# November 2025

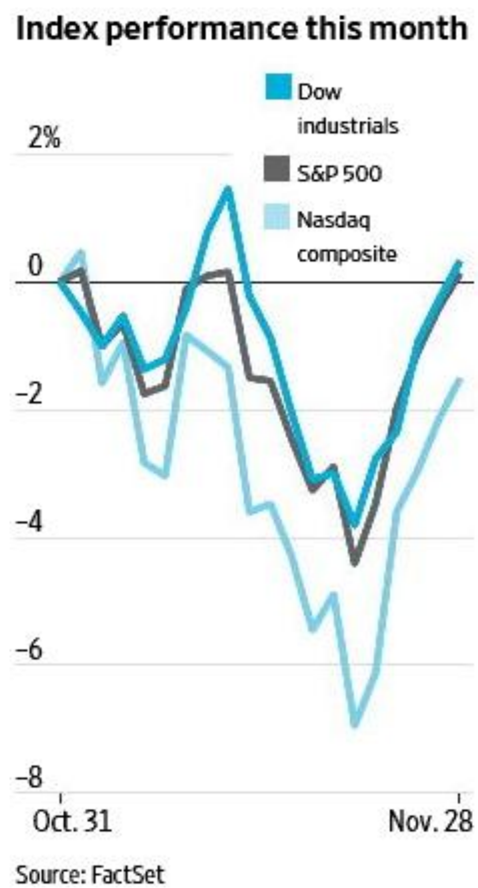
From the front page of last weekend's WSJ:

## S&P 500 And Dow Eke Out Monthly Gains

Rally helps indexes recover lost ground, though Nasdaq ends November lower

BY VICKY GE HUANG AND ANGUS BERWICK

A late November rally propelled stocks near record highs, with investor optimism over a potential Federal Reserve interest-rate cut in December helping reverse the effects of an earlier midmonth market slump.




The S&P 500 rose 0.5% on Friday, in an abbreviated postholiday trading session, pushing it near a record set in late October and helping the index eke out a 0.1% monthly gain. The Dow Jones Industrial Average advanced 0.6% on the day, finishing the month with a 0.3% gain.

The tech-heavy Nasdaq, however, registered its first monthly loss since March, down 1.5% after a choppy period spurred by fears of an artificial-intelligence bubble. The index added about 0.7% Friday. …

The Nasdaq-led gains were bolstered by chip stocks including Intel, Analog Devices and Micron Technology, and so-called Magnificent Seven stocks like Amazon.com and Meta Platforms. Nvidia defied the trend, dropping 1.8% and capping a rocky month for the stock.

This past week's upturn helped notch a seventh consecutive month of gains for the Dow industrials and the S&P 500. That marks the bluechip index's longest winning streak since the start of 2018, and the S&P 500's largest such streak since 2021. …

Global markets were little changed, with the Stoxx Europe 600 and Japan's Nikkei 225 rising less than 0.3%. Hong Kong's Hang Seng Index fell by a similar percentage. The European benchmark notched a fifth consecutive monthly gain, while the two Asian gauges ended November in the red. …

Expectations for a Federal Reserve interest-rate cut next month, following signs the labor market is cooling, have bolstered markets. Fed allies of Chair Jerome Powell have laid the groundwork for him to push a cut through a divided committee. Traders have doubled their bets over the past week on a reduction to around 87%, according to the CME's FedWatch tool. …

Silver front-month futures jumped Friday, topping $56 per troy ounce and hitting a record high. Prices for silver, which holds value as both a precious and an industrial metal, have almost doubled this year. Gold futures also rallied Friday, settling at their highest level in over a month.

The dollar held broadly steady against a basket of other currencies, after slipping earlier this week. Treasury yields edged up, but remained around their lowest levels since late October. …

From Global Investment Strategy:

# Have We Reached A Metaverse Moment?

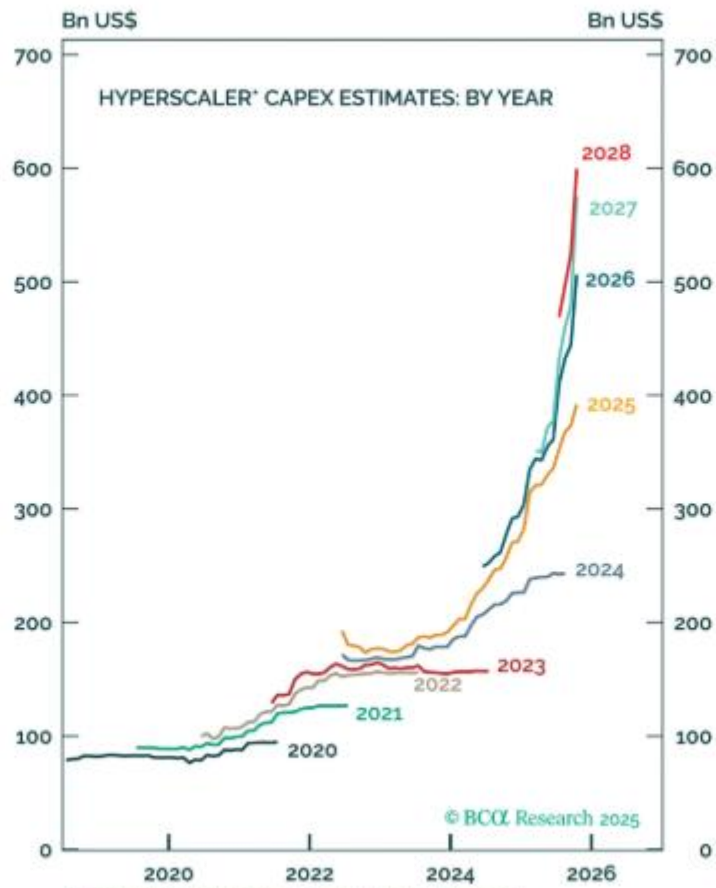
26 Nov 2025 by Peter Berezin, Chief Strategist

Predicting when an asset bubble will burst is a lot like predicting when an avalanche will occur. You could observe how much snow is piled up on the side of the mountain and say something sensible about the risk of an avalanche. …

Financial markets are arguably more chaotic than avalanches (chaotic in the mathematical sense of the word, denoting situations where slight changes in initial conditions can produce large changes in final outcomes).

In my mind, there is very little doubt that we are in the midst of an AI bubble. **Chart 1** shows the expected capex plans of the hyperscalers – Amazon, Google, Meta, Microsoft, and Oracle. If one were to take the numbers in the chart seriously, the hyperscalers are on track to hold about $2 trillion in AI-related assets on their balance sheets in 2030. If one assumes that AI assets last, on average, five years (implying a depreciation rate of 20%), this would produce an annual depreciation expense of around $400 billion. For reference, the trailing 12-month earnings of the hyperscalers were $377 billion as of Q3 2025.

**Chart 1**
An AI Capex Frenzy



* INCLUDES AMZN, MSFT, GOOGL, META, AND ORCL.
SOURCE: FACTSET.

## LLMs Are Unlikely To Be A Stepping Stone To Superintelligence

The hyperscalers have rationalized this sort of massive investment on two grounds. One, they have contended that today's AI tech will dramatically boost productivity, leading to much larger revenues and profits down the road. Two, they have argued that there are huge first-mover advantages in the AI industry, which justifies large preemptive investments.

Notably, Meta's former chief AI scientist and past winner of the Turing Prize, Yann LeCun, seems to disagree with his old boss. He believes that LLMs are extremely useful for describing the current state of knowledge but are not well equipped for coming up with new knowledge. Today's models are, in other words, good at interpolation but not extrapolation.

Some studies tend to support LeCun's view. For example, a recent report by [METR](#) found that experienced programmers thought that AI would help them complete a preassigned task more quickly, but in reality, the programmers who had access to AI took 19% longer to finish their tasks than those who did not.

## First-Mover Non-Advantage

The notion that there are big benefits to being the first to succeed in AI is flawed. First-mover advantage is generally only important in the presence of network effects, significant economies of scale, or legal protections.

None of these apply to AI in a meaningful way. Unlike social media, one does not interact with other users of AI. One interacts with the AI itself, implying few network effects. Likewise, unlike a piece of software that can be copied freely, expanding the user base of an AI system requires costly investments in data centers and a large ongoing energy expense. This limits the economies of scale of AI.

Lastly, unlike pharmaceuticals, many AI systems are either open source or at least are not that difficult to replicate by virtue of the fact that they use the same underlying neural-net transformer technologies.

