



MEDALLION

WEALTH MANAGEMENT

December 2025 Market Commentary

"How bad do you think it's going to be?"



Lessons in Purging the "Bad Blood" from "The Godfather"

Last month Spencer Jakab wrote an excellent article for the WSJ titled, ["Why We Could Use a Good, Long Bear Market"](#). It really resonated with me on several levels, not the least being the timeless Godfather references.

In the movie Michael Corleone asks Clemenza about the Mob war he is about to start, *"How bad do you think it's going to be?"* And Clemenza replies with the type of experienced reassurance he needed. *"These things gotta happen every five years or so, ten years. Helps to get rid of the bad blood...been ten years since the last one."*

I've always felt that this type of logic applies to capital markets too, every 5-10 years we need to purge the bad blood. The crux of capitalistic investing is the prudent allocating capital, we want capital to flow to those companies offering the best prospects and flow away from those destroying long-term wealth.

Every time I turned around in November it seemed like someone was asking the same question, “How bad do you think it will get?” in regard to a stock market sell-off. Talk of an AI bubble and a crypto collapse filled the news media. The market was nervous. Is this the beginning of a new bear market?

First, let’s keep things in perspective here, the S&P 500 was only down about 4% from its October 29th high, and actually finished the month slightly up. The real fear seems to be coming from the areas of massive speculation, areas such as rare earth mining, quantum computing, and crypto mining. Our friends at Bespoke research put together the following list of those stocks up 100-700% from August to mid-October, and how they’ve done since. **The average is down 40%.**

Best R3K Stocks 8/1-10/14 and Since

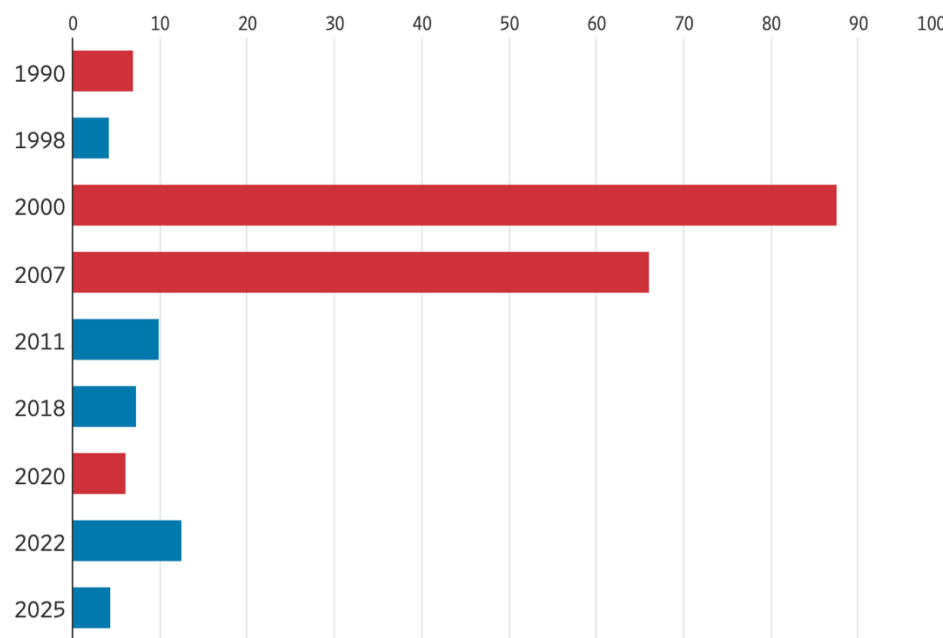
Stock	Company	Price	% Change	
			8/1-10/14	Since 10/14
CRML	Critical Metals	7.1	686.6	-76.4
UAMY	United States Antimony	5.5	490.2	-68.4
ABAT	American Battery Tech	3.3	415.0	-70.9
CD	Chaince Digital	9.0	393.0	-55.2
BKKT	Bakkt	14.1	382.7	-68.8
CIFR	Cipher Mining	13.6	377.5	-34.9
RGTI	Rigetti Computing	21.5	297.5	-61.7
BETR	Better Home & Finance	43.2	273.0	-13.5
RR	Richtech Robotics	2.9	268.9	-57.1
NB	NioCorp Develop	5.1	269.3	-56.6
TE	T1Energy	2.6	260.4	-35.2
KRRO	Korro Bio	6.2	230.5	-86.5
WULF	Terawulf	10.9	224.8	-29.7
MLYS	Mineralys Therap	41.1	213.2	-4.0
BE	Bloom Energy	78.7	210.6	-31.0
EOSE	Eos Energy	11.7	206.2	-30.9
SNDK	Sandisk	186.0	208.0	46.2
IDR	Idaho Strategic Res.	31.8	199.4	-39.6
UUUU	Energy Fuels	12.2	196.4	-53.4
TLS	Telos	5.4	193.3	-24.4
PLUG	Plug Power	1.9	189.3	-54.2
METC	Ramaco Resources	15.6	187.7	-71.4
APLD	Applied Digital	19.5	179.9	-44.5
SATS	EchoStar	66.2	178.7	-11.8
STOK	Stoke Therapeutics	28.7	170.6	-17.8
QBTS	D-Wave Quantum	18.9	170.6	-56.0
AMRC	Ameresco	30.1	161.8	-27.6
CLPT	ClearPoint Neuro	13.7	158.6	-47.5
HUT	Hut 8	32.5	152.5	-34.9
AVAH	Aveanna Healthcare	8.5	149.2	-8.6
OKLO	Oklo	81.0	143.4	-53.5
CDE	Coeur Mining	13.8	141.8	-34.4
EGAN	eGain	10.5	140.4	-25.1
PL	Planet Labs	10.7	139.2	-27.5
FLNC	Fluence Energy	15.1	137.1	-18.0
		Average	239.9	-39.6

