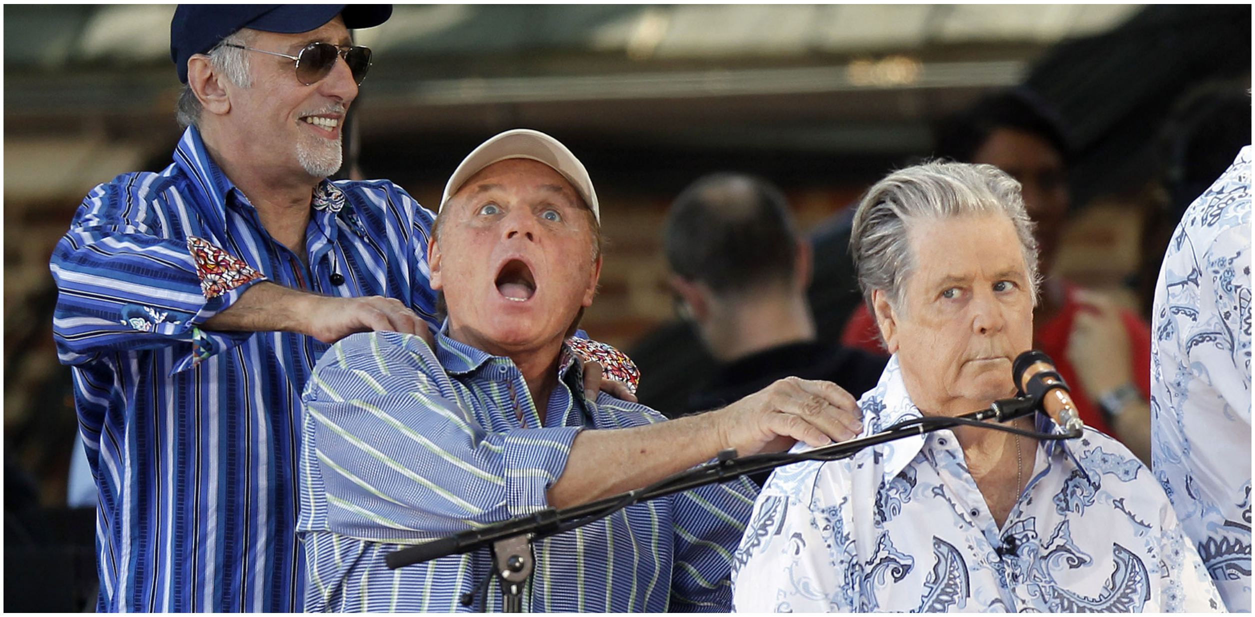
THOUGHTS FROM THE FRONTLINE

The Investment Signal in the Noise

By John Mauldin | June 14, 2025



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One cannot overstate the importance of Claude Shannon and his 1940s work on information theory at Bell Labs. It was foundational to modern telecommunications and electronics. We've seen constant improvement in our ability to communicate because we can separate the important information from the noise.

Those of us of a certain age can remember trying to fine-tune our radios, trying to find the best signal. We needed it so that we could hear the beautiful melodies of the Beach Boys (RIP Brian Wilson, whom I will mention below).

Separating the signal from the noise may be the hardest challenge investors face. We're all surrounded by constantly changing but mostly unimportant information. Of the small part that really is important, we must decide if it affects our investments. We have to zero in on that part and tune out the rest. And trust me, it is not as pleasant a task as listening to Brian Wilson's falsetto floating over the harmonics of the Beach Boys.

For instance, I woke up this morning to every news feed telling me about Israel attacking Iran. Certainly, that is a very clear signal in the geopolitical world. The price of oil jumped, and some investors rushed to safer assets. This was a signal of sorts for some styles of investing. Or maybe just their emotions. I am sure trading rooms around the world heard a signal.

But for many investment styles, this is just noise. It won't affect their portfolio in the long run. But it is human nature, ingrained in us since we were on the African savanna, to look at every event and decide whether it is food or fear. We are emotional animals.

