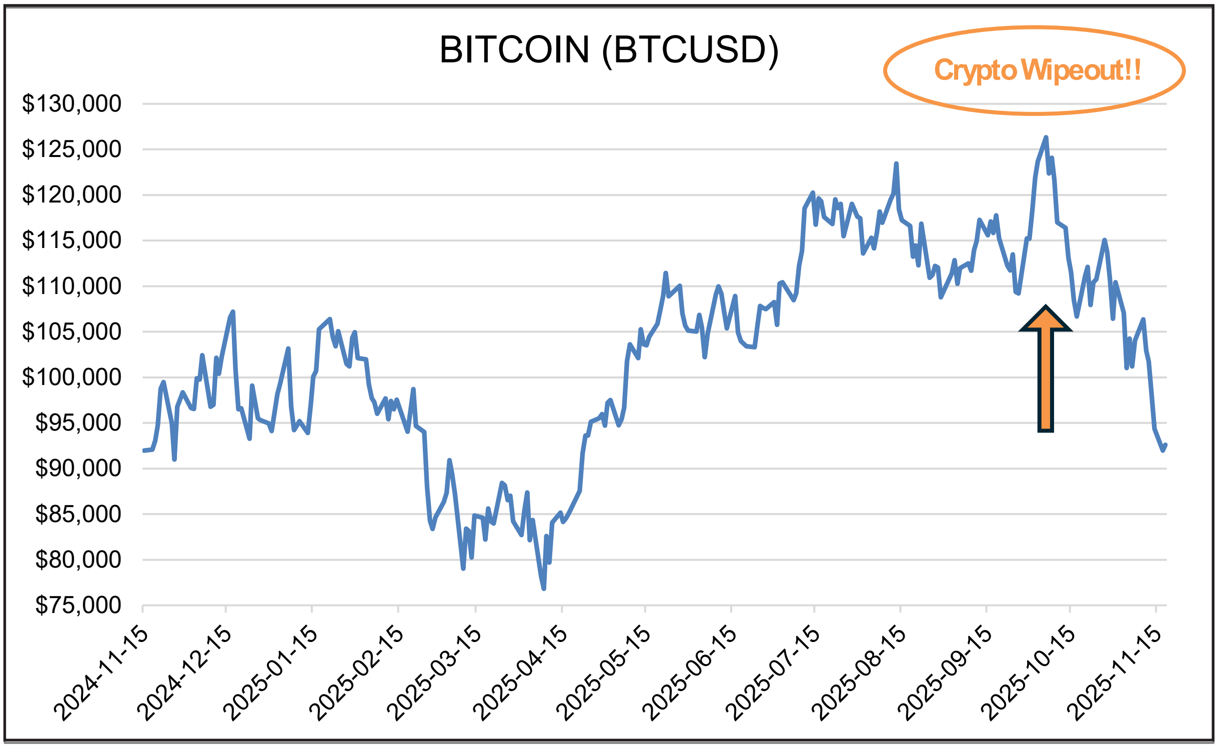
Bear Market... inning #1

On October 10th, 2025, a crypto wipeout occurred when over 1.6 million accounts were liquidated. These investors, which were using leverage, lost an estimated total of $20 billion.[1] As you can see on the chart below, this happened just after $BITCOIN hit an all time high. Don't investors usually lose a lot after a big drop? Getting wiped out at the top is something very unusual. The culprits are probably using too much leverage along with buying too aggressively on small pull backs (BUY THE DIP strategy) along with getting involved with the lower tier and quality of the crypto world. It works beautifully in a bull market but drives investors to disasters in a bear market.

A blind belief that asset prices would continue to behave the same way as it's been for the last many years was obviously a wrong concept. An entire generation of investors (below 40 years old today) have never seen a real bear market and therefore may not assess the risk / reward profile correctly.

