

Are Stocks Risky 2026?

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Introduction

Are stocks risky? Just a few years ago, any veteran securities professional or expert would laugh if you asked such a question.¹ And asking the question today, as we start 2026 with the last three years yielding an annualized return for the S&P 500 of 21.26%, some professionals are beginning to wonder. If you go back to the last serious crash in the U.S. stock market in 2008, compounded annualized returns for the S&P 500 have been roughly 15%.

Hence, we now have potentially two generations of stock investors with no history or experience with bear markets. You can see why such investors would quickly argue that there are no risks in investing in stocks.

Long bull market cycles, such as the one we are currently in, create an illusion (not entirely unjustified) that investing in the U.S. stock market entails negligible risk. This article takes that perception head-on - a monumental task when you consider that you could fill an entire library with books analyzing and discussing every aspect of investing in stocks.

As a nationally recognized securities expert witness², I am regularly called upon to testify on whether a particular investor's portfolio appropriately reflects the investor's risk tolerance, investment objectives, and age.³ If the risk level of individual stocks, or of a portfolio composed mainly of stocks, were based on how well those stocks or the portfolio performed in the past, it would make my job of providing an expert opinion on risk impossible.

Past Performance Is Indicative of What?

Some classic Wall Street investment phrases are “The trend is your friend”, “Don’t fight the tape” and “Sell your losers, and keep your winners,” all insinuating that when your investments are making money, stay and even potentially buy more. Herein lies the current problem in the market. U.S. markets have been in a bull market since their serious setback in 2008 caused by the subprime real estate debt crisis. But if the trend is your friend, does the 17-year bull market in U.S. securities guarantee that similar, or at least very positive returns, will continue for the next few years?

¹ “What is Risk? All investments involve some degree of risk. In finance, risk refers to the degree of uncertainty and/or potential financial loss inherent in an investment decision. In general, as investment risks rise, investors seek higher returns to compensate themselves for taking such risks.” <https://www.investor.gov/introduction-investing/investing-basics/what-risk>

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³ Both stockbrokers and investment advisors are regulated professionals by the Securities Exchange Commission (SEC) and FINRA. There are numerous securities regulations, including, but not limited to, FINRA Rule 2011, that require licensed brokers to make investment recommendations to their clients that are suitable for those investors. “

When I first entered the securities business professionally in 1980, the first thing we were taught during the training and licensing process was that certain terms were verboten when speaking with investors. The most prohibited word was "guarantee." No investment guarantees specific returns, and no investment is guaranteed against losses.

The mutual fund industry is highly regulated by the federal regulators, specifically the Securities and Exchange Commission (SEC). When mutual funds have had an exceptional rate of return, you cannot blame the funds for plastering such results repeatedly in their marketing. But the SEC requires that, in mutual fund marketing and advertising materials, when discussing past performance, a qualifier must appear: "Past performance is no indication of future returns".⁴ Additionally, numerous studies have shown that mutual funds' positive returns are no harbingers that such returns will continue on a competitive basis.⁵

Historical Statistics Prior to 2023

Before comparing market and other asset class returns through the end of 2025, I think it's valuable to first look at those returns through the end of 2022. The reason is that positive returns from 2023 through 2025 have been historical across almost all asset classes and may slightly distort the current analysis. I will address the last three years of U.S. market returns in the next chapter.

During my 60 years of investing in the US stock market, there has been a classic saying - "The US stock market provides an annualized total return of 10%". That just happens to match the actual numbers: from 1926 to the end of 2022, the annual compound rate of return for large-cap stocks⁶ on average was 10.1%.⁷ For comparison, during the last 10 years, from 2013 through 2022, the market yielded the following annual compound rates of return:

SBBI Series/Index ⁸	1926 - 2022	2013 - 2022
Large-Cap Stocks	10.1%	12.6%
Small-Cap Stocks	11.8%	10.3%
Long-Term Corp Bonds	5.7%	2%
Long-Term Gov't Bonds	5.2%	0.7%
Inter-Term Gov't Bonds	4.9%	0.8%
US Treasury Bills	3.2%	0.7%

⁴ 17 CFR § 230.482 - Advertising by an investment company as satisfying requirements of section 10 (i) A legend disclosing that the performance data quoted represents past performance; that past performance does not guarantee future results; that the investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost; and that current performance may be lower or higher than the performance data quoted.

⁵ "Choi and Zhao replicated Carhart's analysis of mutual funds from 1963 through 1993 and then extended the same analysis to the present day. They found that from 1994 to 2018, a fund's performance was completely unpredictable of its returns in the future. Even in the period that Carhart examined, a statistically significant correlation was only seen in the years before 1980." Does A Mutual Fund's Past Performance Predict Its Future? Yale Insights, James Choi, Professor of Finance, July 7, 2020.

⁶ There are numerous US stock market indices such as, large-cap, small-cap, long-term corporate bonds, long-term government bonds, intermediate government bonds, NASDAQ, U.S. Treasury bills, and many more. In this article for US stocks we will only utilize, what are referred to as large-cap stocks, and will specifically use the S&P 500 index.