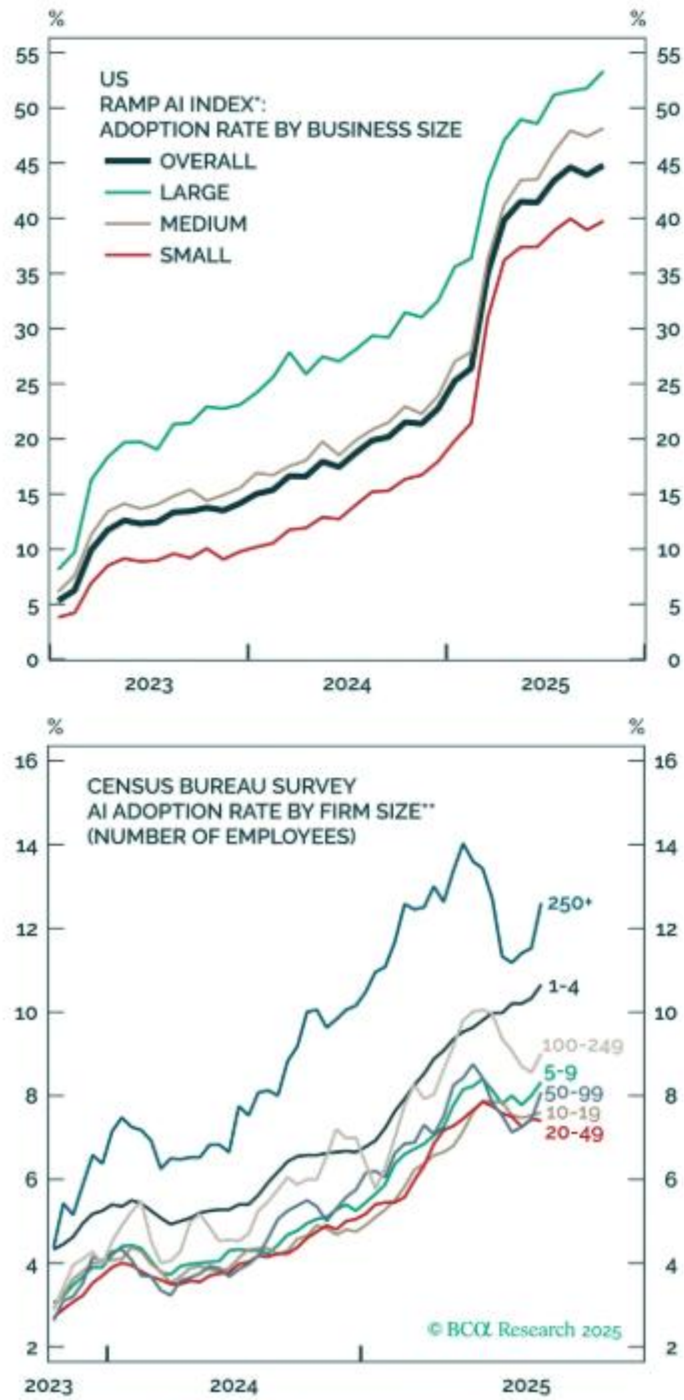
The best analogue for AI is the airline industry – a highly commoditized, high capex industry where first-mover advantage is not particularly important (just ask Pan Am).

## Triggers for an AI Bust

What trends should investors monitor to determine when the AI boom might turn into bust? AI adoption rates and GPU rental rates are two useful metrics. The former are showing some signs of peaking while the latter have been trending lower (**Chart 3** and **Chart 4**). However, the best measure is probably investor sentiment towards AI capex.

In [past reports](#), we have noted that a "Metaverse Moment" – an occasion where a major AI company announces increased AI spending and its stock price goes down – would be a red flag. As I write this, Meta's stock is down 19% from its peak on August 12. The running joke after Jensen Huang said that Nvidia was "sold out" of GPUs that this was

**Chart 3**
AI Adoption Rates May Be Plateauing



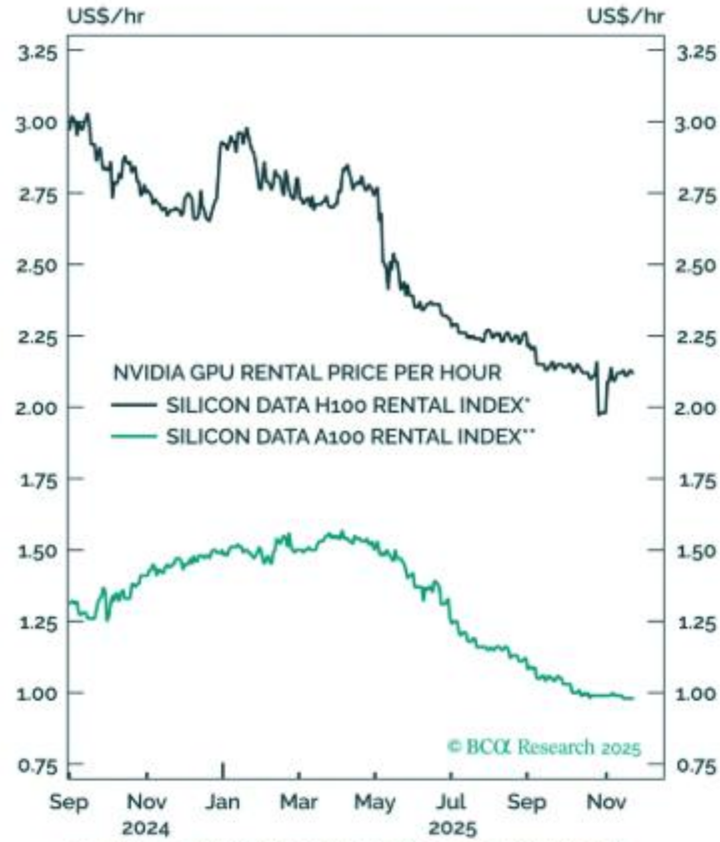

* SOURCE: HTTPS://RAMP.COM/DATA/AI-INDEX.
** DATA SHOWN AS A 4-SURVEY AVERAGE. SOURCE: BUSINESS TRENDS AND OUTLOOK SURVEY (CENSUS BUREAU).

good news for Meta because it meant that Mark Zuckerberg could not increase spending by as much as he wanted to.

Oracle is down 40% from its highs, having fully reversed its gains following its announcement of a $300bn deal with OpenAI. Oracle's CDS rate has risen from 36 bps on June 16 to 124 bps. CoreWeave, a leading "neocloud," has seen its share price fall 60% from its peak and its CDS rate rise from 359 bps to 728 bps.

All this suggests that we may have already reached a Metaverse Moment, or that we are awfully close to one.

**Chart 4**
GPU Rental Rates Are Trending Lower




* THE H100 RENTAL INDEX TRACKS THE COST OF RENTING THE NEWER, HIGH-PERFORMANCE NVIDIA H100 GPUS.
** THE A100 RENTAL INDEX TRACKS THE COST OF RENTING THE PREVIOUS-GENERATION NVIDIA A100 GPUS.
SOURCE: BLOOMBERG FINANCE L.P.

## The Fed Wildcard

One wildcard for timing the AI trade concerns what the Fed will do at its December 9-10 FOMC meeting. According to Ryan Swift, BCA's Chief US Fixed-Income Strategist, recent remarks suggest that 10 of the 19 FOMC participants prefer holding rates at current levels. While markets are pricing in an 83% probability of a rate cut, Ryan believes the odds are closer to even. If a cut does not materialize, stocks could temporarily sell off.

I do not know what the Fed will do, but if I were on the FOMC, I would vote to cut. Despite a slowdown in labor supply this year, labor demand appears to have decelerated even more. This is evidenced by the downward trend in job openings, rising continuing unemployment insurance claims, and a pickup in the Chicago Fed's model-implied flow-consistent unemployment rate. The ADP's measure of private-sector job growth also shows that employment contracted by 13,500 in the four weeks to November 8.

Labor market sentiment has deteriorated. According to the New York Fed's Survey of Consumer Sentiment, the perceived probability of finding a job in the next three months has fallen below its pandemic low. The Conference Board and University of Michigan surveys tell the same story.

Initial claims have remained subdued, but layoff announcements have increased, the number of WARN notices hit a 26-month high in October, and a rising share of companies mentioned layoffs during their quarterly calls.