Considering the crypto asset class is at the high end of the risk curve, I would expect a bear market to start with this asset class. Looking at the market action, any investor should be asking themselves if the correction in $BITCOIN is going to lead the stock market lower. Have we started a bear market?



Source: Factset as at November 18

Following that crypto wreckage day in early October, we had another significant event with all of the markings of a market change on October 28th, 2025. The S&P 500 had its worst "breadth" for a positive day since 1990 (S&P 500 up 0.23% but 398 names were down).[2]

Another sign of a stock market peak would be the record number of ETFs being launched, including record number of ETFs with 3X and potentially even 5X leveraged ETFs coming soon. The net flows into ETFs this year has been staggering, at over $700bln year-to-date in U.S. listed equity focused ETFs alone, adding fixed income and specialty ETFs, it is just under $1 trillion.[3]

1 https://finance.yahoo.com/news/bitcoin-ethereum-rebound-following-largest-004445699.html

2 https://x.com/bespokeinvest/status/1983276195413446690?s=20

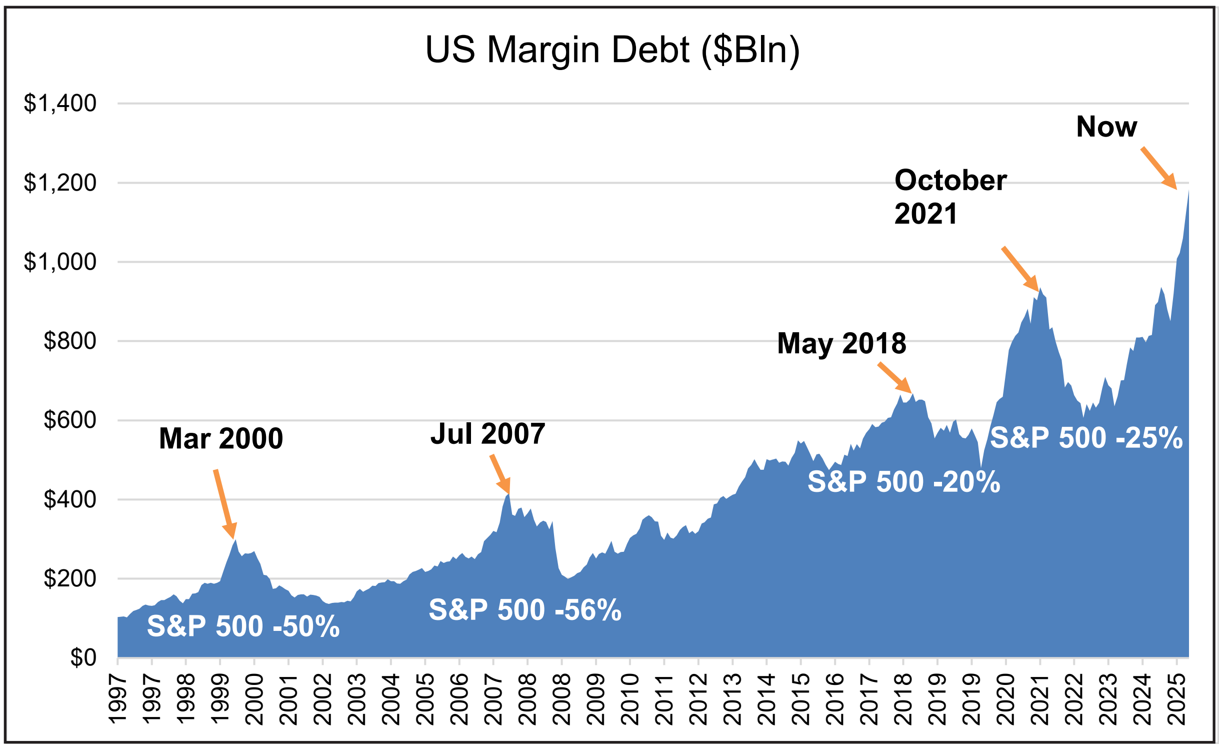
3 Bloomberg, as at November 17, 2025

The aggressive behaviour of some investors has not only been seen at the bottom tier of the crypto world, but its also all over the stock market. For instance, we are seeing record volume of one day and zero-day expiry options (0DTE) and a long list of "meme" stocks moving wildly from one day to the next. Take a look at a short list of companies below with big market cap but almost 0 revenues and big losses. My guess is many of them won't ultimately succeed which is another sign of investors being too optimistic.