⁷ 2023 SBBI, Yearbook, stocks, bonds, bills, and inflation, US capital markets performance by asset class, 1926 - 2022, Kroll, New York New York.

⁸ Id.

For perspective, the various decades have showed a marked difference in the compound annual rate of return for large-cap stocks, as shown below:

1920s - 19.2%
 1930s - 0.1%
 1940s - 9.2%
 1950s - 19.4%
 1960s - 7.8%
 1970s - 5.9%
 1980s - 17.6%
 1990s - 8.2%
 2000s - 0.9%
 2010s - 13.6%
 2020 - 2023 - 7.7%

Clearly, the classic annualized 10% return is not consistent. In fact, the worst five-year cycle for the S&P 500 (represented by large-cap stocks) was 1929 through 1933, with a negative annual return of 11.24%, driven by the 1928 market crash and the Great Depression. The best five-year cycle returns were from 1994 through 1998 with an annualized rate of return of 24.06%.⁹

US Market Performance 2023 – 2025

<u>Market/Index</u>	<u>Total Returns For 2025</u>	<u>Total Returns 2023 - 2025</u>
S&P 500	16.39%	21.26%
Dow Jones	13%	12.64%
NASDAQ	20.12%	29.08%
Russell 2000	17.89%	16.69%

We now have solid historical market data for the last 100 years and, more specifically, for the last 3 years. Before fully addressing one of the key aspects of this article, does past positive performance reduce the risk going forward, we must discuss risk, followed by whether past performance is the most reliable tool for measuring risk or whether there are better, more reliable tools and analyses.

The markets could continue their bullish run; nothing said here disputes that. The clarification is that many misperceive the ever-higher prices as somehow reducing risk, when in fact they increase the risk, but not necessarily the returns.

Risky In Comparison to What?

In investment literature, an asset class is considered risky only in a comparative analysis. Each investment class entails specific risks. Indeed, even the age-old adage, “If you don’t want to take any risk with your money, stuff it under your mattress,” has risk. In addition to the obvious theft risk, there is an inflation risk. If the inflation rate is 5% and you withdraw your money from the mattress after 10 years, you have lost 50% of its purchasing power (not compounded). Even the safest of safe assets, U.S. federal government T-bills (Treasury Bills), which currently

⁹ Id.

yield roughly 4%, despite the guarantee of the full faith and credit of the United States government, carry risk. With inflation running at 4% or higher and your after-tax return, your likely annualized return will be negative. Though your principal investment remains safe under your mattress.

The definition of risk makes it clear that an investor seeking a higher rate of return on their money, by and large, will likely be taking on a comparatively higher rate of risk, as compared to other investments, such as T-Bills or bank CDs, because those lower risk investments offer very little in the way of potential higher returns. This risk-reward scenario is displayed in a decades-old comparative chart - The Risk Pyramid.¹⁰ The pyramid design accomplishes two goals. First, it lists, from top to bottom, the investments with the highest risk at the top and those with the lowest risk at the bottom. Secondly, because the pyramid shape is much narrower at the top and broader at the bottom, where the less risky investments are located, it emphasizes that when investors undertake higher-risk investments, they should do so with a much smaller percentage of their investment capital.



In the following two sections, I discuss gamblers and speculators rather than investors. Those comparisons are particularly timely because there is substantial evidence that gamblers and speculators have been the drivers of some of the exceptional/historical bubble-like returns we have seen recently in various asset markets, including silver, gold, Bitcoin, the NASDAQ, and AI-related stocks.

¹⁰ Brokerage Fraud- What Wall Street Doesn't Want You to Know, Douglas Schulz & Tracy Stoneman, Dearborn Publishing 2002, ISBN 07931-4555-4

Investing Versus Gambling

Since the beginning of time, there have always been investors and gamblers, but they were once easier to distinguish. Today, the lines have become a bit blurred. As I have stated, there is no such thing as a totally risk-free investment. The simplest distinction between investing and gambling is the amount of risk. The investor adopts a researched and methodical approach to investing, whereas the gambler devotes little time for in-depth analytical research. The gambler is usually looking for very quick results, so investing a lot of time or energy in research makes little sense.

“In gambling, people do it mostly for the emotional high they receive from the excitement as opposed to the possible return; the probability of losing an investment is usually higher than the probability of winning more than the wager.”¹¹

Here are the key differences between a gambler and an investor:

<i>Basis</i>	<i>Investor</i>	<i>Gambler</i>
<i>Primary Focus</i>	<i>Long-term wealth creation and generating income.</i>	<i>Short-term gains or the "thrill" of a win.</i>
<i>Approach</i>	<i>Strategic, goal-oriented, and relies on research and analysis.</i>	<i>Driven by chance, luck, and emotion/impulse.</i>
<i>Expected Return</i>	<i>Historically positive over time (e.g., the stock market has reliably trended higher in the long run).</i>	<i>Negative expected return over time; the odds are always stacked in favor of the "house".</i>
<i>Risk Management</i>	<i>Manages risk through diversification, asset allocation, and market analysis.</i>	<i>Few options to limit losses; often an "all-or-nothing" scenario with high inherent risk.</i>
<i>Ownership</i>	<i>Acquires an ownership stake in an asset (e.g., stocks represent part ownership of a company).</i>	<i>Owens nothing; merely places a wager on an outcome.</i>
<i>Information</i>	<i>Uses readily available information like company financials and economic trends to make informed decisions.</i>	<i>Has little to no reliable information to predict outcomes, which are mostly random.¹²</i>