This type of speculative frenzy is exactly why Spencer Jakab argues that we could use a “real” bear market. A bear market that purges excesses and reeducates investors to their real role of allocating capital prudently. But all bear markets are not created equally, while they are generally identified as a correction of 20% or more, a real indication of their severity is not just the magnitude of the drop, but how long they last.

The chart below shows how long it takes for a 20% correction to reverse and return to its previous high.

Merely a Flesh Wound

Months to reach previous high after S&P 500 bear market (recessions in red)



Source: Evercore ISI; intraday peak-to-trough

While we’ve had 9 bear markets since 1990, only four coincided with a recession, and only two of those could be deemed severe, 2000 and 2007. These two rather tough periods resulted in the first decade of this century having an annualized total return of 0.55%. That’s right, for ten years you made less than 1% annually in the stock market.

Since then, every correction has been met with a quick “buy-the-dip” chorus. Investors have been conditioned to believe that the Fed and/or the White House has nearly zero tolerance for the economic toll that a lengthy bear market extracts and will quickly ride to the rescue with rate cuts or stimulus packages.

They haven’t been wrong, since 2010 the S&P 500 has returned a very respectable 14% annualized total return. Barring the short, sharp COVID recession we haven’t had a real economic recession in 16-years, and we haven’t had a real drawn-out bear market in 16-years either.