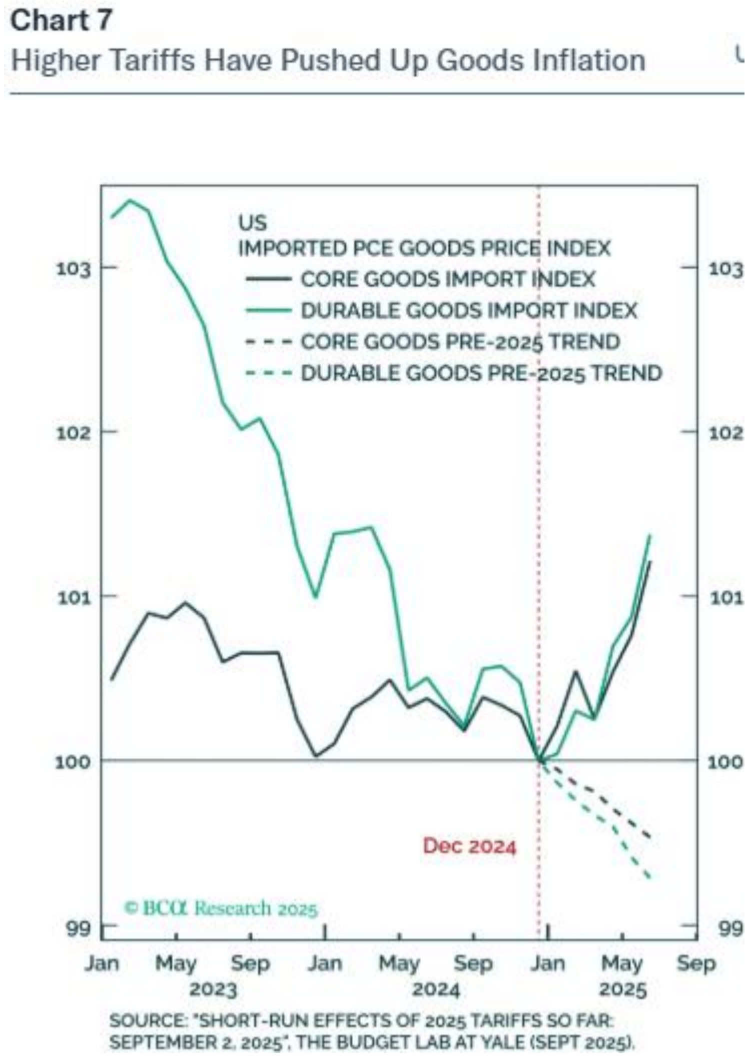
Granted, inflation has risen, which curtails the Fed's ability to cut rates. However, the rise in inflation has been largely driven by the pass-through effect of higher tariffs on goods prices (**Chart 7**). Shelter inflation continues to trend lower. Outside of financial services – where inflation has been artificially bolstered by rising asset management fees amid the equity bull market – non-shelter services inflation remains well contained. Wage growth has been moving sideways-to-down.

## Uninspiring Global Growth Outlook

The global growth picture remains murky. While the global composite PMI is still in expansionary territory thanks to fairly resilient services spending, manufacturing continues to flatline. Export orders dropped for the seventh consecutive month in October. Despite a weak yen, Japanese export volumes contracted last month. Chinese trade flows have faltered.

European growth remains tepid. The November Ifo survey disappointed, highlighting weakening expectations for Germany. The reading was consistent with November's flash PMIs, which showed euro area manufacturing slipping back into contraction and both services and manufacturing weakening in Germany.

The UK economy remains on the brink of a recession. Real GDP grew by only 0.1% in the third quarter, while the unemployment rate ticked up to 5% from 4.8% in August. The Labour government announced more revenue-raising measures in today's budget, which could further weigh on growth.




## Investment Conclusions

Returning to the avalanche analogy that we began this note with, if one sees a dangerous amount of snow atop the mountain, one must decide whether to get out of the way or to continue enjoying the view. When it comes to the risk of an avalanche, the decision is fairly straightforward; with markets, however, there is a price to be paid for getting out of the way too early.

Ultimately, it depends on how nimble one is. My experience is that most investors think they are nimbler than they really are. …

Worth watching: [https://www.youtube.com/watch?v=ThUNhjblo24](https://www.youtube.com/watch?v=ThUNhjblo24) (,17 min.)

Markets A.M. on Nov. 17th:

## We Could Use a Good, Long Bear Market

*By Spencer Jakab*

"How bad do you think it's gonna be?"

When Michael Corleone asks Clemenza in "The Godfather" about the mob war he's about to start, he gets the sort of reassurance that comes with experience. "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."

There's no saying when the next major bear market will send Americans to the mattresses—maybe through the collapse of AI mania, or possibly just a garden variety recession. There have only been minor scrapes the past 16 years, and that's actually a problem.

A downturn like 2007-2009 when stocks cratered can be both awful and therapeutic. It took 66 months for the S&P 500 to regain its previous high. Investors with a long-term perspective pounced on what in hindsight were solid bargains near the bottom.

The five brief downturns since then that met the unofficial definition of a bear market taught the opposite lesson. Momentarily terrifying, they encouraged investors to buy stocks recklessly—the riskier, the better.

Remember 2020 when Nikola, the fraudulent hydrogen truck company, briefly was worth more than Ford, or when bankrupt Hertz's shares soared?

This year's Liberation Day swoon felt similar: It took just 4.3 months for the S&P 500 to reach a fresh high. The advance was led by the theme du jour, AI, plus many unprofitable companies.

Long bear markets accompanied by a recession discredit the faded boom's cheerleaders. They also remind us what capital markets are for: matching mostly good businesses with patient savers' nest eggs.

In the past century, there have been 26 bear markets, including some that barely met the definition, like this year's swoon.

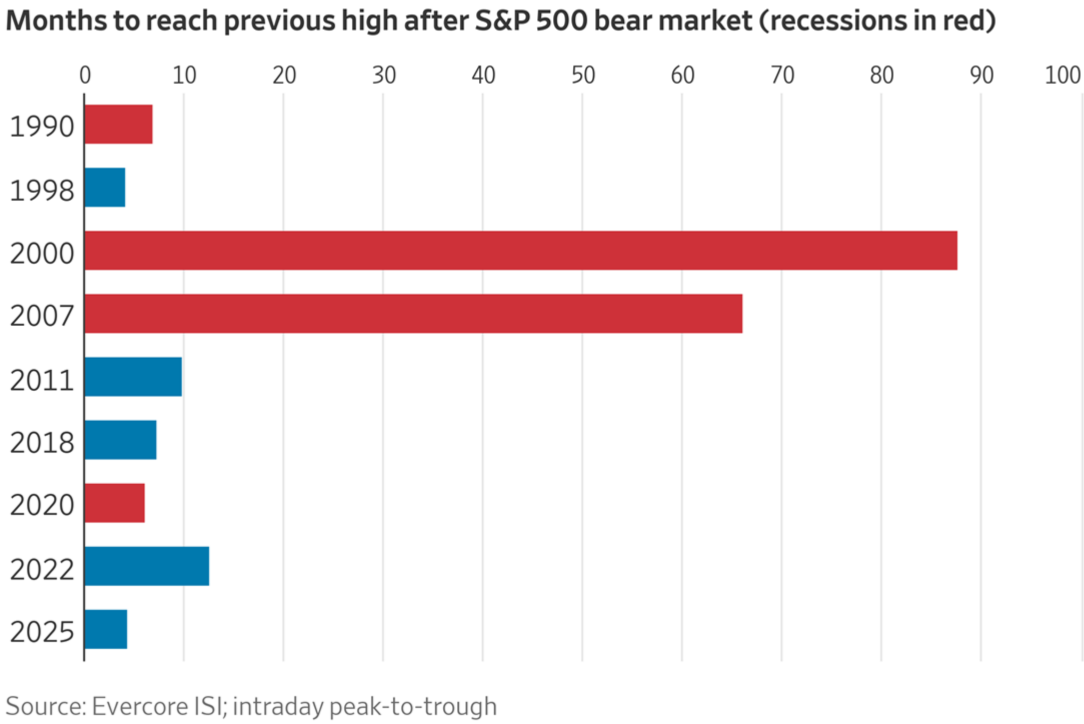
The average time to reach the previous high when a bear market was accompanied by a recession was 81 months. It took just 21 without a recession. Over the past 16 years, downturns have lasted less than eight months before the old high was reached.

The model for buying the dip was set in the summer of 1998, after hedge fund Long Term Capital Management collapsed. The Federal Reserve's intervention was electric. The tech-heavy Nasdaq composite rallied another 255% over 17 months.

That rewarding bounce supercharged the tech bubble, underpinning several hundred tech initial public offerings at nosebleed valuations. The fact that few people in the market in the late 1990s had personally experienced a really nasty downturn made them seem normal.

Sort of like today: Hardly anyone younger than 40 now even had a 401(k) during the 2007-2009 wipeout. Most Wall Street pros hadn't graduated from college yet.

Bear markets are educational—and laden with opportunity. But the tuition is a doozy.




