



Good Vibrations



“Optimism is a happiness magnet. If you stay positive, good things and good people will be drawn to you.” - Mary Lou Retton, Olympic Gymnast

I think it's probably safe to say that almost all of humankind's greatest moments and achievements were driven by optimistic people. Pessimists rarely build the future.

Whether it's athletics or business, you don't start by thinking you're going to fail. You start because you have a dream about what could be. Much has been written about the power of positive thinking. If you think you can do something, you have a much greater chance of succeeding than if you think you will fail.

What makes the Olympics such a spectacular event is that it's packed with optimists. Individuals who have worked for years to become the best in their field. They perform on the world's biggest stage with the pressure of those life-long dreams as well as the dreams of their nation. They don't all believe that they will win, but they are all ready to give it a shot. Of course, there is much more failure than success, since there are 2,900 athletes in the Winter games and only 116 gold medals. But the venues are full of optimistic dreamers.

The Olympic promise, especially for us casual spectators, is that every day you can witness the best day in someone's life. The drama and pure joy are priceless.

It's hard to start a business or be a successful investor as a pessimist. Being successful requires risk taking, and you just don't take risks if you believe you will fail. Of course, just having a positive disposition doesn't mean you will be successful, the risk taking must be calculated, and you must put in the work.

Optimism doesn't mean that things will constantly get better, that markets will always march higher, or that society will get richer. All it means is that as long as we have the opportunity to pursue our own happiness, to follow our dreams, things can get better – not on a societal level, but on an individual level.

While I strive to be optimistic, as an investor, I am skeptical. It's a battle that I constantly wage between risks and rewards. History has taught me that bad things happen fairly frequently in the markets/economy, and there is a reason you need to temper your optimism. There is a phrase we often use, "Don't get too far out over your skis." There's a fine line between getting down the mountain fastest and being life-flighted off of the mountain (Lindsey Vonn). The Olympic games are full of these split-second decisions between risk and reward.

The United States of America is a very special place, we have great resources and great people, but most importantly we have historically embraced optimists and risk takers. Sure, we have smart people, but Europe, Asia, and Latin America all have smart people too. We also have a pretty good Constitution, rule-of-law, and property rights – but there is something else. It is that in America there is no limit to how successful you can be. We celebrate success to an extent that it is enjoyed (and envied) like nowhere else in the world – and that is why we are the richest country in the world.

If you have a great idea for a new business, you don't take it to Norway, China, or Brazil, you come here. America is a playground for entrepreneurs. It's not just about our politics, infrastructure, or legal system – it's about our attitudes towards success and wealth. We celebrate optimistic risk takers because they make us all better as a society.

This American exceptionalism isn't permanent; it has to constantly be nurtured. Once we start throwing rocks at Ferraris, we are doomed.

I'm not being a Pollyanna here; we have some serious problems in our country. High rates of inflation have taken a toll on large swaths of our population, while that same inflation has bolstered the fortunes of those who own assets like real estate and stocks. We live in a K-shaped economy, where the wealthy are doing well while everyone else struggles.

America is the greatest country in the world, even with all the hate and discontent out there. This noisy discourse is just another blessing that doesn't exist in many places around the world.

“I’m picking up good vibrations. She’s giving me the excitations.”

<https://www.youtube.com/watch?v=apBWI6xrbLY>



While Brian Wilson was 'picking up' good vibrations in 1966, today's consumers are struggling to find the frequency. Consumer confidence has been bouncing around at levels normally seen during recessions, but we are clearly not in a recession. Some people say we are in a ***“vibecession”***, a term coined by economist Kyla Scanlon. It refers to the disconnect between rather robust macroeconomics (strong GDP growth, and low unemployment) and a poor public perception of the economy.