¹¹ Online/Internet Trading, Gambling, Douglas Schulz, Invest Securities Consulting, Inc., BD's No Duties, Third-Party Accounts, April 2023 PIABA Bar Journal, Vol. 30, No. 1, 2023

¹² Going All-in: Investing vs. Gambling, Stephan A. Abraham, May 14, 2024; Difference between Investing and Gambling, July 23, 2025; and GeeksforGeeks & The Difference Between Investing and Gambling, March 19, 2025, Personal Finance.

In essence, an investor is a disciplined individual who allocates capital to support a business or asset with the expectation that it will grow in value over time, whereas a gambler risks money on an uncertain outcome, with results largely dependent on chance.

Is Speculating and Gambling Synonymous?

When I give sworn testimony in securities litigation, I often testify that speculators and speculation are not synonymous with gambling. Investors adopt a more methodical, reasoned approach, whereas gamblers do not. It is also somewhat true for the speculator versus the gambler. Speculators may not be as methodical as investors, but they are much more methodical than gamblers. There are millions of individuals who speculate in U.S. markets professionally. They make calculated investments/bets. By definition, speculators take higher risk and make riskier investments than the average investor. *“An investment operation is one which, upon through analysis promises safety of principal and an adequate return. Operations is not meeting these requirements are speculative.”*¹³ However, their investments are well thought-out and calculated, with a pure profit motive. Gamblers often invest as much for the thrill and fun as they do for any profit motive. Gamblers are often bored with any investment that doesn’t change price rapidly.

There is a clear distinction between gambling and speculation based on several key factors, including the expected return, the role of skill vs. chance, and the underlying purpose of the activity. Speculation is often seen as a middle ground between traditional investing and pure gambling.¹⁴

Distinctions:

Feature	Gambling	Speculation all
Expected Return (Long-Term)	Usually negative for the participant; the "house" has an edge.	Can be positive ; potential for substantial gains, though results are mixed and highly variable.
Basis of Decision	Primarily based on chance or luck (e.g., lotteries, roulette).	Involves calculated risk and analysis (e.g., studying market trends, company data, or economic conditions).
Creation of Risk	Creates its own risk for the purpose of a bet (e.g., a roulette wheel introduces a specific, artificial risk).	Assumes or takes on existing, inherent market risk (e.g., price fluctuations in stocks or commodities).

¹³ The Intelligent Investor, Benjamin Graham, Fourth Revised Edition, 1973, Harper & Rowe publishers

¹⁴ Speculative Risk: Definition, Examples, Vs. Pure Risk, Lucas Downey, October 25, 2025, Investopedia

Asset Ownership	Involves staking money on an outcome without purchasing an underlying asset.	Often involves buying or selling a real asset (e.g., stocks, commodities, real estate), though some instruments like options do not require physical delivery.
Time Frame	Typically very short-term (seconds, minutes, days).	Variable, can range from very short-term (day trading) to medium-term (weeks, months).
Economic Utility	Generally provides low or no broader economic utility (a wealth transfer from one person to another).	Provides economic utility by adding market liquidity and helping with price balancing and risk transfer. ¹⁵

The crucial difference lies in the intent and methodology. Gamblers rely on chance with a mathematically negative expectation of return over time. Speculators, while taking on high risk for short-term gains, base their decisions on analysis and an expectation of a potentially profitable return, even if that return is not guaranteed.

An individual engaging in high-risk stock trading without any research may essentially be gambling, whereas a professional using a disciplined strategy and market analysis is speculating.

Better Tools to Measure Risk

I am critical of the notion that positive past performance is a proper gauge of future risk. Numerous analytical tools provide more rational and reliable measures of the current and future risk of various assets, such as U.S.-listed stocks, stock funds, and ETFs. This article is not intended to provide an investor¹⁶ with the precise mechanics, formulas, or algorithms for performing calculations of potential risk levels based on the widely used measurement tools discussed below. Instead, it is to educate investors that mere price appreciation is one of the least valuable tools for assessing returns and risk.

The Risk-Reward Ratio

Discussing the risk-reward ratio harkens me back to the investment pyramid I provided earlier in this article. It is a well-recognized assumption that investments listed in the higher-risk portion of the investment pyramid are expected to yield a higher rate of return commensurate with their higher risk:

The risk-reward ratio is a metric that compares the potential gain of an investment to its potential loss. It is calculated by dividing the potential loss by the potential gain, or more commonly, expressed as a ratio of 1:X, where \$1 is the risk and \$X is the potential reward. This tool helps traders and investors make informed decisions by assessing if a potential reward is worth the risk.

¹⁵ Speculation Versus Gambling: What's the Difference? Thomas Brock, September 30, 2024, Investopedia; Economic Activities Under Uncertainty: The Difference Between Speculation, Investment and Gambling. Max Raphael, Alexander Kreibitz, Christoph Lutge, January 2020, Journal of Management and Sustainability.

