the sustainability AI spending. Here is a quote from Cembalest that we found through Lance Roberts from his October 3<sup>rd</sup> Newsletter:

*“Other recent AI news: Oracle’s stock jumped by 25% after being promised \$60 billion a year from OpenAI, **an amount of money OpenAI doesn’t earn yet**, to provide cloud computing facilities that **Oracle hasn’t built yet**, and which will **require 4.5 GW of power (the equivalent of 2.25 Hoover Dams or four nuclear plants)**, as well as increased borrowing by Oracle whose debt to equity ratio is **already 500% compared to 50% for Amazon, 30% for Microsoft and even less at Meta and Google**. In other words, the tech capital cycle may be about to change.”*  
Michael Cembalest JP Morgan – Eye on the Market September 24, 2025

To overly simplify what is going on, the tech world is in an arms race to build out AI capacity. The investment is huge, and some companies are profiting handsomely as this corner of the economy is surging. People are dancing while the music is playing. And it very well may keep going. There is simply no way to know. But when people start to question the numbers and the logic it suggests that we may be closer to the end of the ride than the beginning.

The passage below is from Charles Sizemore who has his own independent newsletter. I like the way he captures the conversation around AI right now:

*“The AI economy is minting money right now. But as I discussed last week, it’s also mostly circular. The largest tech companies are all essentially buying hardware, software and processing compute from each other in a closed loop. It’s wildly profitable. But we’ll see how long it’s sustainable. This bubble may still have months or even years left to run. Or we may look back a year from now and realize it peaked today. But outside of the loop, it’s not entirely clear that many companies are really benefitting. A study by MIT found that 95% of companies implementing AI had failed to see meaningful financial results. It’s even less clear how durable any competitive advantage from AI will be from the 5% of the companies that are making money.”*  
Charles Sizemore

Further helping us understand some of the math behind the assumptions, below is from David Rosenberg from his “Early Morning with Dave” October 14, 2025

## “Quantifying the AI Market Against Massive Capex Estimates

*The latest shift in the AI industry — “strategic” investments among a number of key players — has taken the arms race to new, seemingly frantic, levels. This is all about securing a toehold in the industry’s future. But just how big will the future be? That is an important shift in the conversation that has become apparent. After three nearly uninterrupted years, questions surrounding future payouts, monetization, and the likelihood of embedded growth assumptions have intensified.*

*There is a huge guessing game involved in just how likely these predictions are to play out. In this context, it’s not that surprising to see some massive numbers thrown about. For example, we have seen a range of capex estimates in the AI value chain from \$2.5 trillion to \$5.0 trillion needed over the next five years. If these prove prescient, then just how big will the AI market have to grow to justify this kind of spending?*

*Let’s do some back-of-the-envelope math to demonstrate. Using constituents of the Bloomberg AI Value Chain Index (tracking companies across cloud computing, chips, and hardware), we find the recent average return on invested capital is ~11.5%. Assuming this holds steady, based on the range of \$2.5 trillion to \$5.0 trillion of estimated capex, this implies an annual net income of \$300 to \$600 billion per year. We can translate this to an overall TAM (total*

addressable market) across the global AI value chain, using average effective tax rates and operating margins for these same companies, of approximately \$4 trillion in needed revenue. For context, the AI industry is currently estimated at \$500 billion.

Put differently, the AI market will need to grow 8x over the next five years to justify these massive projections. For the biggest AI bulls out there touting the technology, this may not seem out of the realm of possibilities. But this also assumes that the industry doesn't run into resource constraints (there are massive amounts of commodities and power needed), and that it can be effectively monetized (a debate for another day, but there is a lot of glorified search engine and "AI slop" behavior in the current rendition of the technology).

Investors are right to question the assumptions embedded in current valuations after the massive run-up in many AI and related names. The dotcom bubble really wasn't that long ago, serving as an excellent reminder that extrapolating lofty assumptions into the future is fraught with risk."