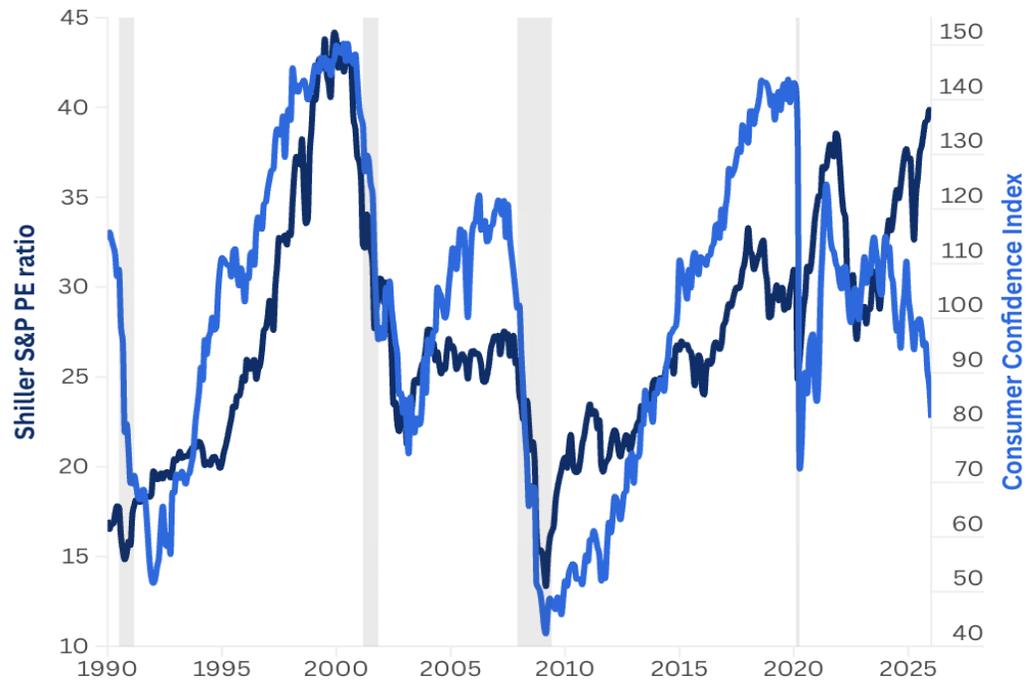
Most of these bad vibes can be attributed to the rapid inflation we have experienced over the last five years. While we have seen inflation growth slow, the simple fact is that prices (as measured by CPI) are up about 25% over the last five years. Wages have also risen over this period, but only about 20%, meaning that real wage growth is negative. And two rather important aspects of our lives, food and shelter, are up about 30% and 35% respectively.

The chart below does a good job of illustrating this disconnect between the economy and consumer confidence. Usually, equity valuations and consumer confidence are joined at the hip, but as you can see, stocks have remained near highs while confidence has declined.