# Follow-ups

Four from WSJ:

## Since Trump's Return, Bets on His Brand Have Soured

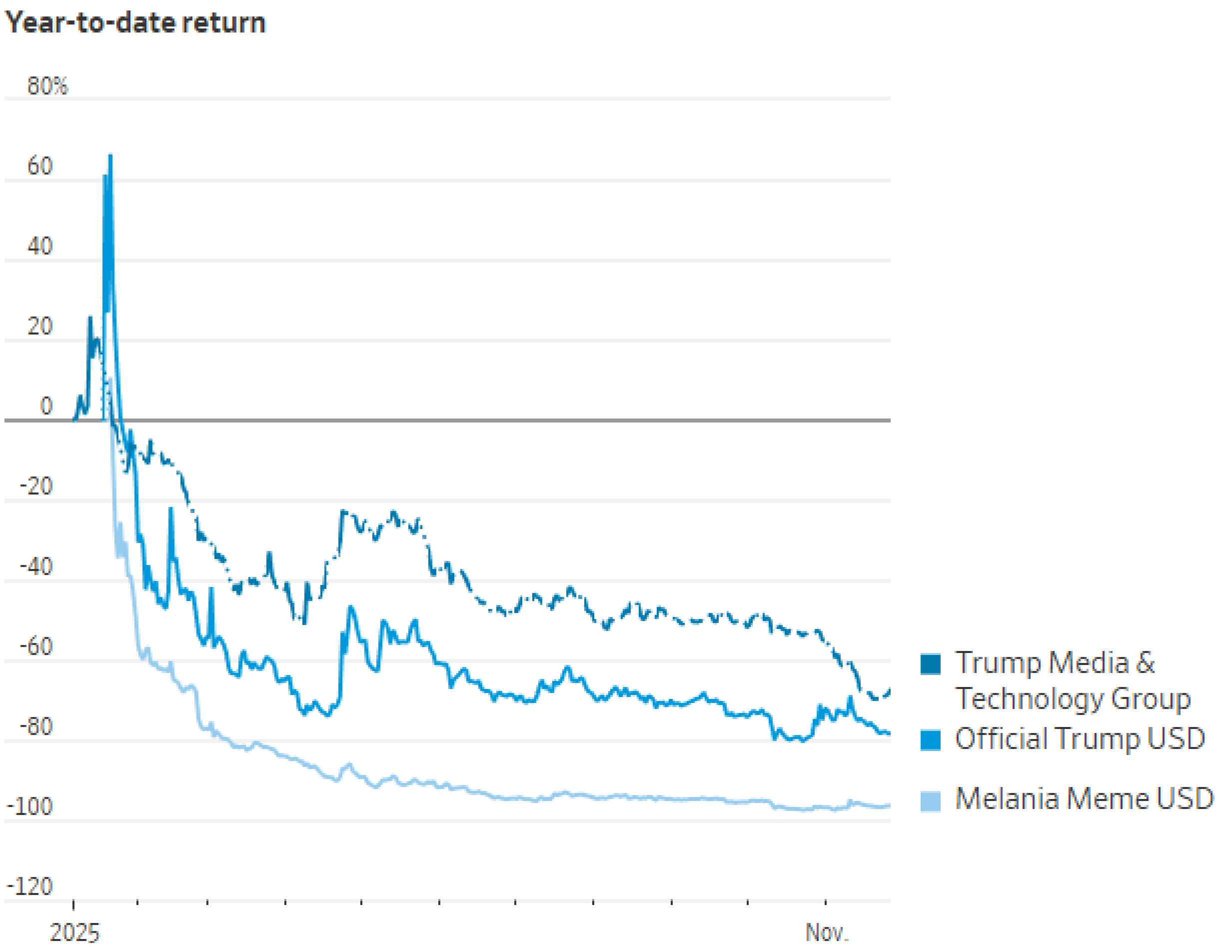
Stocks and cryptocurrencies tied to the president and his family have tumbled amid a broader rout of riskier assets

By *Jack Pitcher*
Nov. 29, 2025

Stocks and cryptocurrencies linked to President Trump are in a deep slump, leaving some of the president's biggest fans with steep losses.

Shares of Trump Media & Technology Group DJT 4.25%increase; green up pointing triangle, which operates the president's Truth Social platform, have tumbled 75% since Trump's inauguration. Digital "meme coins" named for Trump and first lady Melania Trump are down 86% and 99% since inauguration day, respectively. And one of the Trump family's crypto ventures, a token called World Liberty Financial, has dropped roughly 40% since its September launch.

President Trump's 2024 campaign inspired a wider investment thesis, with pro and amateur traders alike piling into areas such as healthcare and prison stocks as well as cryptocurrencies—assets they expected to fare well during a second Trump administration. But one year into the president's return to the White House, some of the so-called Trump trades have struggled.




Sources: FactSet; CoinDesk

The turnabout has been particularly stark with stocks and digital tokens with direct associations to the president and his family. They have been hit hard by a broader slump affecting the priciest and most-speculative corners of the market—from bitcoin to AI darlings such as CoreWeave.

Trump stocks benefited from expectations that the incoming administration would usher in an era of deregulation, tax cuts and supportive crypto policies—and that assets tied directly to Trump and his family would continue to rally. With the president's return to the White House, though, his policies on global trade have upended some of those bets now that investors are paying more attention to the performance of those companies than to his political future.

DJT, for example, trades at 1,240 times its annual revenues, according to FactSet. And the Trump family's various crypto businesses, including World Liberty Financial and American Bitcoin, have been swept up in a recent drop in cryptocurrencies.

One of many users discussing the stock on Reddit investing forums last month self-identified as a "DJT bag holder" who bought at $46 a share. The stock is now trading at $11.07. "When do I give up on this and move on?" user SimpleMindHatter asked.

But the damage isn't limited to Trump's financial world. DJT is just one of the many meme stocks to get hit hard in recent weeks while speculative fervor has cooled off. …

Next week, investors will get a look at the Federal Reserve's preferred inflation gauge, the personal-consumption expenditures price index. Traders are overwhelmingly betting that the central bank will cut interest rates at its December meeting following recent comments from Fed officials, and expectations of lower rates have helped calm nerves around stocks.

S&P 500 volatility has spiked this fall, with investors scrutinizing the valuations of some of the biggest tech firms, but the large-cap index has been resilient, bouncing back from every selloff to sit less than 2% below record highs on Wednesday.

Sentiment in the riskiest corners of the market appears to be turning, however. A Goldman Sachs basket of nonprofitable technology companies dropped 21% from its mid-October peak through Nov. 21, after soaring earlier in the year.

As for the broader Trump trades, the results have been mixed.

Many of the stock sector trades have worked as investors hoped: Healthcare stocks are up, European defense stocks went on a tear, clean-energy companies are hurting and big Wall Street banks such as Goldman Sachs have performed well.

Regional banks have lagged behind, however, amid worries about a slowing economy and weakening credit conditions, and the biggest private prison stocks are down big in 2025 after getting a postelection bump.

Bitcoin had a strong run, before a brutal selloff began in October. It is down 30% in less than two months. The crypto selloff is hitting various parts of a Trump empire that has become deeply entangled with the industry. It has also caught Wall Street's attention, though the damage doesn't look to be spilling into other assets. …

deficit concerns have kept yields elevated despite uncertainty around longer-term economic growth. The dollar has broadly weakened, in part because planned tax cuts and other policies are fueling fears about deficit spending.

Gold, meanwhile, has been on a tear. Investors worried about the future of the dollar or simply looking for a hedge against turbulence have piled into the precious metal, sending prices to numerous records this year. Gold is trading around $4,200 a troy ounce, up almost 60% on the year and not far below all-time highs hit in October.

# Are Stocks a Better Bet Than Social Security?

Don't let social media's latest investing hot take lead you astray on timing your retirement benefits

*By Jason Zweig*
*Nov. 21, 2025*

Years ago, politicians proposed putting stocks into Social Security. These days, the trendy advice is to put your Social Security into stocks.

On TikTok and YouTube, dozens of financial advisers and other "finfluencers" are posting videos urging people to start claiming Social Security as early as possible—at age 62—so they can invest the monthly retirement benefits in the stock market.

That flies in the face of the traditional advice to delay Social Security as long as possible, until age 70 if you can. The longer you defer, the higher your monthly benefit will be—for as long as you live.

Conventional wisdom is often wrong. Not this time. Taking Social Security early just to invest the money in stocks is a dumb idea for most people.

You'd never guess that from the fast-talking finfluencers. If you're in your early 60s, don't smoke, have a college degree and earn a middle-to-upper income, you're likely to live to your mid-80s.

Taking Social Security at age 62 provides a much lower stream of payments over your lifespan—but these people say you should pour it into stocks to capture their higher expected rate of return. Given the historical return on stocks of 7% annually after inflation, they argue, you're bound to come out ahead in the long run.