It's also difficult because the noise is just so much *fun*. Recently I wrote about a growing "gambling mentality" in the markets. It's there and it is a problem, but in one sense it's not really new. The flashing lights and scrolling numbers on a trading screen aren't so different from the bells and excitement of a casino. For people like Dave Portnoy, the transition from sports betting to stock trading was easy.

For what it's worth, I like Dave Portnoy. He seems authentic and isn't afraid to say things that would get others canceled. It's refreshing. But I would not have him manage my investment portfolio. He is investment noise. So is much, if not most, of the financial media.

To escape the noise embedded in our investment signal, you need calm voices who can pull you out of the emotional trap and refocus you on what's really important. Readers often say I fill that role for them. I have several steady sources I often consult to help me maintain that calm. But when I really need someone to bring me back to sanity, I turn to David Bahnsen. His calm, peaceful and thoroughly reasoned analysis always helps me clear my head.

David constantly reminds me that *results* are what really count. You can be "right" about the market, but if it doesn't show up in your portfolio then you haven't gained much. That's why I've made him a prominent part of SIC for the last few years. Today I'll share some of his wisdom so you can see for yourself.

As an aside, the SIC audience rated David as one of the top speakers and he was number one on the final day, which is quite an achievement. My only real problem with David is that he had the discourtesy to rate much higher than me at my own conference.

Perpetual Uncertainty

David started his SIC presentation talking about "uncertainty." I use that word myself, but we should really avoid it. Very few things are truly certain. It's better to think about the future as degrees of confidence. We can be highly confident, not confident at all, or anywhere in between. Excess confidence is a good way to go wrong. Having *not enough* confidence can hurt, too, by keeping us paralyzed.

For example, David talked about the recent tariff whirlwind. Trump's April 2 "Liberation Day" announcement produced a lot of "This Time Is Different" analysis. Now the mood is quite different. Here's David.

> "When we decide to say, 'this time is different,' Sir John Templeton's famous dictum that these words are dangerous for investors to believe is always true.
>
> "But one of the things that I believe is as fallacious as saying this time is different is assuming that a given uncertainty is somehow different. **All that's different is what the particular uncertainty is.** [JM: read that bold line again!]
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> "In February of 2025, we did not have liberation day uncertainty yet. Now there was some uncertainty about where the tariff policy might go, but it was very different from what happened on the evening of April 2nd and where liberation day brought new information. I would argue that a couple of events have actually changed what the uncertainty du jour is. A significant uncertainty post-liberation day was the Trump market put. Are we now in a radically Navarro-like commitment to protectionism, markets be damned moment? I believe that we now know we are not.
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> "Regardless of where exactly the policies end up, a lot of them I think will end up in a worse place than where I'd want them to be. But that significant left-tail risk that we talked about in the days after April 2nd has gone away.
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> "So, now we move forward to different uncertainties and surely, if we are all together in a month or six months and when the good folks of Mauldin Economics do this conference next year, there will be another uncertainty or two. So, that part is perpetual and consistent."

David went on to talk about the tax bill, which at that point was still pending in the House (and now the Senate). Without getting into the weeds, David pointed out how strange it would be for a Republican House, a Republican Senate and a Republican president to not find *some* way to avoid a return to the higher tax rates they had reduced in 2017. He noted, correctly, there will be a lot of horse trading over details. But the House was always highly likely to pass something like it did, and the Senate will do likewise. Doubting this would be silly. Yet many people have been and still are.

Stop and think for a moment about what would happen if the bill did not pass. Taxes would rise for nearly everyone. This would certainly influence the economy. But would it affect the dividend on McDonald's or Procter & Gamble shares? While the bill is important, it shouldn't change a properly planned investment strategy.

Again, it's fun to speculate about these things. And there is no shortage of people telling you this or that event is going to happen, especially on TV or social media. They point to some obscure item that is somehow going to change everything, making it sound like the most important thing in the world. Until of course they find the next thing!