Stock valuations and consumer confidence

Jan. 1990–Jan. 2026

— Shiller S&P price-to-earnings ratio — Consumer confidence ■ Recession



Note: Vertical axes on independent scales

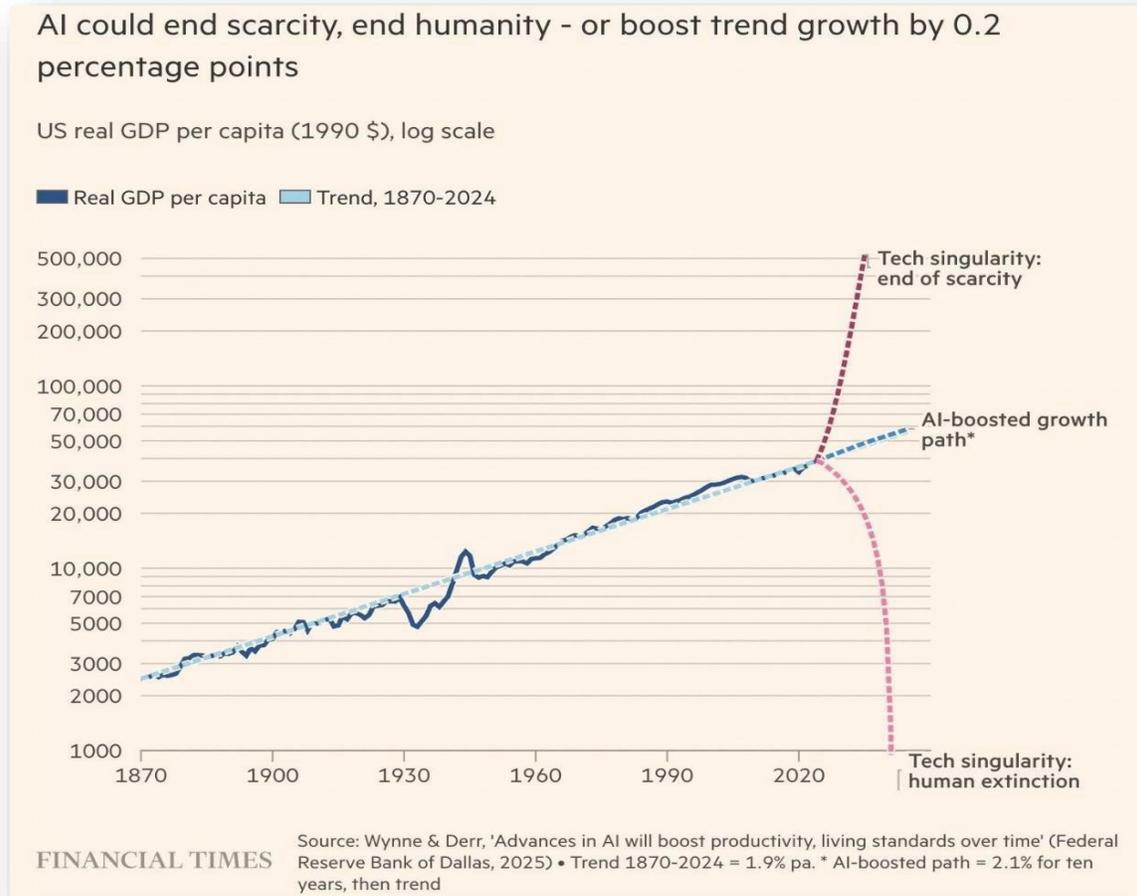
Graphic: Gabriel Cortes / CNBC

Source: J.P. Morgan Private Bank analysis of data from the University of Michigan, the Conference Board and Haver Analytics

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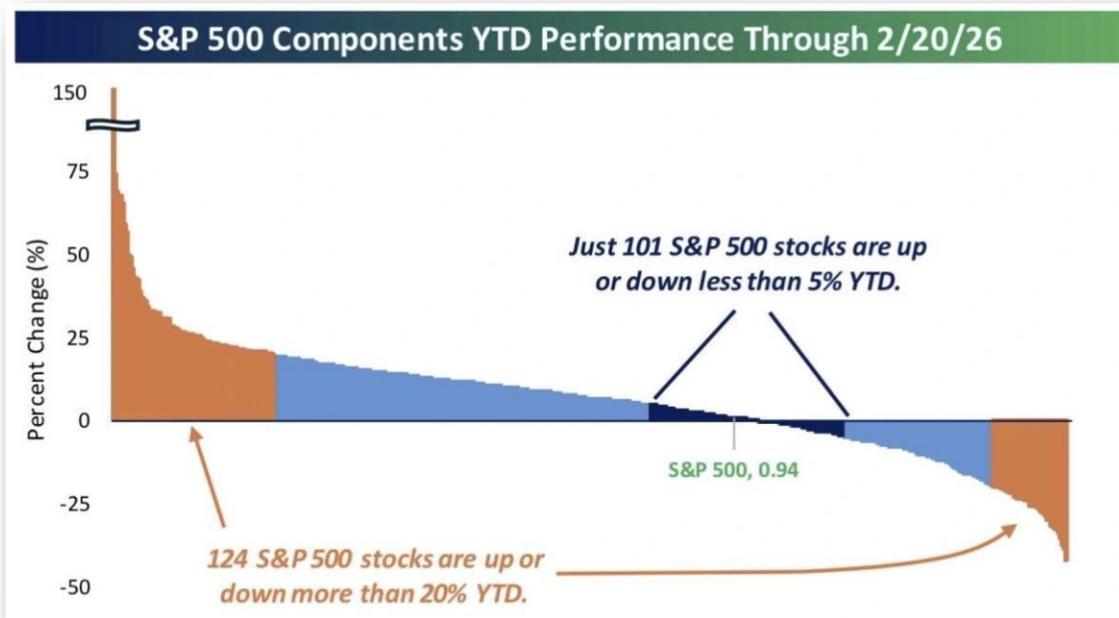
Another cause of angst is the confusion over Artificial Intelligence (AI). Is it a good thing or a bad thing? AI's biggest potential benefits include accelerating scientific discovery in medicine, driving massive productivity gains, and eliminating scarcity. On the not so good side, what happens when AI becomes sentient (an intelligence greater than mankind and a will of its own)? Will it decide that humans aren't worth much?