Wow! Why doesn't everybody do that?

What the videos don't tell you is that—so far at least—Social Security has always provided inflation-adjusted income, risk free. The stock market doesn't.

"Social Security is the best annuity you can 'buy,'" says Mark Iwry, who formerly oversaw national retirement policy at the Treasury Department. "But you can buy much more of it by waiting."

Let's say you're 62 years old and will live until age 85. If you delay taking Social Security until age 70, your inflation-adjusted monthly benefit will be 77% higher than if you start now, says Jeremy Ko, chief executive of ShoreUp Retirement Solutions, a financial-technology firm.

If, instead, you take your benefits early, "that's like taking a loan," says Ko. "And you have to pay it back in the form of lower payments from age 70 on."

What about missing out on the stock market's higher return?

Let's say stocks do return 7% annually after inflation, you get a $2,000 monthly Social Security benefit and you put it all into stocks each year. In that case, if you start taking Social Security at 62 and live until 85, you'll amass just over $977,000, calculates Ko. If you delay Social Security until age 70 and then follow the same approach, you'll end up with just under $830,000.

On the other hand, what if stocks go down? If they lose 3% annually after inflation—which is far from impossible—then claiming at 62 and buying stocks every year would leave you at age 85 with only a bit more than $290,000. If instead you delay until 70, you'd have almost $383,000 by age 85.

That's why comparing stocks' past returns to Social Security's risk-free, inflation-adjusted payments isn't apples and oranges. It's like comparing a roller coaster to an escalator.

Two trends have created a receptive audience for the idea of taking Social Security early to bet on the stock market. For most of the past decade and a half, stocks have boomed, shrugging off every decline. And anyone with eyes or ears knows that fiscal recklessness in Washington is getting wilder.

President Trump has claimed that Social Security is rife with fraud, while analysts worry that his policies will undermine the soundness of the program.

Nearly 2.9 million people filed claims to initiate Social Security in the first nine months of 2025, up 13% from the same period last year. The agency says "fearmongering has driven people to claim benefits earlier."

But the U.S. government, which prints money at will, can keep kicking the can down the road. For a half-century, various budgetary Band-Aids have patched the program up.

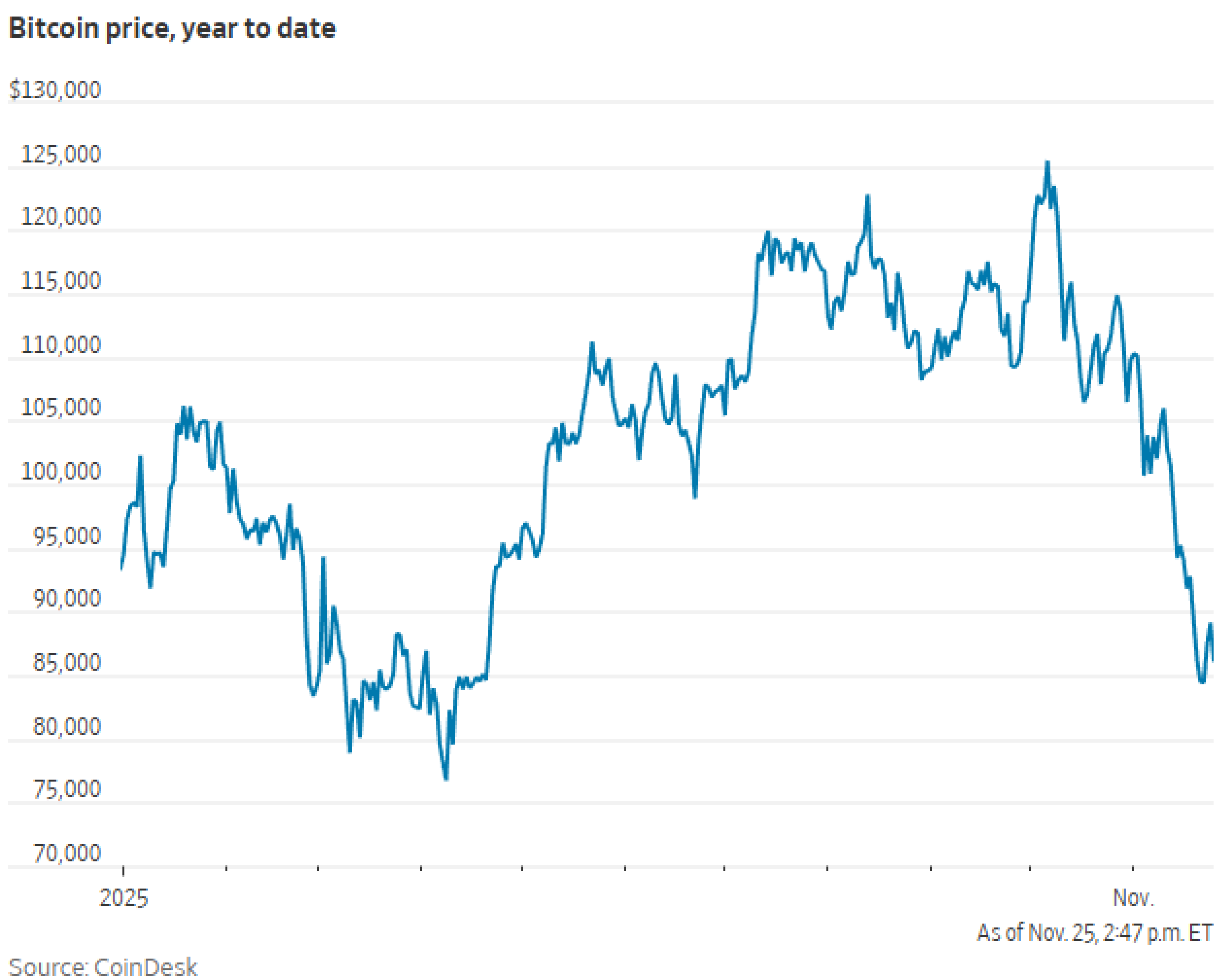
Even so, many finfluencers argue that with Social Security on shaky ground, your money will be safer in the stock market.

If Social Security went under or slashed benefits, wouldn't that mean the entire U.S. economy was in desperate trouble? In that case, how could stocks be a good investment? …

There's enough leverage in today's financial markets. Don't add to it by borrowing from your own future.

## The Crypto Trades That Amplified Gains Are Now Turbocharging Losses

Bitcoin's steep fall highlights the growth of risky bets offered by Wall Street and crypto firms alike



*By* ***Vicky Ge Huang*** *and* ***Caitlin Ostroff***
*Nov. 19, 2025*

The rally in crypto prices this year was boosted by a large heap of debt, with traders using leverage to amplify their gains. Now, after a punishing selloff in the past two weeks, the dangers of those bets are becoming apparent.

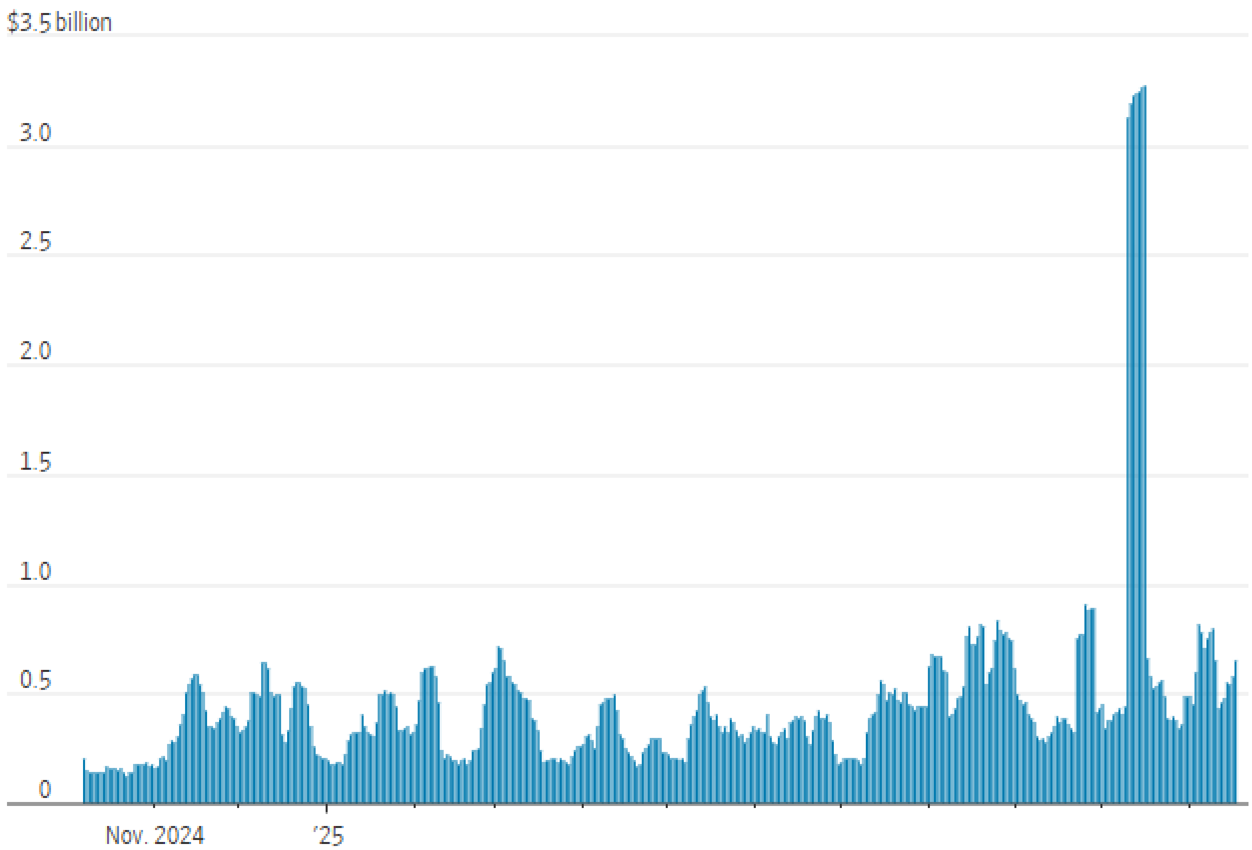
Investors have never had more ways to place complex wagers on crypto. In some cases, people can put down $1 of their own money to gain exposure to $100 of bitcoin. It is a strategy that can produce windfall profits—when the market breaks the borrower's way. If it goes in the wrong direction, traders can be on the hook for big losses and can see their holdings liquidated if they don't post sufficient funds.

