

5T Wealth, LLC

TIME | TEMPERAMENT | TALENT | TECHNOLOGY | TEAM

Ellumination Newsletter

“Separating fact from fiction since 1998.
The antidote to Wall Street.”

Are we headed toward another “dot.com” bust?

October 7, 2025

We are hearing this question more frequently these days, especially in interviews with new prospective clients. They worry about entering the stock market at or near a peak like we experienced in 2000. My short answer is that there are some similar stock market conditions today. But overall financial market and global economic conditions are very different. Let's explore similarities and differences together.

Key Similarities

In both periods a handful of technology companies are driving market performance. In 1999-2000 it was Cisco, Intel, Microsoft and a lot of dot-com startups. Today, mega-cap firms like Apple, Microsoft, Nvidia, Amazon, Alphabet, Meta, and Tesla (The MAG 7) are driving performance. Throw Palantir into that group as well. AI hype has replaced internet hype. The internet was the transformative technology of 2000, while AI fills that role today. Both created soaring expectations for future profits, leading to high valuations.

Key Differences

In 2000, the S&P 500 traded at a forward P/E ratio above 25 and Wikipedia suggests that the P/E ratio of the Nasdaq 100 reached 200. *“The index reached a price-earnings ratio of 200, dwarfing the peak P/E of 80 for the Japanese Nikkei 225 during the Japanese asset price bubble of 1991”.* (Note: I have not found another source that can confirm that P/E.)

Today, valuations are elevated, but generally not as extreme. The S&P 500 forward P/E is widely reported to be about 23. Mega-cap tech stocks are expensive, but they are also supported by real earnings. Here are the current forward P/E's for the Mag 7 + Palantir. Only Tesla and Palantir are in “nose-bleed” territory. The others are not extremely priced, given their growth rates.

Stock	Forward P/E Ratio
Apple	32.18
Microsoft	28.27
Nvidia	29.28
Amazon	28.87
Alphabet	22.93
Meta	23.68
Tesla	172.26
Palantir	206.21

(Source: Finviz.com, October 4, 2025)

These companies generate huge cash flows, earnings, and have dominant business models, unlike early dot-coms that were mostly speculative. If it were my portfolio I'd currently avoid Tesla and Palantir, or underweight them, but am very happy to own the others. In the year 2000 hundreds of profitless companies came public. Many never produced meaningful products, revenue, or profits, and they went bust!

One example was Clarent Corporation, headquartered in Redwood City, CA. 5T Wealth acquired several new clients when Clarent went public in 1999. They were “newly minted millionaires”, referred to us by an existing client. On December 13, 2002, Clarent filed for bankruptcy in the U.S. Bankruptcy Court for the Northern District of California. During that bankruptcy it became public knowledge that the company had been overstating revenues all along. What a surprise for our newly minted millionaires!

In 1999-2000, market breadth was extremely weak, with very few sectors contributing to the upside. Once market sentiment shifted the sell off was fast and furious. Today, rotation out of tech, into other sectors, has also been limited. Many sectors outside of large cap tech have underperformed including health care, energy, consumer staples, and materials. Much of this underperformance is related to the “politics of the day”, while earnings and fundamentals in these sectors remain broadly positive. In our opinion this reduces the risk of a broader market breakdown, although it does not eliminate it. At some point investors will eye the bargains in these sectors and rotation could accelerate.

Here is a small sample of some of the bargains in the market right now. The companies in this table are wildly out of favor. Their forward P/E’s are a fraction of those of the Mag 7. They are all well established. They are all profitable. They all have dividend yields over 5%, that are well supported by earnings and cash flow. For the most part the Mag 7 + Palantir don’t pay dividends. You can find dozens of other stocks like these in the financial and real estate sectors. Have their returns paled in comparison those of growth stocks in 2025? Absolutely. Would they be a great choices to shift to if “growth” stops working? You bet!

Stock	Forward P/E	Dividend Yield
Dentsply	6.51	5.04%
Target	11.23	5.05%
Canadian Natural Resources	13.56	5.23%
Bristol Myers Squibb	7.54	5.46%
Eastman Chemical Co	9.21	5.19%
FMC Corp	8.13	7.21%
Verizon Communications	9.00	6.21%
Kenvue Inc	14.12	5.21%
Sunoco	9.38	7.40%
Pfizer	8.69	6.22%

(Source: Finviz.com stock screener, October 4, 2025)

According to Finviz.com stock screener there are 32 exchange traded funds (ETF's) available to U.S. investors with dividends in excess of 5%, and another 14 with dividends between 4 and 5%. We call that "being paid to wait" for growth to come back!

In 2000 the market structure was very different from today. IPO Mania drove much of the bubble. Hundreds of unprofitable internet companies listed and subsequently disappeared, like Clarent. Today, IPO activity is much lower. Many highly profitable companies have chosen to stay private. They don't want the complications of being a public company. Today private equity is as important to own as public equity, and the market has evolved to allow more investors access to private equity. 5T Wealth offers clients several very successful private equity funds that did not exist in 2000. In 2022 the SPY (S&P 500) experienced a drawdown of about -18.17% from top to bottom. Private equity allocations in our portfolios were up during that period of time. "Asset allocation" isn't just about stocks and bonds anymore!

In October 2000 the Fed Funds rate was about 6.5%, higher than it is today. The rate, as well as inflation, peaked a couple of months later and tumbled during 2001 and 2002. The Fed Funds rate rose over the past 2+ years to combat inflation. This acted as a brake on speculation. The Fed wasn't fighting sticky inflation in late 2000 like it is now. Only recently has the Fed begun cutting rates. If that trend continues it could provide additional stimulus for stock prices.