To try to put bow on this issue, Forbes Magazine published an article recently titled

**"AI Bubble May Burst — Wiping Out \$40 Trillion From Nasdaq. Here's What To Do  
Peter Cohen 10-15-2025"**

We would highly recommend looking up the article, but below is an excerpt that tries to from up potential outcomes:

*"Investors should prepare for three scenarios:*

**The Soft Landing (estimated 35% probability):** *In this scenario, AI valuations might decline 60% to 70% over a two-to-three-year period without panic. Strong growth and earnings at Microsoft, Google, and Meta might provide cushioning while enterprise adoption of AI would continue at realistic valuations.*

**The OpenAI Bankruptcy Cascade (25%):** *The most pessimistic scenario starts with OpenAI failing to raise enough capital to cover its \$14 billion annual cash burn – leading to emergency measures. Under this scenario CoreWeave could lose 60% of its revenue and files for bankruptcy. Nvidia might suffer a 6% reduction in its revenue and take a \$100 billion investment write-down. Oracle and Microsoft would likely mark down their OpenAI investment, noted Where's Your Ed At. This could lead to an abrupt curtailment of AI capital expenditures – resulting in a recession, a drop of 40% to 50% in Nvidia's stock price and a 20% to 30% decline in the S&P 500 – since AI stocks had provided 75% of recent gains.*

**The Continued Boom (40%):** *In this optimistic scenario, companies discover ways to use AI to achieve efficiency and growth improvements – making current investments profitable. Revenue growth accelerates to match valuations, and the bubble inflates further before any reckoning."*

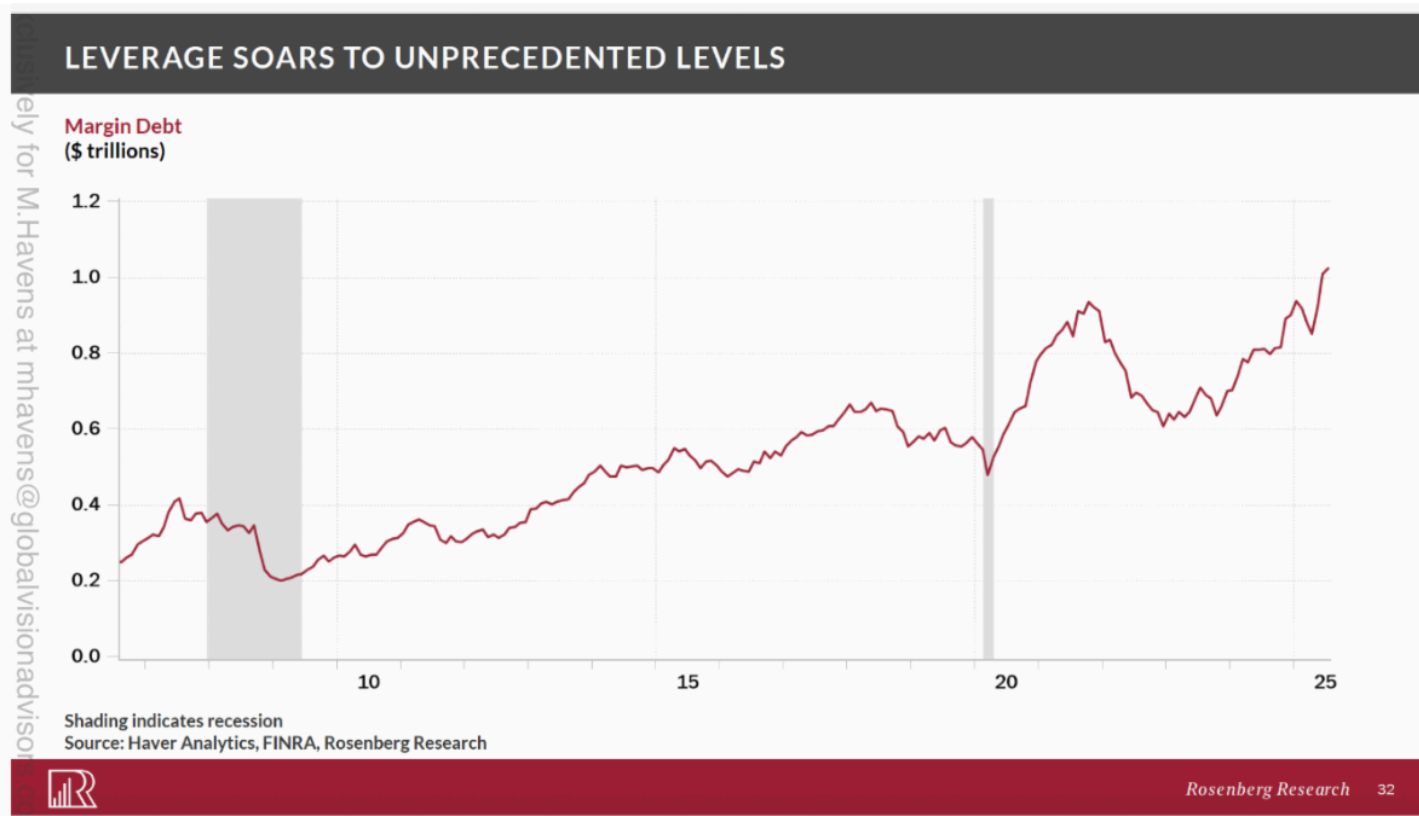
### **Credit Markets, Bonds and a Note About leverage:**