Daily total liquidations on crypto exchanges have been on the rise this year. But in October, they shot up to a record high, according to data from CoinGlass, after President Trump's surprise tariff announcement against China triggered a crypto selloff that compelled exchanges to close out underwater positions.

"In the end, it really comes down to the fact that you can invest with more means than you have, but it also means that you will get punished for not managing your risks accordingly," said Nicolai Søndergaard, a research analyst at crypto data firm Nansen.

Pressure on leveraged traders has been one of the main story lines in crypto's recent skid. Bitcoin has lost roughly 29% of its value since hitting a record high above $126,000 in October, with investors' retreat from riskier trades dragging the largest cryptocurrency to a recent $89,440, its lowest level since April. …

**Total liquidations on crypto-derivatives exchanges, daily***

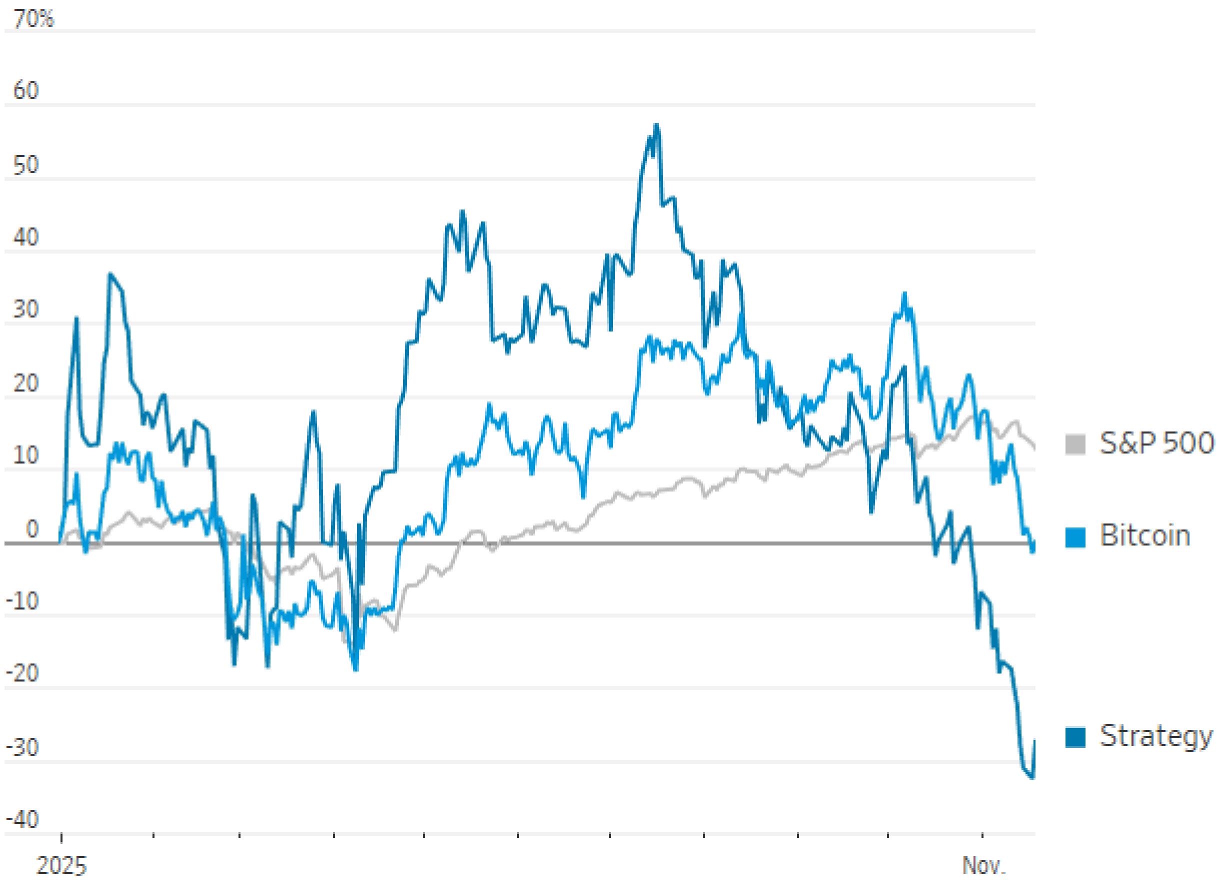



Note: *Figures are seven-day moving average
Source: CoinGlass

Bitcoin's recent crash has also pulled down the shares of crypto-treasury companies. For much of the year, these companies sold stock or borrowed money to plow the proceeds into bitcoin, ether and other cryptocurrencies.

Strategy, a firm that pioneered the use of corporate funds to accumulate bitcoin, has tumbled 36% in the past month. BitMine Immersion Technologies, an ether-treasury company backed by Peter Thiel and run by veteran Wall Street strategist Tom Lee, is down 41%. Both stocks are well off the pace of bitcoin itself, which has fallen 18% in that same period.

Performance of Strategy, bitcoin and the S&P 500, year-to-date




Sources: FactSet (stocks, indexes); CoinDesk (cryptocurrencies)

Regulated institutions and fast-money traders alike are now pushing complex strategies such as options and futures, so-called treasury stocks and even crypto lending.

In years past, U.S. investors haven't had access to many of the riskier strategies that crypto investors have used in other markets. But that began to change this year, with Trump's re-election ushering in a more crypto-friendly Washington.