	Market Cap ($B)	Revenues ($M)	Net Income($M)
AST SpaceMobile	$22	$19	-$304
OKLO	$15	$0	-$100
FERMI	$12	$0	-$353
rigetti	$8	$7	-$351
D-Wave	$8	$24	-$399
NUSCALE	$7	$64	-$380
QCi	$3	$1	-$68
ENOVIX	$2	$30	-$159
BTQ	$1	$1	-$14

Source: Bloomberg as at November 18 intraday
Note Fermi net loss showing for the first 9 months of 2025

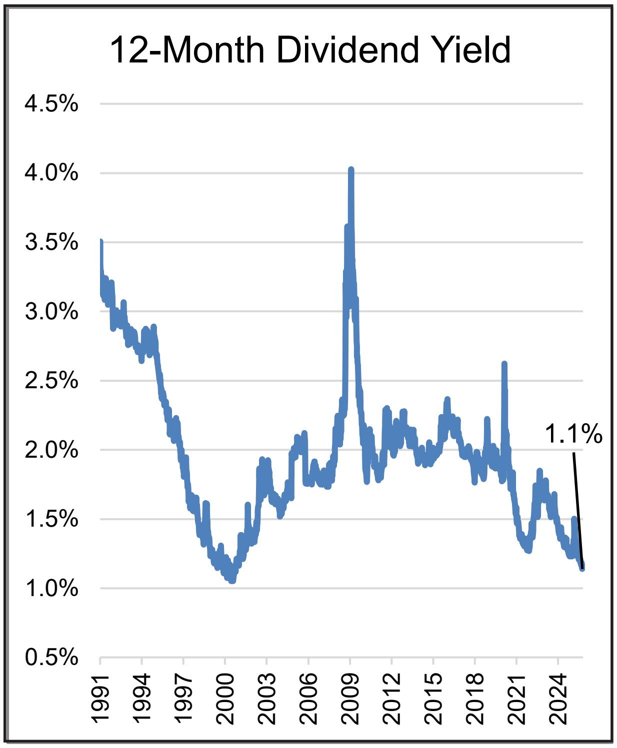
Another good historical signpost of stock market peak is the margin debt, when people buy stocks with borrowed money. Once again, this appears to be showing a sign of market peak:



Source: FINRA

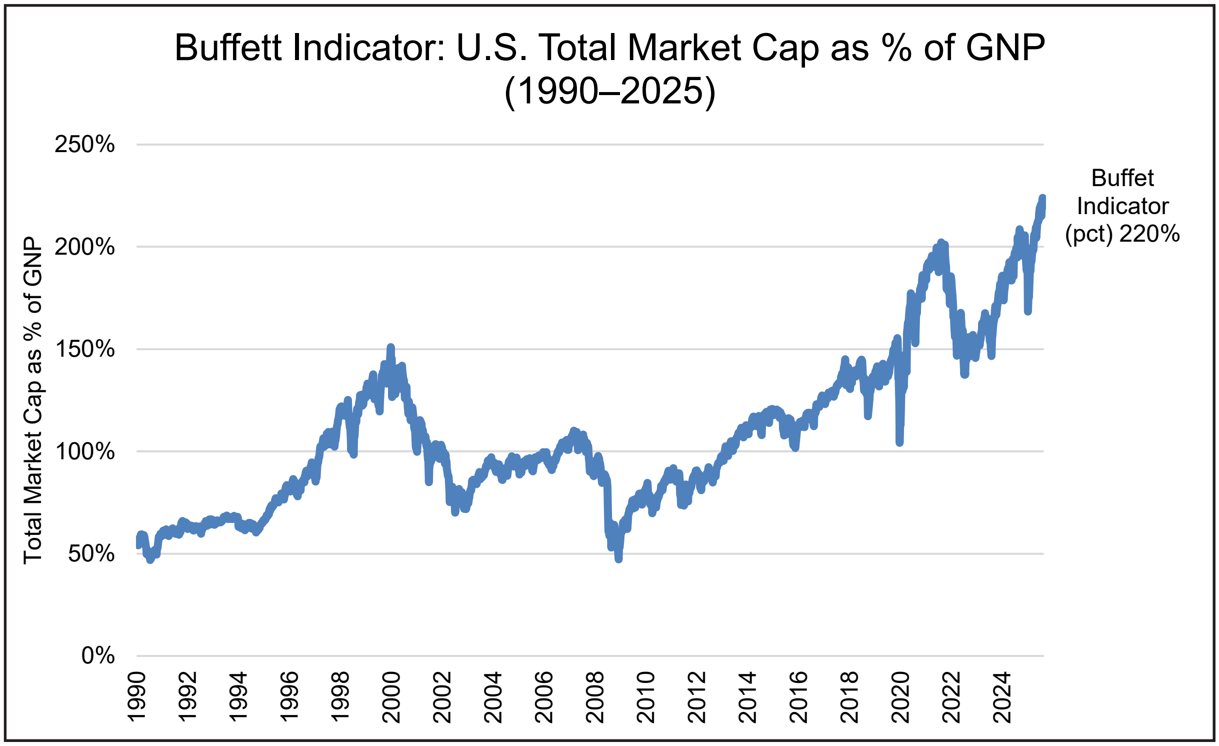
Most investors are aware that valuation multiples are at upper brackets of historical norms but continue to "play". This has been true for quite a while now and we all know it won't last. Play the musical chairs at your own risk.