¹⁶ Or a securities lawyer who is attempting to evaluate the riskiness of a particular portfolio, stock, stock fund or ETF.

A lower risk/reward ratio generally indicates a more favorable balance between potential gains and risks, while a higher ratio suggests increased risk relative to expected rewards.

The ideal risk/reward ratio can vary based on personal risk tolerance and investment goals, but a commonly favored benchmark is 1:3, meaning three units of reward for every unit of risk.¹⁷

The Efficient Frontier

The concept of “Efficient Frontier” is similar to that of the risk-reward in that it measures the level of risk in relation to the expected return.

The efficient frontier is a concept that is integral to modern portfolio theory, as developed by American economist Harry Markowitz. This frontier is the group of optimally-diversified portfolios that maximizes expected return for a given level of risk, or presents the lowest risk for a given level of expected return. The efficient frontier is graphically represented as a curved line with risk on the x-axis and expected return on the y-axis. Whether or not a portfolio is optimal or sub-optimal depends on where it appears in relation to the line. Any portfolio below the line is considered inefficient because a better one exists with the same risk but higher return, or the same return with lower risk.¹⁸

Volatility

One of the more volatile years for the markets was 2025. The S&P 500 logged 13 daily moves of more than 2% (six higher, seven lower), exceeding the combined total of the prior two years.¹⁹ The VIX²⁰ rose to one of its highest levels in years, reaching 52.33 on April 8, 2025.²¹

Volatility is a measurement of how varied the returns of a given security or market index are over time. It is often measured from either the standard deviation or variance between those returns. In most cases, the higher the volatility, the riskier the security.

In the securities markets, volatility is often associated with big price swings, either up or down. For example, when the stock market rises and falls more than 1% over a sustained period of time, it is called a volatile market.

- *Volatility represents how greatly an asset’s prices swing around the mean price.*
- *There are several ways to measure volatility, including beta coefficients, option pricing models, and standard deviation of returns.*
- *Volatile assets are often considered riskier than less volatile assets because the price is expected to be less predictable.*
- *Implied volatility measures how volatile the market will be, while historical volatility measures price changes over past time periods.*
- *Volatility is an important variable in the calculation of options prices.*

¹⁷ Understanding the Risk/Reward Ratio: A Guide for Stock Investors, Adam Hayes, August 11, 2025, Investopedia.com

¹⁸ Understanding the Efficient Frontier: Maximize Returns, Minimize Risk, By Akhilesh Ganti Updated April 06, 2025, Investopedia

¹⁹ Weekly Market Wrap, Brock Weimer, December 22, 2025, Edward Jones

²⁰ The Chicago Board Option Exchange (CBOE) “Volatility Index referred to as ‘the VIX’, it is a market index that measures the implied volatility of the S&P 500 Index (SPX) – the core index for U.S. equities. In real-time, it represents the market’s expectations for volatility over the coming 30 days.”

²¹ The VIX, the Chicago Board of Options Exchange, CBOE volatility index. Measured using options traded on the CBOE on the S&P 500. (The actual intraday high on April 8 was 60.13)

- *Volatility often refers to the amount of uncertainty or risk related to the size of changes in a security's value.*
- *A higher volatility means that a security's value can potentially be spread out over a larger range of values. This means that the price of the security can move dramatically over a short time period in either direction. A lower volatility means that a security's value does not fluctuate dramatically, and tends to be steadier.²²*

I've discussed the Efficient Frontier in modern portfolio theory, which visualizes the balance of portfolio returns and risk. Now, let's look at some of the other standard tools to measure volatility and risk. The following risk measurement tools speak of analysis conducted on stock mutual funds, though these tools apply equally to individual stocks and/or stock portfolios:

- Standard deviation measures a fund's volatility, reflecting return variability
- Beta compares a fund's risk with its benchmark, showing relative volatility
- R-squared indicates how well beta reflects a fund's market-related volatility.
- Alpha quantifies a fund's performance versus expected risk-adjusted returns²³

Standard Deviation Measures a Fund's Volatility, Reflecting Return Variability

As with many statistical measures, the calculation for standard deviation can be intimidating, but because the number is extremely useful for those who know how to use it, there are many free mutual fund screening services that provide the standard deviations of funds.

The standard deviation essentially reports a fund's volatility, which indicates the tendency of the returns to rise or fall drastically in a short period of time. A volatile security is also considered a higher risk because its performance may change quickly in either direction at any moment. The standard deviation of a fund measures this risk by measuring the degree to which the fund fluctuates in relation to its mean return.²⁴

Beta Compares a Fund's Risk with Its Benchmark, Showing Relative Volatility

While standard deviation determines the volatility of a fund according to the disparity of its returns over a period of time, beta, another useful statistical measure, compares the volatility (or risk) of a fund to its index or benchmark. A fund with a beta very close to one means the fund's performance closely matches the index or benchmark. A beta greater than one indicates greater volatility than the overall market, and a beta less than one indicates less volatility than the benchmark.²⁵

R-Squared Indicates How Well Beta Reflects a Fund's Market-Related Volatility

The R-squared of a fund shows investors if the beta of a mutual fund is measured against an appropriate benchmark. Measuring the correlation of a fund's movements to that of an index, R-squared describes the level of association between the fund's volatility and market risk, or, more specifically, the degree to which a fund's volatility is a result of the day-to-day fluctuations experienced by the overall market.²⁶

²² Volatility: Meaning in Finance and How It Works with Stocks, Adam Hayes, May 11, 2025, Investopedia.