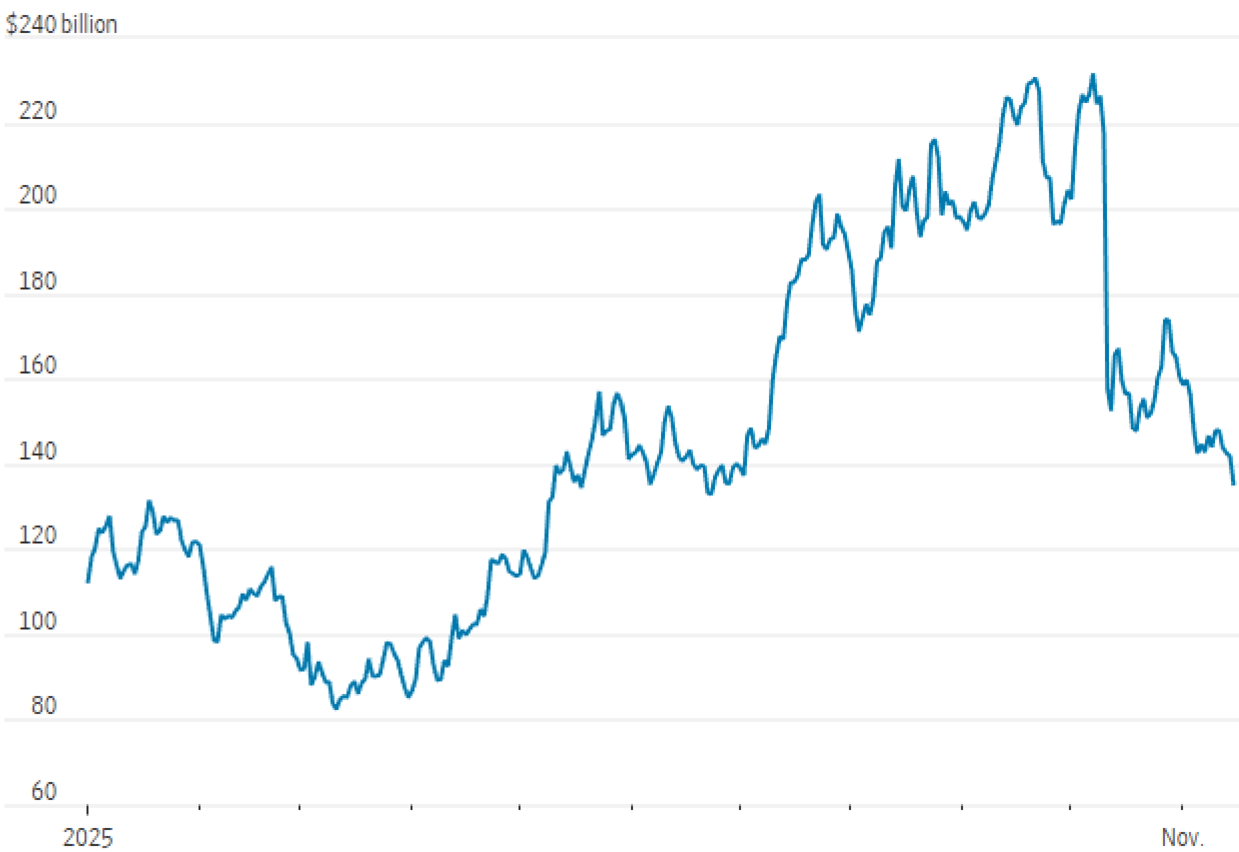
This summer, Coinbase, the largest U.S. exchange, launched perpetual futures, a type of financial contract that never expires and lets traders bet on digital tokens' rise using up to 10 times leverage. Cboe plans to launch bitcoin and ether continuous futures with 10-year expirations in December.

Crypto lending is also making a comeback. The practice, a staple in the market's 2021 run-up, looks a lot like traditional banking. A lender takes in deposits from one set of customers, and then lends those funds out to a different group at a higher interest rate than it pays depositors.

But in the crypto markets, lenders typically offer depositors much higher yields than those available in dollar-based bank savings accounts. When crypto markets tumbled in 2022, [many of these lenders collapsed](#).

The dollar-denominated value of outstanding loans from centralized crypto lenders and decentralized lending platforms ballooned to a record high around $74 billion at the end of September, exceeding the previous record of $69 billion set in the fourth quarter of 2021, according to research from [Galaxy Digital](#). …

Aggregate dollar value of outstanding derivative contracts on crypto exchanges




Note: Data through Nov. 15
Source: CoinDesk

# This Small-Town Pension Fund Has a Warning for Millions of Retirement Savers

If you think cashing out of a private fund is easy, just ask a guy who used to manage $750 billion

By *Jason Zweig*

Nov. 7, 2025

This is a column about an investment of less than $1 million by a piddly little pension fund.

Why should you care?

Because the travails of the pension plan are a harbinger of the problems millions of individual investors might soon be confronting—and because a man who was formerly one of the most powerful people in the investment world sees what's wrong but so far hasn't been able to fix it.

Robert Auwaerter (pronounced "ow-wer-ter") is vice mayor of Indian River Shores, Fla. That's a small town (population approximately 4,000), less than 90 miles north of West Palm Beach. Auwaerter has been advising the board of trustees at the pension plan for the town's public-safety workers and firefighters.

The pension fund has about $21 million in total assets, which is peanuts for Auwaerter, who used to manage hundreds of billions of dollars in bond funds at Vanguard.

Nearly all the pension plan's assets are in publicly traded stocks and bonds. Roughly 4%, however—a bit above $800,000—is invested in the U.S. Real Estate Investment Fund, a nontraded portfolio of commercial real estate with more than $8.3 billion in net assets. The fund is managed by Intercontinental Real Estate, an investment firm in Boston that runs about $12.6 billion in real-estate funds, according to its latest regulatory disclosure.

The U.S. Real Estate Investment Fund is an example of a private or "alternative" fund that invests not in publicly traded stocks or bonds, but in assets that generally don't have market prices. Wall Street lobbyists and the Trump administration are pushing to make such investments much more widely available, including in 401(k) and other retirement plans.

The advocates of private funds say they can provide superior returns to public markets. That's absolutely true, but there's a big difference between "can" and "usually do."

Over the five years ended Dec. 31, 2024, the Intercontinental fund generated an average total return of 0.7% annually, according to a disclosure provided to the pension plan. Over the same period, Vanguard's real-estate index fund was up an average of 3% annualized. In 2024, the Intercontinental fund lost 5.1%; Vanguard's fund gained 4.9%.

Auwaerter says the trustees of the pension plan are reconsidering whether they should invest in real estate at all, or whether the plan should reallocate from its private funds. (He has no current business relationship with Vanguard.)

However, for some time—no one at Indian River Shores is sure for how long—the Intercontinental fund has been "gated," restricting redemptions to small amounts. In the fiscal year ended Sept. 30, the pension plan wasable to redeem only a little under $64,000. That was less than 7.5% of its position in the fund at the start of the year. (Of course, the Intercontinental fund has distributed income over the years.)

Last October, Intercontinental permitted Indian River Shores to withdraw $1,684, less than 0.2% of its holding. "Apparently they had a lot of people stacked up over the airport waiting to get their money," says Auwaerter.

Like other private fund managers, Intercontinental has the right to restrict redemptions as long as it's fully disclosed to investors.

I tried to get Intercontinental's side of the story, but the firm didn't respond to my requests for comment.

Intercontinental's fund charges 1.1% in annual expenses. That's more than eight times higher than the expenses on Vanguard's real-estate index fund and its identical twin exchange-traded fund.

Auwaerter is no amateur. He has been retired since 2014, but his last position was head of fixed income at Vanguard. There, he was in charge of managing approximately $750 billion in bond and money-market funds.

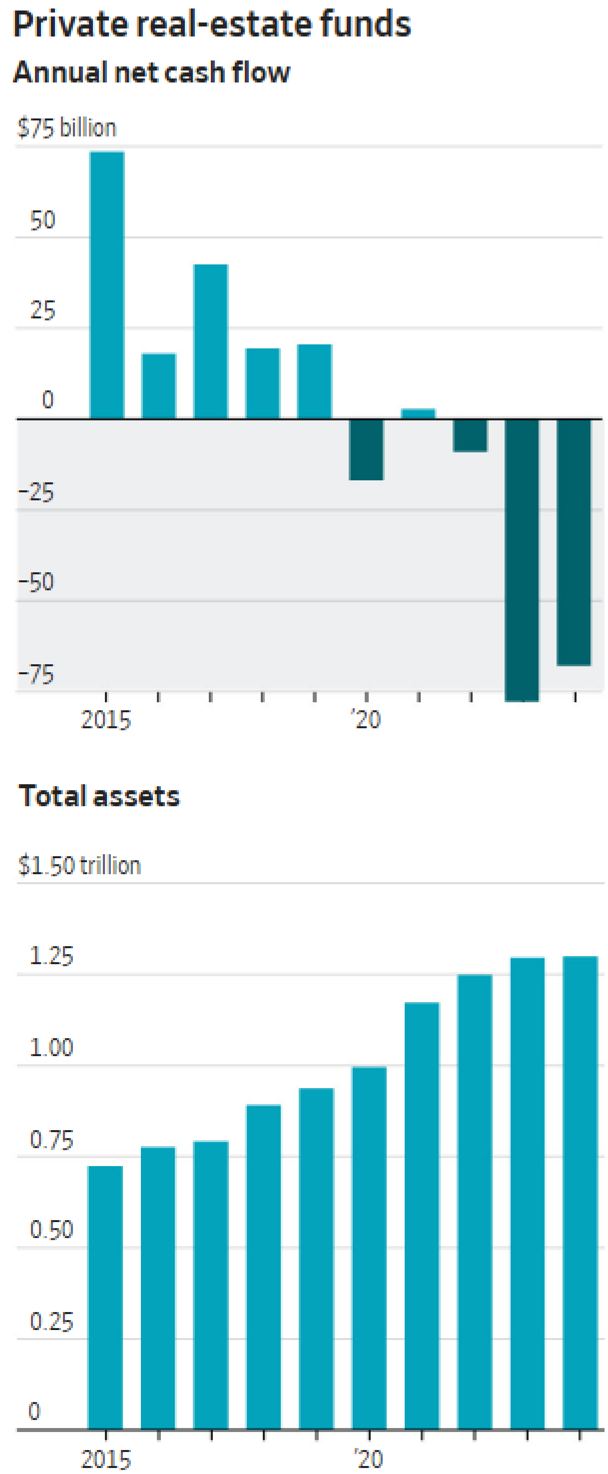
The managers and marketers of alternative assets like to say it isn't fair that big institutional investors have been able to benefit from their high returns while smaller investors have been excluded.