Study any market bubble and you will find three things: high valuations, speculative behavior and higher than average debt levels. The unwinding of a bubble is generally centered around the unwinding of unsustainable debt. The economy contracts, income goes down, debt can't be serviced.

For the last few years, the product that have come across our desks most frequently from investment firms are some forms of Private Credit. After thirty years in the business, you get a sense of where the profit is for these firms, and likely where the next problem will come from. So, it was not surprising when I saw the

headline from Up and Down Wall St in Barron's on October 6<sup>th</sup> of "Public Bonds are Hot. Why is Private Credit Flashing Distress?" The underlying answer is the bankruptcies are rising. I'm sure there will be more to read about this corner of the market over the next year.

What really stands out from a stock market perspective is the level of margin debt that exists today. The margin debt, debt used to leverage stock or other investment exposure in brokerage accounts, is three times what it was in 2000. See chart below:



Margin goes up on the way up, and accelerates losses on the way down. Many people sell during market declines not because they want to, but because they have to, to meet margin calls. Watch this space.

## Strategy

It may sound like we are bearish on everything, but that is not the case. We don't have 100 PhD's working for us like Dalio at Bridgewater, through our partnerships we have more than that. We like to diversify across not only asset classes, but across firms and ways of thinking. Our focus is serving our client and we focus on creating customized wealth strategies that take into consideration our client's unique goals, resources and preferences.

With that said we are constantly looking for investments that have qualities that will endure over the long-term and shy away from the sugar high that comes from short-term trends. We fit those investments inside of allocations for clients and have a basic model that we start from, driven by valuation. That base model looks as follows:

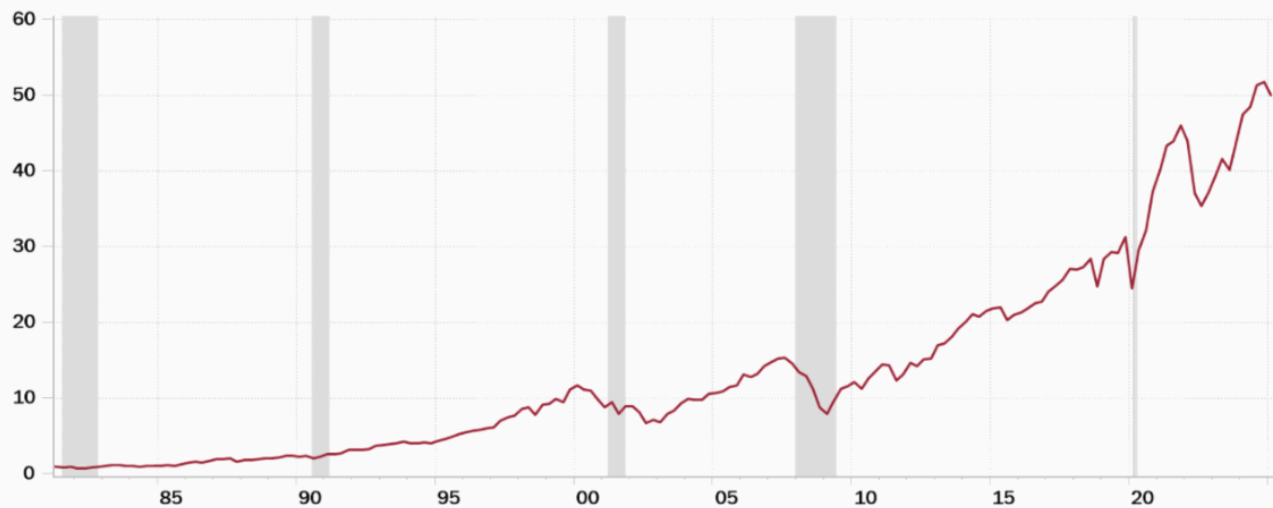
- 10% Cash
- 30% Bonds
- 30% Stocks
- 30% Alternatives

Each of these broad categories breaks down into specific pieces that get us to the 10 different ideas that Dalio talks about.