Source: Bloomberg, as at November 17 intraday

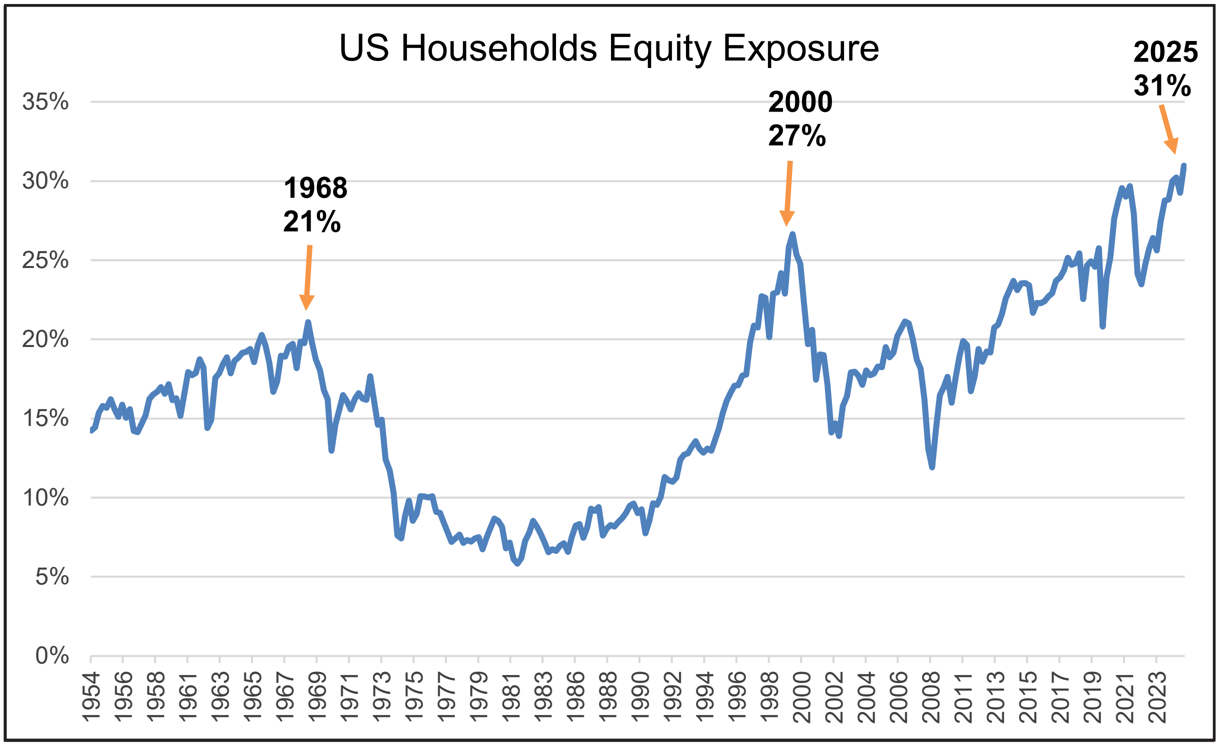


Source: Bloomberg, as at November 17 intraday

And here are a few more classic valuation indicators:

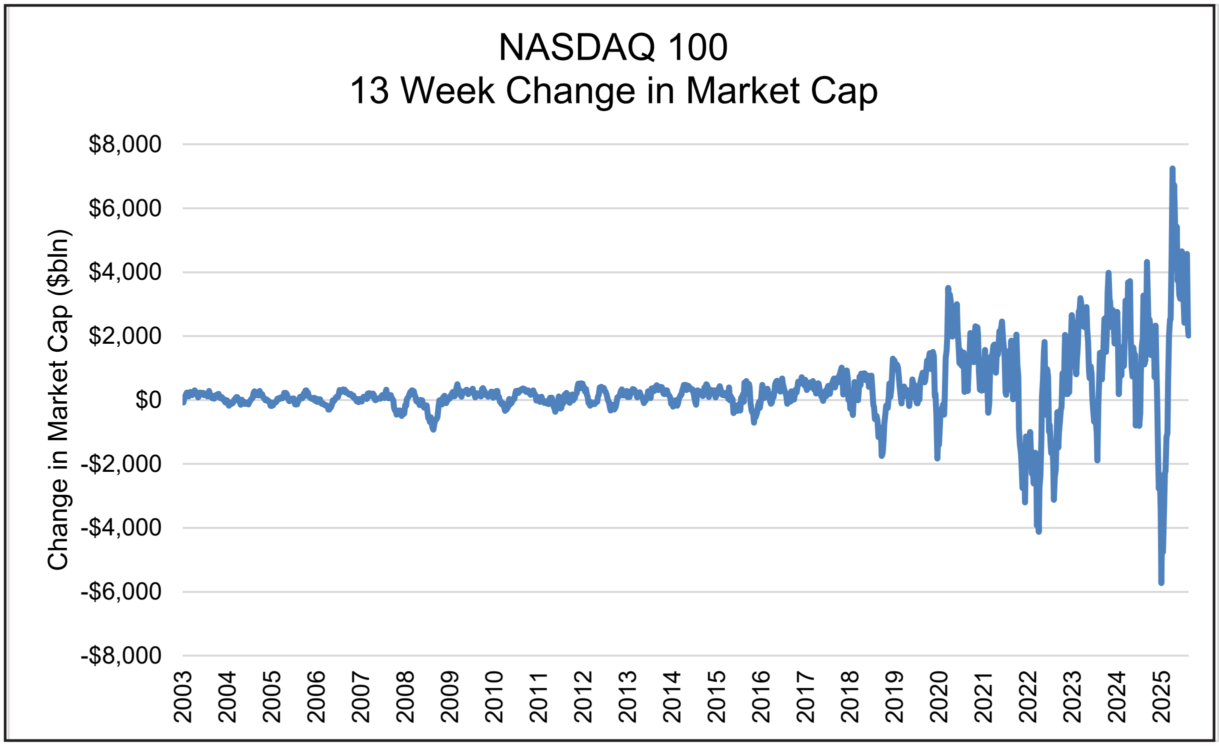


Source: Bloomberg



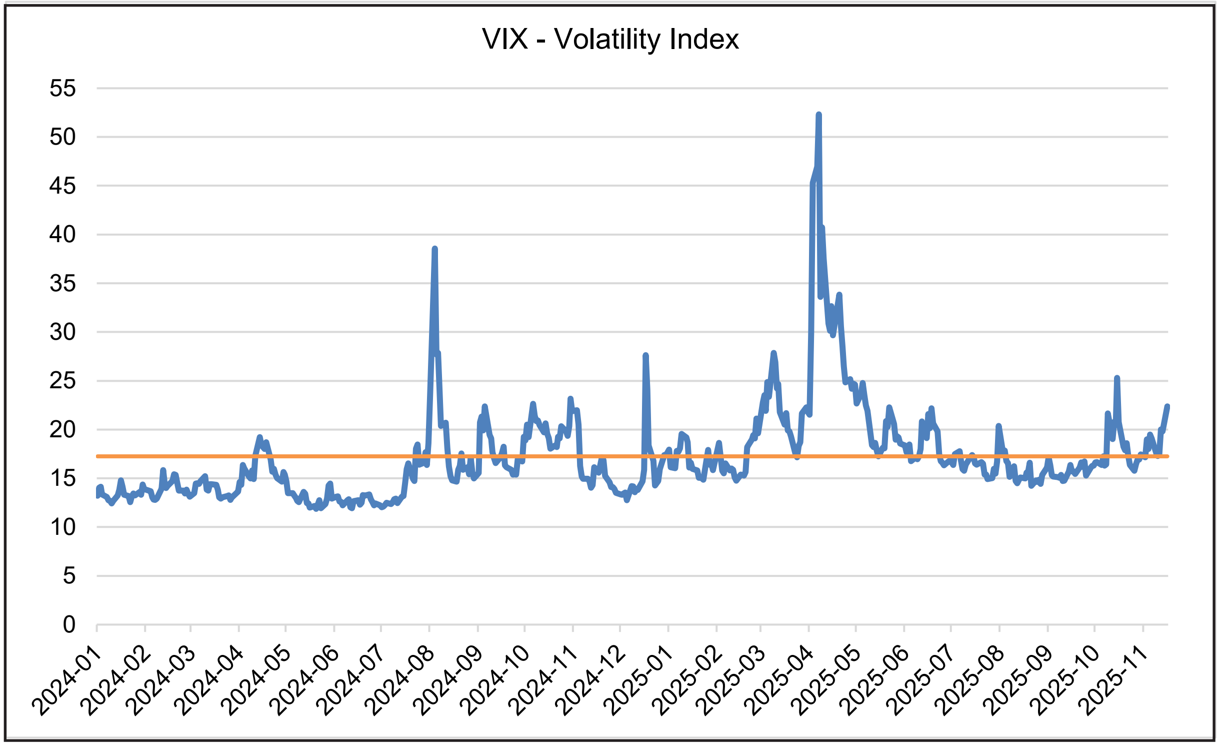
Source: FRED

Another, although less followed, signpost of potential market peak is the increased volatility in dollar terms. For example, what was a $2 trillion down move in 2020 has increased to a $6 trillion move in 2025 when looking at the market cap change of the NASDAQ 100, ~3x more!



Source: Bloomberg

However, the $VIX itself doesn't show this increase in volatility which is an important divergence to what investors actually experience.