²³ Mastering Volatility Measurements for Better Investment Decisions, James Chen, December 16, 2025, Investopedia.

²⁴ Id

²⁵ Id

²⁶ Id

Alpha Quantifies a Fund's Performance Versus Expected Risk-Adjusted Returns

Having addressed how to examine figures measuring risk posed by volatility, how do we measure the extra return rewarded for taking on the risk posed by factors other than market volatility? Enter alpha, which measures how much, if any, of extra risk helped the fund outperform its corresponding benchmark. Using beta, alpha's computation compares the fund's performance to that of the benchmark's risk-adjusted returns and establishes if the fund outperformed the market, given the same amount of risk.²⁷

Many investors in today's markets don't understand these more complicated measurement tools outlined here, much less take the time to use them. The following is an additional list of some of the easier tools when measuring the risks and values of a stock. Most of these tools are readily available to any investor online.

Additional Stock Evaluation Measurement Tools

Price-to-Earnings (P/E) Ratio: The most widely used metric, it compares a company's stock price to its earnings per share (EPS). A high P/E ratio relative to competitors or the market average can suggest a stock is overvalued, as investors are paying a premium for each dollar of earnings.

Price/Earnings-to-Growth (PEG) Ratio: This ratio adjusts the P/E ratio by factoring in the company's expected earnings growth rate, providing a more complete picture for growth companies. A PEG ratio greater than 1 is often considered a sign of potential overvaluation, while a ratio below 1 may indicate the stock is undervalued given its growth prospects.

Price-to-Book (P/B) Ratio: This metric compares the stock's market price to its book value per share (assets minus liabilities). A high P/B ratio (typically above 1, though this varies by industry) could suggest the stock is trading at a premium to the value of its net assets.

Price-to-Sales (P/S) Ratio: Particularly useful for companies with low or negative earnings (such as early-stage tech companies), this ratio compares market capitalization to annual revenue. A high P/S ratio compared to peers can signal an overvalued stock.

Enterprise Value-to-EBITDA (EV/EBITDA) Ratio: This ratio compares a company's enterprise value (market cap plus debt minus cash) to its earnings before interest, taxes, depreciation, and amortization. It's often used in mergers and acquisitions analysis and for comparing companies with different debt levels or tax rates.

Relative Dividend Yield: Comparing a stock's dividend yield to its historical yield or the average yield of its industry can provide clues. A low relative yield might suggest the price has risen faster than the dividend payments, indicating potential overvaluation.

Debt-to-Equity (D/E) Ratio: While not a direct valuation tool, a high D/E ratio can indicate a company is over-leveraged, increasing risk and potentially signaling that the stock's price is not justified by its financial stability.

²⁷ Id

Discounted Cash Flow (DCF) Analysis: This is an intrinsic value model that estimates a stock's fair value by projecting future cash flows and discounting them back to their present value. If the current market price is significantly higher than the DCF valuation, the stock may be overvalued.

Insider Activity: If company executives and employees (insiders) are selling a large number of their own shares, it could be a sign that even they believe the stock is overpriced.²⁸

Liquidity: Broadly speaking, it refers to how easily an asset can be converted to cash and sold. Understanding this type of risk is important because it can directly affect how easily you're able to move securities in and out of your portfolio.²⁹

Does A Significant Increase in Value Increase the Risk?

Investors, especially novices, often misunderstand volatility, believing that it refers to a stock or fund that declines significantly in price. However, volatility also encompasses the price appreciation of an asset. Since we learned in the last chapter about volatility, which increases risk, the question is: Does an asset that has recently increased significantly in value likewise increase the risk of purchasing it?

An asset that has significantly increased in value is just one factor in assessing the risk level of an investment. A pronounced upward movement may indicate a higher risk, as a rapid appreciation suggests high volatility, speculative interest, etc. Likewise, the investment could incur significant losses and depends on factors such as market conditions, company performance, and the results of various measurement tools, as discussed in this article.