"Compressed Growth Expectations"

In David's view, the tariff and tax uncertainty will give way to something else. He suspects it will be valuations and GDP growth. As the delightful Gilda Radner as SNL's Roseanne Rosannadanna used to tell us, "It just goes to show you. If it's not one thing, it's another." Sigh. Here's David:

> "The fact is that an S&P at 22 or 23 times forward earnings has the concentration it does in such a limited number of companies which have an aggregate PE themselves that is probably two standard deviations above historical average; that's an ongoing uncertainty with a strong fundamental backdrop behind it, but nevertheless, it is simply an uncertainty in valuation.
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> "You mix that in with the uncertainty of what damage has already been done with the tariff war. If there was a huge trade deal announced with China tomorrow, it doesn't really change the fact that there was a certain amount of activity that didn't happen in April, in early May. I could go on and on as plenty of other conference speakers already have about various vulnerabilities that exist.
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> "And all of this by the way is in the context of just 2025. **I believe we're living in a period of compressed growth expectations brought about by a simply entirely new paradigm of government spending and government indebtedness, that when we talk about two to two and a half percent real GDP growth, we are a) talking about best case scenarios and b) we are talking about something that is structurally worse than we have had since World War II."**

This won't be good for passive growth stock investors, in David's view (and mine) but it doesn't change his investment style or his clients' portfolios. He made an important distinction between investing in cash-generating businesses and speculating on future growth.

> *"As long as one maintains a belief in free enterprise and the efficacy of producing goods and services that meet the needs of humanity, then I believe there are profits being made that I would like to be invested in when those profits are being distributed to me.*
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> "(But) when I am relying for my return on those profits getting priced higher and higher with continued multiple expansion, then I am subject to a prolonged period of muted and even negative returns. I firmly believe that the eras of 21x to 23x PE's result in more muted [stock price] returns. If you avoid a recession and if you avoid a significant profit recession, a profit contraction, then you can still end up with some form of positive return.
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> "In the best case scenario, historically, sideways markets are periods where profits hang in there and yet multiples contract. I think we're going to wake up in a number of years and the S&P will be up 3% to 6% a year or potentially something worse than that, closer to zero.
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> "The fact of the matter is that sideways markets have 100% of the time followed secular bull markets. If 2009 to 2021 wasn't a secular bull market, then I don't know what one is."

Distributed Profits

David, and the firm he founded, have an answer to this. They focus on dividend-paying companies because those are real businesses with real profits. Today's hot tech stocks may reach that status, but the risk is high they will not. David would rather skip that risky stage and go straight to the profit part.

> "I'm not trying to be pejorative, but the daily liquidity of markets means that PEs go up and down, stock prices go up and down, but operational results and cashflow and strategy do not. I spoke at the McDonald's shareholder meeting yesterday, and I was sitting there listening to the CEO before I gave my speech, and it just occurred to me how incredibly boring this company is. Massive real estate holdings rooted to either franchise fees or operating result fees on cheeseburgers and French fries.
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> "And when they're talking about product innovation, think about what NVIDIA means by product innovation and the capex required in that and what McDonald's means by product innovation. They mean that they're going to bring their Big Arch burger that's doing well in Germany to Texas. They mean chicken strips instead of chicken nuggets.
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> "This is a very boring company that is up 71,000% since it became public in 1967, that we bought in 2009 in the aftermath of the financial crisis. The dividend is up 7x [times] since we bought it and the stock price is up 7x since we bought it.

> “That's all we're looking for: stock price appreciation that mirrors dividend appreciation. Because that's all anyone would look for in any business.
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> “We're minority owners of these businesses. So, for us to be as aligned with management as possible, we need a piece of profits. That's called dividends and we get to de-risk in those receipts. And for those who live off of investments, you can actually get an investment that doesn't go down in uncertainty, that doesn't go down during financial crisis, that didn't go down in COVID, etc. Perpetually growing dividends.
>
> “If the whole market drops, if you have these tariff moments and so forth, dividends mute the impact of stock price depreciation. It doesn't affect cashflow. It doesn't affect dividend growth. It doesn't affect the things that matter, and I believe very much that is the case for accumulators like myself that are reinvesting dividends. I pray for it to happen because I have intellectually trained myself that that's where the real money is made is in the dividend reinvestment and volatility.”