Source: Bloomberg as at November 17

One other topic where investors is having a strong and healthy debate this year is about the AI space. Are we in an AI bubble? Is the spending on datacenters and GPUs going to grow for years to come? Will it be enough to justify the valuation of these "AI" companies, which are some of the largest in the world? To be clear, we believe the growth of the capex spending by these AI companies will slow down and eventually peak which will take NVIDIA's stock (the #1 benefactor of this AI spending) down substantially, just like the stock has done in many prior cycle's (drawdowns of 50% -75%). Most likely this will take down the whole stock market along with it. To show you that markets are already more than fully paying for the huge AI spending cycle that we are witnessing, please look at this list below:

	Market Cap ($B)	Revenues ($B)	Net Income ($B)		Market Cap ($B)	Revenues ($B)	Net Income ($B)
NVIDIA	$4,493	$130	$73	Walmart	$820	$681	$19
Apple	$3,936	$416	$112	Tencent 腾讯	$749	$92	$27
Microsoft	$3,768	$282	$102	VISA	$638	$40	$20
Google	$3,442	$350	$100	ORACLE	$620	$57	$12
amazon	$2,479	$638	$59	OpenAI	**$500**	**$13**	**NEGATIVE**
aramco	$1,667	$480	$105	Exxon	$496	$339	$34
BROADCOM	$1,605	$52	$6	MasterCard	$482	$28	$13
Meta	$1,506	$165	$62	Johnson & Johnson	$480	$89	$14
tsmc	$1,455	$90	$37	NETFLIX	$467	$39	$9
TESLA	$1,350	$98	$7	SAMSUNG	$406	$221	$25
BERKSHIRE	$1,091	$424	$89	Palantir	$403	$3	$0.5
Lilly	$966	$45	$11	abbvie	$412	$56	$4
JPMorgan	$815	$279	$58	COSTCO	$403	$275	$8

Source: Bloomberg

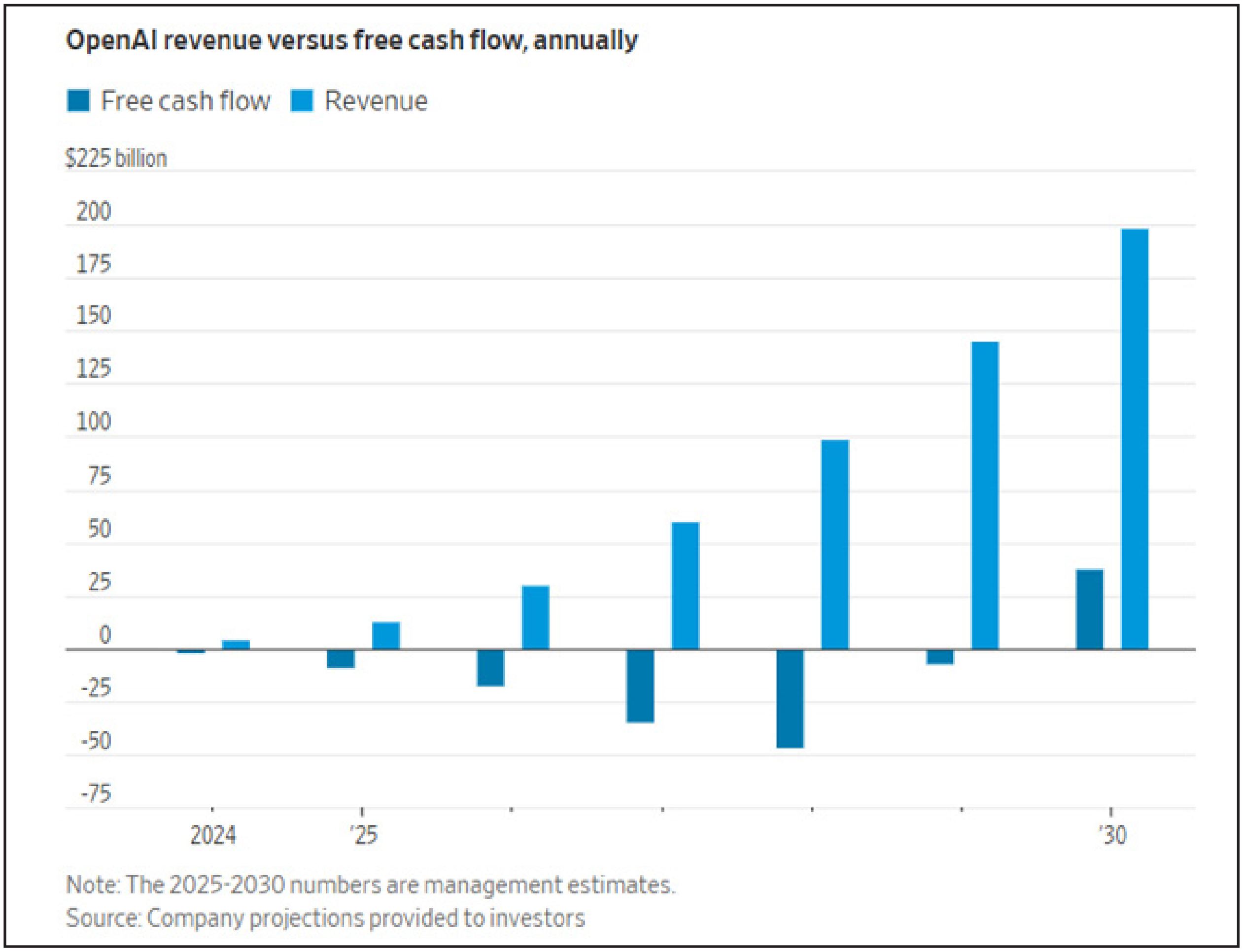
What stands out to you in the list above?