Why Appreciation Can Mean Higher Risk:

- **Volatility:** Assets with big recent gains (like growth stocks or cryptocurrencies) often have high price swings, making them volatile and riskier than stable assets.
- **Speculative Interest:** Large price jumps attract speculative investors seeking quick profits, increasing demand and potential for sharp reversals if sentiment changes.
- **Overvaluation:** A significant price increase might outpace the asset's actual fundamental value, making it vulnerable to a correction.³⁰

Given the exceptional returns over the last three years, there is a strong case that significant risks lie ahead as we enter 2026. Strong bull markets tend to drag along even lower-quality players; hence the old saying: "A rising tide lifts all boats." But there is an equally applicable famous saying, which was one of Warren Buffett's favorites: "After all, you only find out who is swimming naked when the tide goes out."³¹

²⁸ Five Ways to Tell If A Stock Is Overvalued, Brian Baker CFA, April 25, 2025, Bankrate LLC NMLS; Five key financial ratios for stock analysis, January 1, 2026, Charles Schwab's website

²⁹ Liquidity Risk Definition, Rebecca Lake, February 18, 2023, Smart Asset

³⁰ Understanding Risk, Canadian Investment Regulatory Organization & Guide to High-Risk Investments, By Michael Flannelly. July 01, 2024, Sofi Learn

³¹ Swimming Naked When the Tide Goes Out - Naked/Short Options, Douglas Schulz, Invest Securities Consulting, Inc., PIABA Bar Journal, Vol. 20, No.1; Buffet, Warren, Chairman of the Berkshire Hathaway Board of Directors, 2001 Annual Shareholders (Feb. 28, 2002)

Margin

Margin is leverage. It occurs when investors borrow money from a broker-dealer to purchase additional shares. Margin is a double-edged sword. If you guess right (much of stock investing is guessing), your gains are amplified by the leverage. Likewise, if you guess wrong, your losses are amplified. There is no argument that the use of margin/leverage significantly increases risk, in addition to the other risks. Historically, increases in margin debt have been a signal that markets may be taking on too much risk. One of the main reasons for the worst stock crash in U.S. history in 1928 was that margin requirements were much lower than they are today; they were approximately 10%, whereas today the initial margin requirement is 50%. Additionally, prior to the 2008 market crash, margin levels were very high.

FINRA/NYSE Margin Debt is currently \$1.214 trillion, up from \$890.85 billion one year ago. This represents a 36.31% change from one year ago. Margin debt is up a whopping 472% since 1997.

Margin debt continued to climb to new heights in October, reaching a new all-time high of \$1.18 trillion. This represents a 5.1% rise from September and marks the sixth straight monthly increase. The debt level is up 45.2% compared to one year ago. When adjusted for inflation, the debt level was up 4.8% month-over-month, reaching its highest level in history, and is up 40.7% year-over-year.”³²

Margin borrowing—when investors borrow to buy stocks—has surged this year amid market exuberance and anticipation of more easing by the Fed. Retail traders can borrow at rates as low as 5.75% on [Robinhood](#) to buy and flip stocks for a double-digit return. If the market goes south, some will lose their shirts.³³

Cryptocurrencies, Gold & Silver

Although this article concerns stocks, it would be a disservice to address highly inflated stock prices without acknowledging the phenomenal returns from other assets/investments such as cryptocurrencies, gold, and silver.

Gold surged to \$4,364 per ounce at the end of 2025, yielding a 66.31% return for the year and a 146% return over the last five years. Silver did even better: with an end-of-2025 closing price near \$72 per ounce, it was up 144% for 2025. Copper prices were up 41% in 2025. Bitcoin had an exceptionally volatile year. At the low for 2025, it traded at \$74,436, compared with its year-high of \$126,198, a swing of \$51,762. After phenomenal Bitcoin returns of 155.41% in 2023 and 120.98% in 2024, it finished down 6.3% in 2025.

Speaking of volatility and risk, and inflated values, here’s an example of the volatility and losses in a single cryptocurrency - Bitcoin:³⁴

³² Margin Debt Continued to Climb to New Heights in October”, Jennifer Nash, 11/19/25, VettaFi, Advisor Perspectives

³³ America’s ‘Buy Now, Pay Later’ Economy, Allysia Finley, September 7, 2025, Wall Street Journal.

³⁴ Merrill’s disclosure flagged “significant” risks of “Crypto Investment Vehicles” including exchange traded funds. “Are highly speculative and have been in existence for only a short period of time,” Merrill warned. “A significant portion of the demand for crypto assets is generated by speculators and investors seeking to profit from short-term holdings,” Merrill noted. It credited “Media headlines, tweets, or influencers’ opinions” as potentially capable of “significantly” affecting performance “given the speculative nature of cryptocurrency.” The brochure referenced the historical “extremely volatile” market for crypto assets, which it said, “can decline rapidly, and investors can lose their entire investment within a short period.” Merrill Flags Risks of Crypto, AI to Advisory Clients, Miriam Rozen, January 7, 2026, AdvisorHub.