What amazes us is when we look across the many firms we follow, the average allocation to stocks is roughly 30%. But when we see the average allocation for investors as reported by Haver Analytics, it looks more like 70%. Retail investors are highly leveraged to the stock market. At record high valuations this raises concerns for us:

## AMERICAN HOUSEHOLDS HAVE \$50 TRILLION OF EQUITY EXPOSURE!

Fed Flow of Funds: Household Equity Assets  
(\$ trillions)

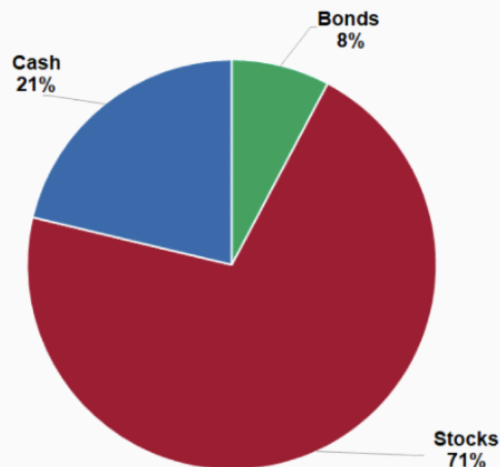


Shading indicates recession  
Source: Haver Analytics, Federal Reserve, Rosenberg Research



## HOUSEHOLDS OVER-EXPOSED TO THE EQUITY MARKET!

Share of Financial Assets  
(percent)



\*Excludes trade receivables, life insurance reserves, pension entitlements, miscellaneous assets  
Source: Haver Analytics, Federal Reserve, Rosenberg Research



Some examples of trends that we have been focused on recently that are longer term:

Gold - Loss of confidence in central banks particularly in the US has given a boost to gold. The recent action seems like a sugar high trade referenced earlier, but we think that is really just pointing to a larger structural change that will have big ups and downs.

MLPs – Energy infrastructure – particularly natural gas pipelines – stand to benefit from increased energy demand – without the ups and downs of less proven sources.

Utilities – Again, energy demand is the driver here – Transmission and Distribution over generation.

Health Care Real Estate – Demographics point to increased demand and ability to raise rates.

Commodities – This is just setting up, backdrop of sticky inflation, declining globalism/restricted supply, likely benefiting from future efforts to stimulate, and government involvement in industries such as mining. See what is happening in Rare Earth Metals.

Emerging Markets – Particularly India – Better demographics and more growth outside of developed economies with big debt overhangs.

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## Create Your Own Economy Corner - What AI can and can't do for us.

Our world is accelerating and “uncertainty” is the watch word of the day. Some might think it is “chaos”. This is causing stress and impacting how we are relating to each other. The structure of many of our conversations are ineffective.

We need empathy now more than ever. What does that mean? To me it means taking the time to listen, to hear what other people are experiencing. To find a way to understand each other and connect on a deeper, human level. It means being responsible for what we say and putting caring for others ahead of our opinions.

Artificial intelligence, as we think of it today, is a technological breakthrough. We have experienced radical breakthroughs in our history and we have managed to cope with the attendant disruptions. Below is a quote from John Hussman's recent newsletter and I think it deserves consideration. I believe we will make it through this disruption as we have in the past, but it takes conscious effort:

*“These devices in front of us, and in our hands have so much capacity to bring us together, and so much capacity to tear us apart. The problem is that they are absolutely indifferent, and we owe it to ourselves to look carefully at how we use them. They can be incredibly useful, or incredibly destructive, and they don't care. Nobody is going to be responsible for us, nobody is going to be kind for us, nobody is going to be compassionate for us, nobody is going to take care of other for us. These devices aren't going to do it for us particularly when they amplify voices that thrive on division. It is up to us to model and nurture what we want to see in the world, maybe even encourage others to come along.” John Hussman September*

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