Love this chart from the Financial Times. If you ever needed a definition of uncertainty, this is it.



AI's dichotomy between good and evil is playing itself out in real time in the stock market. While the overall S&P 500 treads water near all-time highs, the view under the surface looks like a duck's feet: kicking furiously just to stay in place.

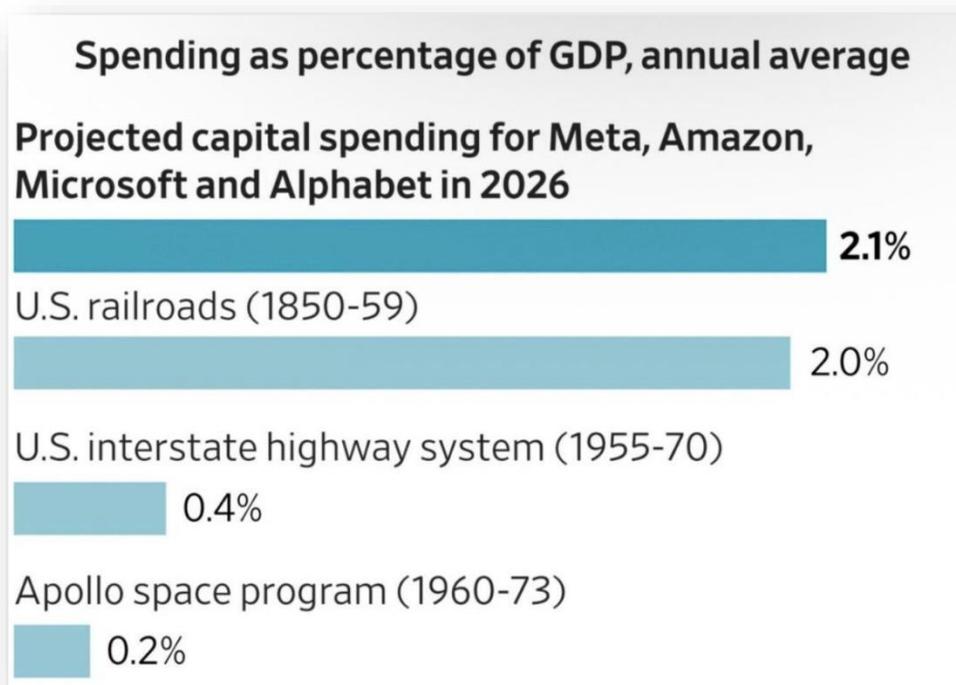
The chart below shows that while the S&P 500 is up marginally year-to-date, a record number of stocks is up or down more than 20%.