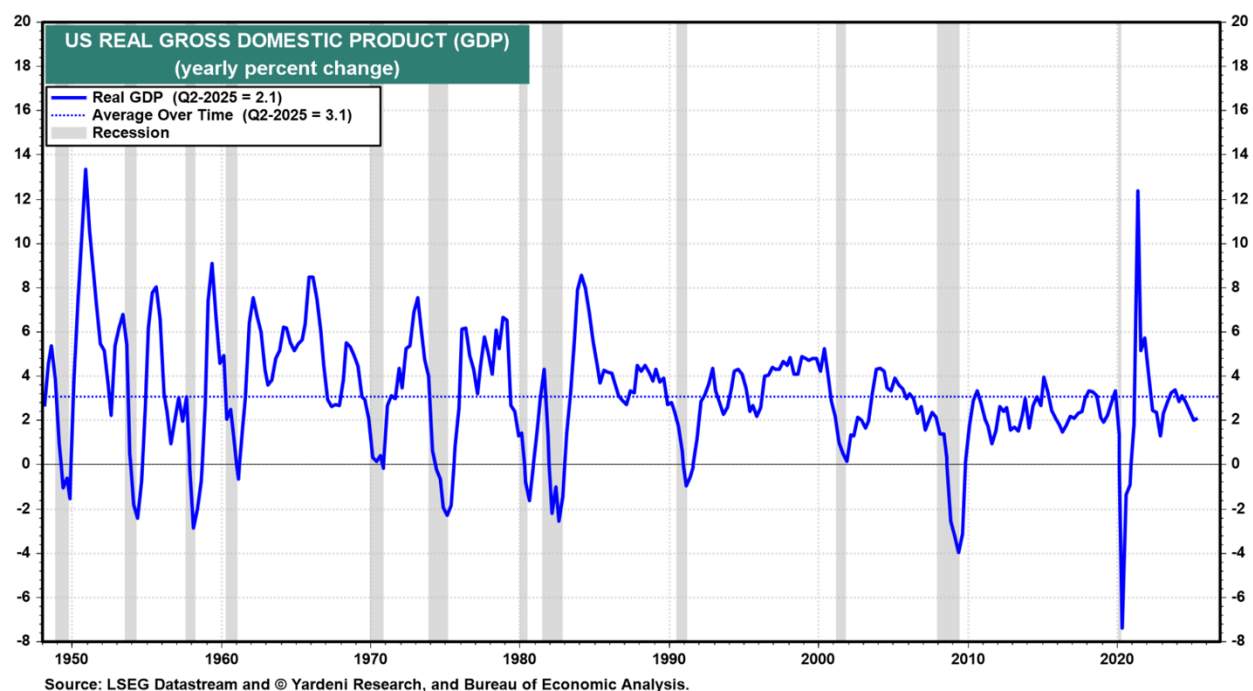
In the past century, there have been 26 bear markets, including some that barely met the definition, such as this year's swoon. The average time to reach the previous high when a bear market was accompanied by a recession was 81 months. It took just 21 without a recession. Over the past 16 years, downturns have lasted less than eight months before the old high was reached.

Think about this: Most people under the age of 40, including investment professionals, have never experienced a real recession or prolonged bear market while they were adults. With such a long period since real market pain has been inflicted, an argument can be made that capital allocation isn't always flowing to the best long-term opportunities.

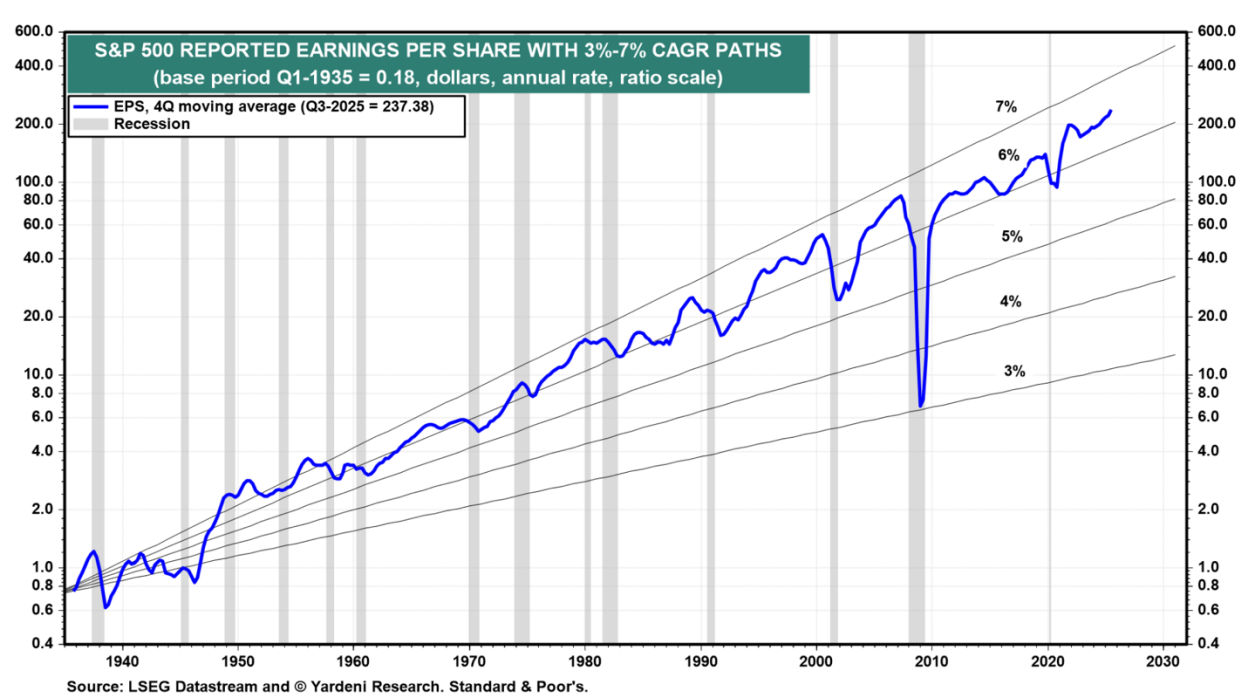
I'm not saying that a severe bear market is imminent, I'm just saying that it's been a while.