2025 is drawing to an end with few crypto market stories more dramatic than the Oct. 10 "flash crash," when bitcoin (BTC) plunged \$12,000, or nearly 10%, in minutes. The meltdown triggered more than \$19 billion in liquidations in just 24 hours, followed by a trader-circulated "cascade warning" and a staggering \$500 billion wiped from total crypto market capitalization. That set the scene for an extended slide that's seen the largest cryptocurrency drop to more than 30% below the peak \$126,223 value it set just six days earlier. This painful drop is likely to leave it posting the first full-year loss since the crypto winter of 2022.³⁵

The returns for gold and silver are the best since 1979; that's 46 years. It would be ludicrous to think that any individual, much less myself, could pinpoint the exact reasons why these three investments had such phenomenal returns in 2025. As I made clear in my book³⁶, no individual possesses knowledge of how any investment will perform in the next minute, the next day, next month, or next year. But one item that is having a significant impact on the significant price appreciation of these three asset classes is momentum investing (see below). Again, the mere phenomenal performance of these three investments over the past year has not decreased the risk and arguably has increased the risk going forward.³⁷

AI, Tech/NASDAQ, The Magnificent Seven

I was still managing money as an RIA when the tech/telecom/dotcom bear market came calling and the market's current conditions look eerily similar. In the late 90s, the Internet trading phenomenon was just taking hold. The new online/internet broker-dealers enabled millions of Americans to trade the markets from home. The S&P 500 returns over the years were: 1995 - 37.58%, 1996 - 22.96%, 1997 - 33.36%, 1998 - 28.58%, and 1999 - 21.04%. And then the crash: 2000 -9.10%, 2001 -11.89%, and 2002 -22.1%. But now, instead of tech/telecom, it's AI/tech and the Magnificent Seven. The Magnificent Seven are the seven company stocks that dominated the U.S. stock market in 2025 due to their involvement in artificial intelligence and cloud technology - Alphabet (Google), Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla.

While throughout this article we have mainly talked about the returns of the broad market, the S&P 500, the NASDAQ has had even more phenomenal returns with a three-year annualized total return of 29.08%. Many financial experts argue that we are in a market bubble similar to the one that occurred 25 years ago during the dot/com bubble.³⁸ *"Is it karma? Coincidence? Either way, the ghost of the dot-com bubble is back 25 years later."*^{39 40}

³⁵ In 2025, Bitcoin Showed How Spectacularly Wrong Price Forecasts Can Be. Olivier Acuna, December 30, 2026, Yahoo Finance

³⁶ Brokerage Fraud- What Wall Street Doesn't Want You to Know, Douglas Schulz & Tracy Stoneman, Dearborn Publishing 2002, ISBN 07931-4555-4

³⁷ Cryptocurrencies—Investment or Electronic Currency of the Future, Douglas Schulz, Christopher Riley, & Tracy Pride Stoneman, Volume 35, Number 11, November 2018, The Computer & Internet Lawyer. & Cryptocurrencies-investment world electronic currency of the future, Douglas Schulz, Christopher Riley, & Tracy Pride Stoneman, November 2018, PIABA Bar Journal, Vol. 25, No. 1.

³⁸ "A stock market bubble is a speculative frenzy where asset prices rapidly inflate far beyond their intrinsic value, driven by irrational exuberance, herd mentality, and optimistic stories, only to eventually "pop" in a sharp crash as prices fall back to reality, causing significant investor losses." What Causes A Stock Market Bubble, Inyoung Hwang, September 2, 2025, Sofi Learn & Economic bubble, Wikipedia.

³⁹ The Eerie Parallels Between AI Mania and the Dot-Com Bubble, James Mackintosh, December 13, 2025, Wall Street Journal

⁴⁰ "Of course, there is still the question of whether there is an AI bubble. Big Tech stocks are extremely expensive but have been for years. If OpenAI quickly comes up with a vital service everyone proves willing to pay big bucks to use, maybe even its price can be justified. After all, the only absolute proof of a bubble comes when it bursts." Why Bubbles Can Keep Inflating in Plain Sight, James Mackintosh, October 24, 2025, Wall Street Journal.

Artificial Intelligence (AI) has been a market driver for the last few years. Other prominent AI stocks companies are Advanced Micro Devices, Micron Technology, Broadcom, Western Digital, and Palantir. These companies also experienced significant gains:

In markets, some of the biggest stock moves of this year included Western Digital. The data storage stock has jumped over 280%, marking its best year ever and making it the S&P 500's top gainer. Shares of rival Seagate technology have soared roughly 218%. And Micron technology jumped nearly 238% through today.

The Magnificent Seven stocks had an average rate of return for 2025 of 27.5%. Alphabet outpaced them all with the 2025 return of 65.8%. Nvidia returned 40.9% in 2025, well below its 171% gain in 2024 and the 239% surge the year before. As of December 2025, the Magnificent Seven accounted for approximately 34.3% of the S&P 500's total market capitalization. During the first three quarters of 2025, the group accounted for 41.8% of the S&P 500's total return.

Momentum Investing

Momentum investing experienced a significant resurgence in 2025, mirroring the surge in the meme stock craze in 2021:

Momentum investing is a trading strategy that involves trading stocks that are moving rapidly higher—or lower—and then exiting positions before the prices begin to move in the opposite direction. A form of market timing, momentum investing seeks to exploit short-term price movements in stocks.⁴¹

Momentum investing is all the rage as we close out 2025. It has drawn millions of new, novice investors into the markets and to the online broker-dealers such as Robinhood, which specialize in more aggressive short-term trading.⁴² There are many scholarly, positive opinions on the benefits and returns of momentum trading.⁴³ No doubt, the returns can often be very impressive. And that is why one of the premises of this article is that the phenomenal returns we have had over the last couple of years have convinced millions of investors that the risk of investing in stocks, and especially those that have had a phenomenal price run-up, is nonexistent or very limited. I disagree:

*The Risks of Changing Momentum - Momentum investing might seem enticing when markets are trading higher (or lower in the case of a short strategy), but it can be **highly risky**.⁴⁴ Remember that past performance doesn't guarantee future returns. Also, a momentum strategy depends upon more and more investors following trends and, in turn, driving share prices higher. This can sometimes lead to prices rising to levels far above the stock's intrinsic value and, therefore, becoming unsustainable. Market trends can sway like a pendulum, and investor sentiment can quickly pivot based on a variety of factors.⁴⁵*

⁴¹ What Is Momentum Investing? Investor Insights/Investment Strategies, August 12, 2025, FINRA

⁴² "Having totally removed the stockbroker from the picture, Internet firms have effectively eliminated the one safeguard for many individuals." Internet Trading - Take a Walk on the Wild Side, Douglas Schulz, Securities Arbitration 1999, Practising Law Institute, July 16, 1999

⁴³ Momentum Investing: A Viable Long-term Strategy Making a Comeback, Mark P. Cussen, November 08, 2025, Investopedia.

⁴⁴ Underlining and Bold added

⁴⁵ What Is Momentum Investing? Investor Insights/Investment Strategies, August 12, 2025, FINRA

Meme Stock Trading

Meme-stock trading is similar to momentum trading. Here is a November 2024 article defining meme trading:

In recent years, Wall Street has seen the meteoric rise of "meme stocks"—securities that gain rapid popularity and trading volume because of their viral nature on social media and online forums.

*From GameStop (GME) to AMC Entertainment (AMC), these volatile stocks have captured the attention of retail investors and financial markets alike. But what exactly are meme stocks, and is investing in them a wise financial move?*²

Key Takeaways

- *Meme stocks are characterized by their viral popularity and speculative nature and are often driven by social media and retail investor communities.*
- *While offering the potential for rapid gains, meme stocks come **with high volatility and the risk of significant losses.***⁴⁶
- *Regulators have expressed concerns over the trading activities surrounding meme stocks, indicating potential legal and market implications.*
- *Financial analysts and experts provide mixed views on the sustainability and wisdom of investing in meme stocks.*

The term "meme stock" is a relatively new addition to the investment lexicon, emerging in the wake of the GameStop trading frenzy of early 2021. However, the concept of stocks spiking suddenly in popularity and trading volume from social media buzz and online investor communities has been around for longer.

*The meme stock phenomena can be traced to the rise of commission-free trading platforms like Robinhood (HOOD) and the growing influence of online forums such as Reddit's r/WallStreetBets. In 2021, as many were at home due to pandemic-era lockdowns, the time and free trading available set the table for what followed.*⁴⁷

Enter – The Young Investor/Speculator

It was the biggest year (2025) for individual investors since the GameStop frenzy of 2021. 'It's not a passing trend.'

That movement has been powered by three straight years of double-digit gains for stocks. The S&P rose 16% in 2025. Many traders have reaped even larger gains, thanks to the rapid climb of retail favorites such as Palantir, up 135% in 2025, or Robinhood Markets, up 204%.

*The growing influence of everyday investors has also come with more risk. Some advocates and industry executives have expressed concern that young traders have been encouraged to seek out quick hits and rapid gains at the expense of sustainable habits.*⁴⁸

⁴⁶ Bold and Underling added

⁴⁷ Is Investing in Meme Stocks a Good Idea? Understanding the Risks and Rewards of This Investment Trend, Adam Hayes, November 26, 2024, Investopedia

⁴⁸ Everyday Traders Go From Fringe Players to Dominant Market Force, Hannah Erin Lang, December 31, 2025, Wall Street Journal

These new young traders do not have time for traditional analytical tools. A stock's momentum and price appreciation trump the drudgery of researching and reviewing stock fundamentals. When interviewed by various financial publications, these naïve investors often state that their trading activity is as much for fun and entertainment as for profit, even though many have quit their jobs to trade full-time because of their excellent returns.

Momentum trading, in combination with the exceptional returns recently observed, is affecting not only new or young investors. Older, senior, and veteran investors are also caught up in this new trend, and statistics show they are pouring billions more into the markets.

Conclusion

The exceptional annualized returns of the last three years—averaging over 21% for the S&P 500—have fostered a dangerous "recency bias". As history demonstrates, periods of extreme appreciation often mask underlying risks, creating an environment where speculation is frequently mistaken for sound investing. While tools such as Alpha, Beta, and the Efficient Frontier provide a rational framework for measuring volatility, they are increasingly ignored in favor of momentum and "meme" trading.

The current market landscape, characterized by record-high margin debt and a heavy concentration in a handful of technology giants, bears an eerie resemblance to the precursors of past market corrections. Investors must recognize that a significant increase in an asset's value does not decrease its risk; on the contrary, it often signals a departure from intrinsic value and a heightened vulnerability to sudden reversals. Ultimately, while the "rising tide" of the current bull market has lifted many portfolios, the true test of an investment strategy—and the exposure of its inherent risks—only occurs when that tide inevitably goes out.