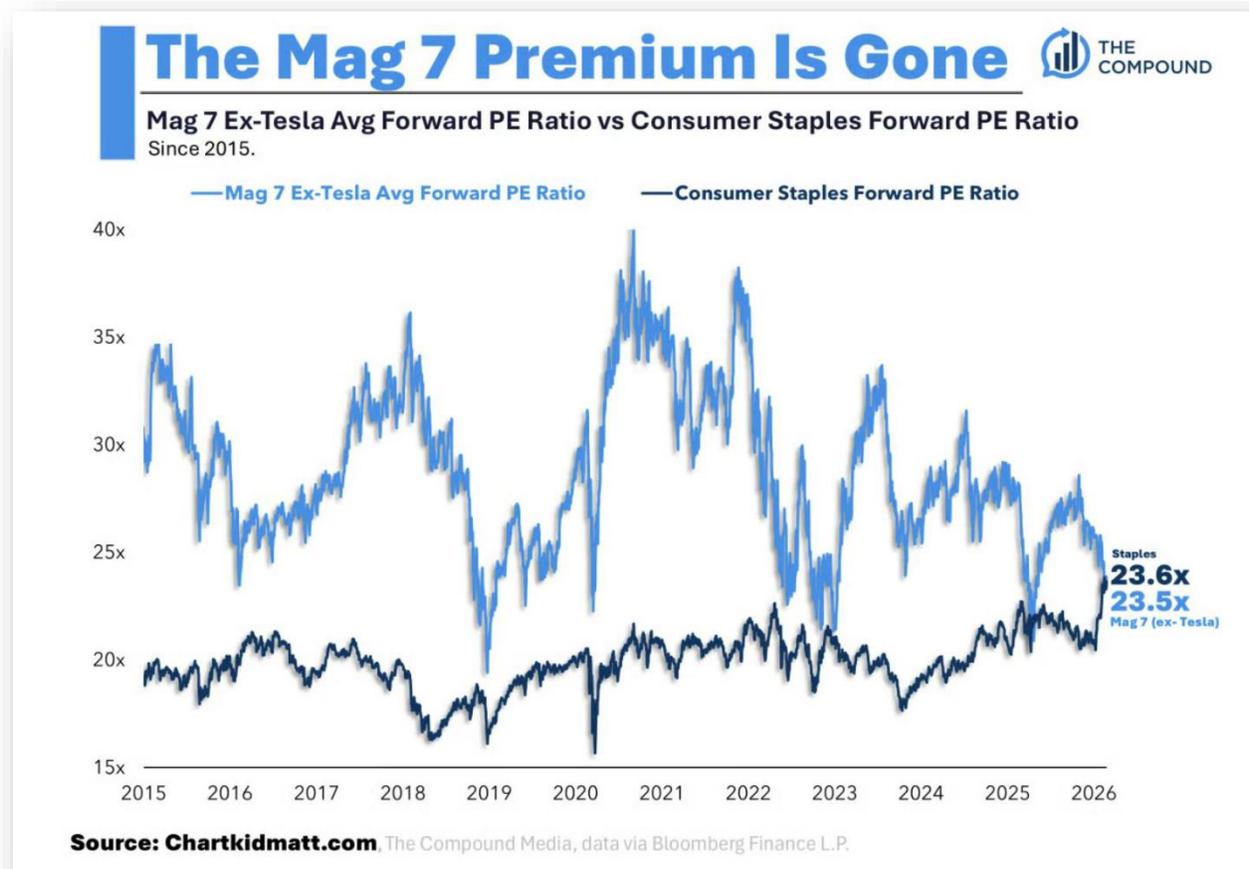
Source: Bespoke Research

We've moved from the "ooh and aah" phase of AI to the "you're spending how much?" phase. Most of the largest tech companies are spending massive amounts on the buildout of data centers to make our AI dreams come true, and Mr. Market is getting skeptical about what types of returns this spending spree will generate. As a percentage of GDP, just the announced spending by four companies in 2026 eclipses the historic spending on other massive endeavors.

