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The Bubble Grows
By Paul Lamont
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Let's look at Nobel Laureate Professor Robert J. Shiller's valuation metric:

The S&P500 is currently valued at 42 times earnings. As you can see from the chart above, the highest extreme was 44 recorded in December 1999 at the peak of the Dot Com Bubble. When the bubble popped, the S&P 500 subsequently lost 42% over the next two years.

> "2000 was the easiest bear market I've ever seen in my whole life. It **has so many similarities to right now**. The bear market of 2001 and 2002 were a consequence of all the IPOs in '99 and 2000… and as they unlocked, you just had this never ending cascade of selling." - Paul Tudor Jones, Tudor Investments. April 28, 2026.

As the new supply of shares enter the market, company founders will sell their original stakes. This is dictated by an 'unlock' schedule - publicly released in their IPO filing. After 23 years of shrinking (because companies buyback their own shares), the stock market is now growing in the supply of shares due to all the IPOs.

Could the BUBBLE Get Bigger? Sure.

Value investment firm, GMO's, "nerdy, statistical" definition of a 'bubble' is "a two-standard deviation divergence of the price of any asset class above its long-term real price trend" or "two-sigma" in short form. After studying "over 300 two-sigma bubbles across all asset classes", five financial bubbles grew to three standard deviations from the mean; the stock market crash of 1929, the Dot-Com Bubble referenced earlier, the U.S. housing market and Japan in 1989. The S&P500 became a 3-sigma bubble in 2021 and after a brief breather in 2022, has continued to grow...

Pray, We Don't Become Japan in 1989

We have studied financial history extensively, especially financial bubbles, and our reaction to these last five years has been…."Oh NOOOOOOO, we are doing this again…" And yet, it still continues to grow. Back in 1989, the Nikkei 225 Index reached an unbelievable 65 times earnings. Jeremy Gratham recently discussed the fallout of the Japanese bubble:

"What is the price you paid for having it go to 25 to 30 to 40 to 50 to 60 to 65? A lost 20 years. Really not 10 years. 35 years have to go by before you get back to the high. And I don't even think that is adjusted for the modest inflation they had. I mean you want to have a bigger bubble, and a better bubble, Go ahead. But be advised that the correlation with a longer and worse decline is 1."

Or in simple terms: the bigger the bubble, the longer and worse the economic hangover. Ugh.

Contemplating the economic and social implications of a lost decade or two in the United States are probably why it has taken me five years to compose this report. We need a miracle. Please pray for the country, I know I am.

"**Magnificent Cathedral with Massive Casino Attached**"

"Capitalism in the United States has succeeded like nothing you've ever seen. But what it is, is a combination of this magnificent cathedral which has produced an economy like nothing the world's ever seen, and then it's got some massive casino attached." - Warren Buffett 2025.

The Cathedral is almost empty and the casino is packed.


“We’ve never had people in a more gambling mood.” - Warren Buffett, May 4, 2026

“It’s tough to find values, when everybody is preferring gambling.” - Warren Buffett, July 15, 2026

In our next report, we will highlight areas where capital is scarce and valuations are decent. Remember U.S. Treasury Bills outperformed the S&P 500 on a two year horizon (from 2000-2002) as well as on a 10 year horizon (2000-2010) after the Dot Com Bust.

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