Among the biggest contrasts between 1999-2000 and 2025 is the "macro regime". Back then inflation was not perceived to be a significant threat, the Fed was trying to moderate growth, the environment was more permissive for speculation. Today inflation concerns linger, monetary policy has been considered too tight by some, including the President. Tight monetary policy can add pressure on valuations, especially for higher growth names. Debt loads, corporate and sovereign, are higher today. Global risks, including geopolitics and supply chains, are more pronounced. The environment today has more built-in stressors that could act as a trigger to unwind the stock market at some point.

Over time markets often lean too far in one direction

I've been in the markets since the 1970's and over that time I have learned one thing for sure. Markets do eventually lean too far in one direction. That behavior has preceded almost every correction I've ever seen. The recent market tumble in April, caused by tariff fears, was the first

one that didn't happen for this reason. Goldman Sachs CEO David Solomon spoke at Italian Tech Week in Turin, Italy on Friday, October 3, 2025. He said, *"Markets run in cycles, and whenever we've historically had a significant acceleration in a new technology that creates a lot of capital formation, and therefore lots of interesting new companies around it, you generally see the market run ahead of the potential ... there are going to be winners and losers.... You're going to see a similar phenomenon here. I wouldn't be surprised if in the next 12 to 24 months, we see a drawdown with respect to equity markets ... I think that there will be a lot of capital that's deployed that will turn out to not deliver returns, and when that happens, people won't feel good."*

In the meantime capital will most likely continue chasing growth, particularly in AI and defense stocks. When the market has finally leaned too far into those trades there will be a correction.

Remember Asset Allocation

Whether you are a prospective client of 5T Wealth, or have been with us for decades, please remember that you are not likely to invest exclusively in the stock market. The only people that do so are young children, in accounts that are dollar cost averaging over months and years. To our "adult" clients we offer portfolios that are allocated over a broad selection of asset classes, and that are frequently rebalanced. Chris Roth likes to make the point that each investor should chose a portfolio that reflects their tolerance for risk, and we try to do that. But we also know that both perception and tolerance of risk can change over time. We make every attempt to consistently check in with clients about their perception and tolerance for risk and adjust their portfolios appropriately.

We have "tools" today that we didn't have back in 2000, including private equity, private credit, and private real estate. We have "smart beta" exchange traded funds, which seek to enhance returns, improve diversification, and reduce risk by investing in customized indexes or ETFs based on one or more predetermined factors. They aim to outperform, or have less risk than, traditional capitalization-weighted benchmarks. Unfortunately they do not always outperform, but after using them for years, we are very familiar with the better ones. We have AI, and we use it every day!

One More Thing, about the power of compounding

Investing in stocks has always been a long term proposition for us at 5T Wealth. We are investors, not traders. We agree with Warren Buffett's perspective about compounding. *"Warren Buffett explained the power of compounding through a snowball analogy, emphasizing that the key is time (a long hill) and starting with an initial investment (the small snowball) to achieve significant growth. He also highlighted that you must allow earnings to reinvest consistently and maintain a long-term perspective, patience, and discipline to avoid selling too early and allow the process to work over decades."*

The price of the S&P 500 has varied from year to year, and decade to decade, but with the exception of the Great Depression, and the stagflation years of 1965 to 1970 its price has risen in each 5 year period for 100 years. The table below shows the closing value of the S&P 500 every five years, from September 30, 1925 through September 30, 2025. The closing value was actually lower at September 30, 1940 than it was on September 30, 1925. It had not risen for 15 years. Missing from the table is the fact that the dividend yield averaged 5% per annum during that entire period of time. If you were lucky enough to own stocks, and few were, had you reinvested those dividends year in and year out you would have realized an extraordinary compound return for the period. It's the general perception that everything lost value during those years. Staying in the market and reinvesting your dividends could have changed all of that! I reinvest dividends whenever and wherever I can.

Year	S&P 500 September close*
1925	11.51
1930	20.78
1935	11.61
1940	10.63
1945	15.84
1950	19.08
1955	44.34
1960	54.81

1965	88.94
1970	75.46
1975	90.19
1980	122.55
1985	181.18
1990	321.83
1995	583.67
2000	1,436.51
2005	1,228.81
2010	1,141.20
2015	1,920.03
2020	3,363.00
2025	6,710.78

(Source: These are September month-end index closes. From 1925-1960 they come from the Shiller/S&P long-run monthly series. For 1960 onward they align with modern monthly close data used by Macrotrends. Dividend yield is from the Shiller monthly series.)

Bottom Line

Speculation, tech dominance, AI hype resembling the dot-com narrative and market concentration are similar today to that experienced in 1999-2000. But today's market leaders have real earnings power. They are also true technological leaders, not empty shells like so many dot.com era stocks. Valuations are elevated, but not nearly at 2000 extremes. While there are echoes of 1999-2000, the stock market today looks more like a concentrated, expensive but fundamentally stronger tech-led rally, rather than a broad speculative bubble. We can't tell you exactly when the next correction will arrive. Neither can David Solomon, and he probably has more resources than the Fed! We can tell you that we are still investors. We have plenty of choices for investors, up and down the risk spectrum. We agree with Julien Timmer, Director of

Global Macro at Fidelity Investments, who posted this on Friday, October 3, 2025, *"We remain unquestionably in both a cyclical and secular bull market. That of course doesn't help us determine how soon it will end, but a trend in motion tends to stay in motion, and this one has good technicals, and positive earnings momentum, and so far not many signs of exhaustion."*

All the best,



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Disclosure and Disclaimer - Updated last on March 20, 2024 by Paul Krsek:

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