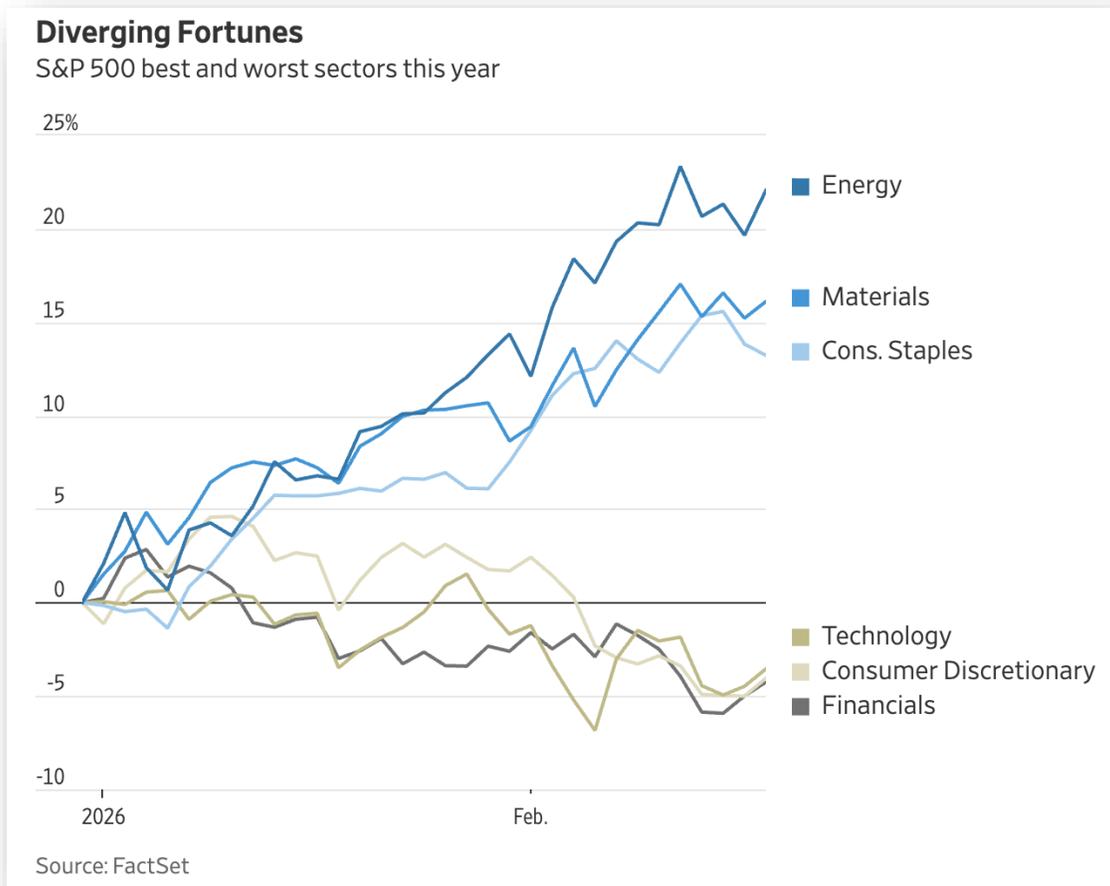
Source: Wall Street Journal 2/7/2026



Another way of looking at the revaluation going on in the markets is the following chart. The largest companies in the market are now trading at forward price-to-earnings multiples that equal those of stodgy consumer staples stocks. The Magnificent 7 ex-Tesla is expected to grow earnings in 2026 by over **20%** while the consumer staples sector is expected to grow at **11%**.



The market has shifted away from the companies investing heavily in AI, as well as those companies having their historically profitable business models disrupted by AI, and into those companies resistant to AI disruption. The new term being bandied about is **HALO (Heavy Assets, Low Obsolescence)**: companies that are 'boring' in the face of technical upheaval, such as energy, railroads, and consumer staples.



Finally, I'm going to leave you with a study done by the NYU Stern School of Business regarding other historic periods of major capital investment. Their thesis is that equity markets perform best after these capital investment phases, not during them.