But the difference between small and large investors isn't simply a matter of how much money they have. It's a structural, not a financial, difference. And that's why alternative assets so rarely make sense either for individual investors or for small institutions like local pension funds.

As I've pointed out before, small investors aren't positioned like giant institutions such as universities, charitable endowments and big pension plans.

Such institutions are likely to be perpetual; you won't be. They have many sources of revenue (tuition, donations and grants); you probably don't. They have in-house specialists who analyze alternative investments; you don't. With billions of dollars in assets, they get access to the world's best alternative managers; you aren't likely to.

And, at least in theory, giant institutions should be able to survive almost any bear market and wait out any delay in getting their money back; you might not be.



Note: Includes markets outside the U.S.
Source: Pitchbook

Many alternative investments take seven to 12 years or more to pay off, if they do. In the meantime, if you want—or need—to get some or all of your money out, you may well be stuck.

The little Indian River Shores pension plan is stuck—so far, without anything to justify the wait.

The typical alternative fund is "a roach motel," says Auwaerter. "You come in, and then you can only get out when they liquidate an asset. And you don't know what that price is going to be down the road, but the range is probably so wide you could drive a Mack truck through it."

As a bond-fund manager, says Auwaerter, "When I bought illiquid stuff, I was getting a return premium for it! Here, it's a trifecta of bad things: lower returns, higher fees and no liquidity. You've got to be paid for taking all those risks, and that's absolutely not the case."

He pauses, then adds that when he was running mutual funds, "I had to make sure they were priced properly, because the bell would ring at 4 p.m. and anybody could ask for their money back. These guys don't have to do that."

Generations of investors are accustomed to being able to get their money back whenever they ask for it. Before you play Wall Street's new game, make sure you understand that it doesn't follow the old rules.

From alpha architect:

# Where Factors Speak Loudest: Why Size Matters in Factor Investing

By Larry Swedroe  October 24th, 2025

**The Curious Case of the Disappearing Size Premium**

The size effect was first documented by Rolf Banz in his 1981 paper "The Relationship Between Return and Market Value of Common Stocks," which was published in the Journal of Financial Economics. After the 1992 publication of Eugene Fama and Kenneth French's paper "The Cross-Section of Expected Stock Returns," the size effect was incorporated into what became finance's new workhorse asset-pricing model, the Fama-French three-factor model (adding value and size to the CAPM's market beta). Then something unexpected happened—the size premium vanished in the United States, seemingly the moment everyone started paying attention to it.

**Quality: The Missing Piece of the Puzzle**

For years, the disappearing size premium puzzled researchers. The breakthrough came when Cliff Asness and his co-authors published "Size Matters, If You Control Your Junk" in 2015. They discovered the culprit: quality, or rather, the lack of it.

Here's what they found: The smallest stocks include a disproportionate number of "junk" companies—distressed, illiquid securities with poor fundamentals. These low-quality stocks drag down the entire small-cap category's performance. As the researchers noted:

"Small quality stocks outperform large quality stocks and small junk stocks outperform large junk stocks, but the standard size effect suffers from a size-quality composition effect."

In other words, when you screen out the junk, the size premium roars back to life.

This discovery was confirmed in 2018 by Ron Alquist, Ronen Israel, and Tobias Moskowitz in their aptly titled paper "Fact, Fiction, and the Size Effect." Controlling for quality didn't just restore the size premium—it:

- Revived the size effect after the 1980s.
- Created a cleaner, more linear relationship between size and returns.
- Spread the benefit beyond tiny microcaps.

- Reduced the concentration of returns in January (the “January effect”).
- Revealed a stronger size effect across two dozen international markets.

The takeaway? The size premium never really disappeared—it was just hiding beneath layers of low-quality stocks.

**Size as an Amplifier: Where Factors Truly Shine**

Beyond its role as a standalone factor, size plays a more fascinating and powerful role: it amplifies other factor premiums. Think of size as a volume knob for factor investing.

Lionel Smoler Schatz from Verdad demonstrated this by analyzing factor performance across market cap deciles. He examined roughly 10,000 global stocks, dividing them into ten groups from microcaps (the smallest) to mega caps (the largest). Within each group, he tested three factors: value, profitability, and earnings volatility.

As the table below shows, the results are striking.

**Factor Performance by Company Size**

| | | L/S Factor Premia | | |
|---|---|---|---|---|
| Size Decile | Avg Market Cap (millions, USD) | Value | Profitability | Earnings Vol |
| 1 | 81 | 9.30% | 5.63% | -5.23% |
| 2 | 182 | 9.94% | 5.35% | -3.04% |
| 3 | 285 | 8.15% | 4.59% | -1.95% |
| 4 | 425 | 7.73% | 4.92% | -2.03% |
| 5 | 643 | 8.07% | 4.38% | -1.40% |
| 6 | 1002 | 6.78% | 3.52% | 0.11% |
| 7 | 1649 | 5.72% | 3.47% | -0.46% |
| 8 | 2947 | 4.71% | 1.89% | 0.57% |
| 9 | 6324 | 3.60% | 2.33% | 1.09% |
| 10 | 44006 | 2.48% | 2.18% | 1.35% |

The pattern is unmistakable: factor premiums are loudest among small stocks and fade to whispers among giants.

What’s particularly intriguing is the earnings volatility factor, which actually reverses its sign across the size spectrum. Small companies with volatile earnings tend to underperform, while larger companies with volatile earnings have shown positive excess returns. This suggests that volatility is tolerated—even rewarded—when companies have the scale and resources to weather uncertainty.

Schatz observed the same “watering down” effect when analyzing risk-adjusted returns (Sharpe ratios), confirming that size doesn’t just amplify raw returns but also improves the efficiency of factor strategies.

**The Monetary Policy Connection**

There's one more twist to the size story. Marc Simpson and Axel Grossmann, authors of the 2022 study "The Resurrected Size Effect Still Sleeps in the (Monetary) Winter," revealed a critical timing element: the size premium appears and disappears with monetary policy cycles.

Analyzing data from 1937 to 2021, they discovered:

During monetary easing (when the Fed is cutting rates):

- The size premium delivered a statistically significant 0.41% per month.
- This held true whether or not they controlled for quality.
- The effect persisted outside of business cycle troughs.

During monetary tightening (when the Fed is raising rates):

- The size premium disappeared entirely.
- Even high-quality small stocks struggled to outperform.

This makes intuitive sense. When the Fed tightens monetary policy, economic risks increase. Small companies, with their limited resources and higher sensitivity to financing conditions, bear the brunt of these risks. Investors demand compensation for this additional risk during easier times, but flee to safety when conditions tighten.

**A Word of Caution on Timing**

Before you rush to time your small-cap exposure based on Fed policy, consider this: markets are forward-looking. By the time the Fed announces a policy change, markets have often already priced it in. Moreover, academic research has shown that once trading strategies are published, institutional investors (especially hedge funds) quickly exploit them, causing premiums to shrink.

With Simpson and Grossmann's findings now public, the opportunity to profit from this pattern may have already diminished—a phenomenon known as the "post-publication decay" of anomalies.

**The Bottom Line**

The research points to a powerful conclusion: size is less a standalone source of returns than an amplifier that determines how loudly factors speak.

For investors, this means:

1. Don't abandon small caps because of the "disappearing" size premium—it never really vanished when you control for quality.
2. Consider size strategically as a way to amplify other factor exposures like value and profitability.
3. Screen for quality when investing in small caps to avoid the junk that has historically dragged down performance.
4. Be mindful of the macro environment, particularly monetary policy, though attempting to time these cycles is challenging.
5. Think beyond microcaps when implementing factor strategies—the amplification effect extends across the small and mid-cap spectrum.

The size effect is alive and well, but it's more nuanced than we once thought. Rather than viewing it as a simple "small beats large" phenomenon, we should understand size as a critical dimension that shapes how effectively other investment factors perform. In the world of factor investing, size determines not just whether factors work, but how powerfully they work.

*Larry Swedroe is the author or co-author of 18 books on investing, including his latest Enrich Your Future. He is also a consultant to RIAs as an educator on investment strategies.*