We most likely won't experience a severe bear without a real recession, and right now it does not look like a recession is imminent either. Remember the popular definition of a recession is two consecutive quarters of negative GDP growth, although the National Bureau of Economic Research (NBER) takes a broader look at income, employment, and industrial production.

Since 1950 real GDP growth has averaged around 3.1%, and the latest Atlanta Fed GDPNow forecast for the third quarter is a healthy 3.9%.

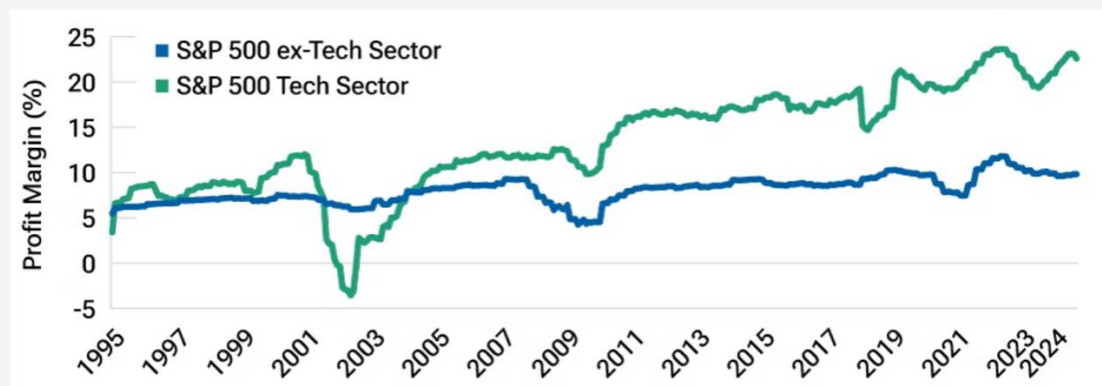


As you would expect, corporate earnings are highly correlated with GDP growth so it's no surprise that S&P 500 earnings have grown about 6.2% over the same time period.



One of the most impressive aspects of the last 16 years has been the growth in profit margins, especially for technology stocks. The S&P 500 Tech sector has seen their margins nearly double over the same period from about 12% to 22%.

(Fig. 1) Profit Margins for S&P 500 Tech Sector vs. S&P 500 ex-Tech Sector



Past performance is not a reliable indicator of future results.

Source: FactSet. Quarterly data from Q1 1995 to Q3 2024. Profit margins are the ratio of net income/revenues.

This growth in profit margins, along with improved financial strength, is the main reason I am more optimistic than not. Of course, we almost certainly will have another bear market, when and how severe is anyone's guess. With no near-term signs of recession, I think we still have some upside left. Rather than tech stocks collapsing, they may simply "underperform" for a period as new leadership finally champions the bull run.

For the first time in the contemporary bull market, economic policies are increasingly becoming accommodative. As interest rates and bond yields decline, as the yield curve steepens, as money growth quickens, and as the U.S. dollar weakens, parts of this stock market which have been largely dormant so far are finally showing some signs of life reducing investor's myopic focus solely on technology stocks. The upcoming period may be less about a stock market collapse than it is about a leadership shift.

Regardless of whether this bull market is nearing its end or is simply headed for a shift in leadership, new era stocks currently appear far healthier and less extended compared to their character near the end of the dotcom era. This is no dotcom replay!

So far this has been another great year for investors, while December may be choppy the outlook for 2026 still looks pretty positive. And remember Clemenza's other famous piece of advice: *"Leave the gun. Take the cannoli."* Don't let the bad blood speculators ruin your appetite for long-term investing.

Let's all be thankful for our good fortune and take another cannoli.

Be careful out there,

Chris Wiles, CFA



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