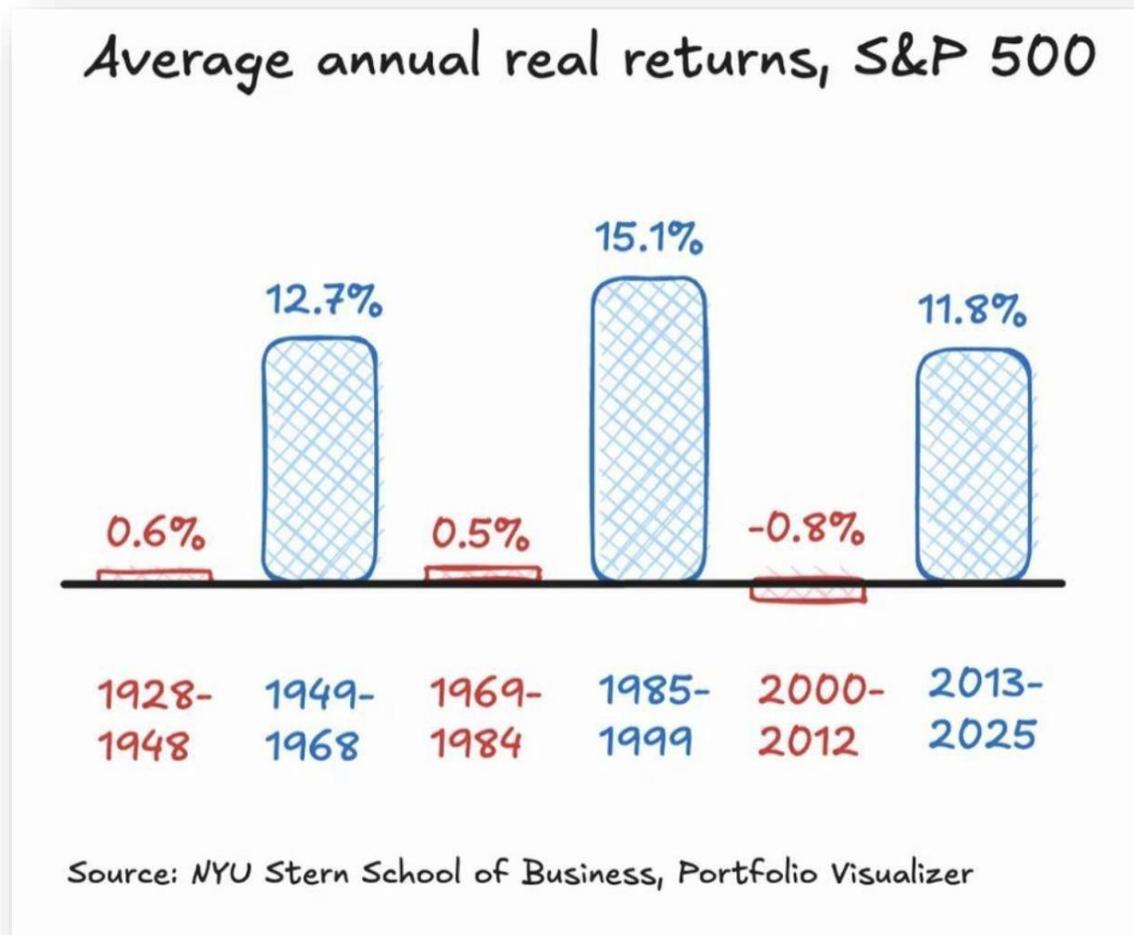
The best equity booms (1949–1968, 1985–1999, 2013–2025) line up with periods when major investment waves in the real economy were maturing, not starting:

Post-war America in 1949 had already built out the core industrial and defense capacity needed for the 1940s capex boom. The marginal dollar was no longer desperately needed in factories and shipyards, so it flowed back into listed equities.

By the mid-1980s, the heavy-industry and Volcker adjustment phase was done. Capital could ride disinflation, financial deregulation, and globalization rather than plugging balance-sheet holes.

After 2010, with China's huge capex wave and post-GFC repair largely behind us, central banks suppressed rates and liquidity chased financial assets again.

In other words, equities deliver the best real returns when capital isn't being used on the real economy and can instead flow freely into the financial markets.



Intuitively, this analysis makes a ton of sense when you look at the performance of those Mag-7 stocks spending all of their free cash flow and more on cap-ex.

The end game of this massive capital spending may be AI nirvana, but the path there is likely to be rocky. Our goal is to navigate this stretch by doing what Americans do best: remaining optimistic, weighing the risks, and moving forward.

Nothing but good vibrations here.

As always, be careful out there.

Chris Wiles, CFA

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