As a lifelong serial entrepreneur, David’s way of thinking really strikes a chord for me. I’ve owned or co-owned more businesses than I can count but the goal was always the same: Get them profitable and then start distributing cash. The stock market lets me do much the same thing in small bits and pieces. Why should my expectations be any different?

Furthermore, in all those years, it was pretty rare for me to alter my business plan because of something I read in the newspaper, or something the president said, or because I was afraid the Fed would change its mind. All those things mattered, sure. Interest rates mattered a lot at times. But those things are usually manageable. Well-run businesses can adapt to new conditions. And the best way to know they are well run is to see them distribute consistently growing cash flows.

As a stockholder, you are a business owner. Thinking like one will significantly raise your odds of success.

The Peaceful Portfolio

The above covers in a small portion David’s speech at the SIC. I have followed David in debt for over a decade. I have actually moved the bulk of my investment portfolio to The Bahnsen Group, because

1. I believe his total combined strategy is the best way to get my portfolio to the other side of what I think will be a crisis later this decade.

2. And while I like to talk about living to 150, I am 75 and my wife Shane is younger. I want to make sure that she and my children have that steady hand.

3. As I think about it, David has a Peaceful Portfolio. I have a lot of things I worry about in my life. I am just a natural born worrier. David gives me one less thing to worry about.

Dave is on TV almost every day somewhere. Or giving speeches. He has a wide-ranging grasp of the markets, individual stocks, politics, geopolitics and the human experience, and makes for a fascinating guest. But he almost never talks about the part of his strategy that also convinced me to move my portfolio: His large focus on alternative assets. He focuses on funds that produce yield through manager expertise. They can be called hedge funds, private equity or private credit or some mix. But they're all dependent on management expertise.

I actually have a great deal of experience in the alternative investment world. So when I look at the investments that The Bahnsen Group chooses, I see funds I simply don't have access to, but wish I did. It is a very balanced portfolio, and it is structured so almost all his investors only get one K-1 at the end of the year.

My experience throughout the last 35 years is that my alternative investment portfolio performed quite well during crises, just as I needed. The way David blends these two pillars (along with bonds, real estate and other things) in my opinion significantly reduces the overall volatility of the total portfolio. We all have our various portfolio volatility preferences and tolerances, and yours and mine will differ, but I am comfortable, even peaceful, with what I get with David.

David is philosophically a modern Ben Graham, whose 1949 book shaped generations of investors, the most well-known of which is Warren Buffett.

David and his team write a short daily summary of the markets called *The Dividend Café*. It is required daily reading for me, as it is not only a great summary but always has one or two investment philosophy nuggets. And on Fridays you get David's weekly investment essay. It really will calm you and help you understand what is happening in the world. It is free and you can subscribe here. I have also written a white paper on why I am working with The Bahnsen Group that they will send you by Monday at the latest.

If you are interested in actually talking to a representative (and I encourage you to at least explore and compare) click on this link: Contact The Bahnsen Group.

There is more but it is time to hit the send button. Thank you ever so much for being part of my weekly life. Your attention is the most valuable thing you give me, and I try to give you the best value for your time.

Home Again, West Palm and Brian Wilson, RIP

I am back from Dallas where we opened our new clinic. We are planning to open here in Dorado within a few weeks, and then West Palm Beach and Columbia, Maryland. We do get questions but I ask you to be a little patient. We are "soft opening" the various clinics while the local teams get the operational details ironed out. Trust me, as soon as we are ready, I will let you know.

Music is very important in so many ways to the human experience. It connects us and moves us as few things can. Music was especially important to me when I grew up. I was saddened and then nostalgic when I learned that Brian Wilson passed away this week at the age of 82. He literally created a genre of music that expressed so much feeling. His was the voice of a youthful generation. His lyrics and powerful harmonies make us feel good about the world. His incredible falsetto coming over the top of Mike Love and the rest of the Beach Boys still put chills down my spine.

We seem to lose somebody from that music generation almost weekly. What an era. Everybody has their favorites, but Brian Wilson is at the top of my personal pantheon. It's time to hit the send button, so you have a great week and maybe queue up some of the Beach Boys greatest hits (weren't they all great?) and find a friend or two to share the moment.

Your feeling the good, good vibrations analyst,

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