OpenAI

In our opinion, it should be clear to all investors that investing in OpenAI at the current valuation level implies them winning the AI race, which is a requirement far from being guaranteed. Let's look at the list of competitors which are backed by very large and profitable corporations.

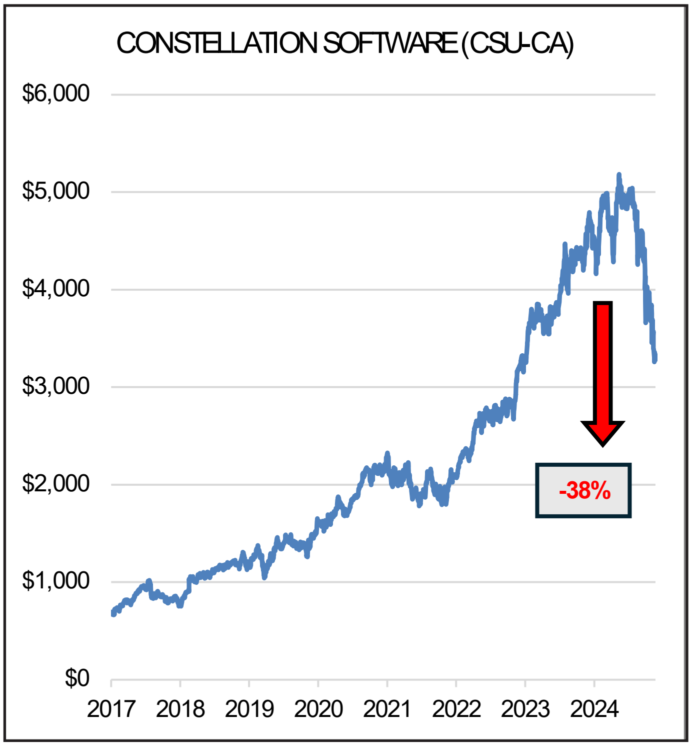
1. ClaudeAI – Anthropic
2. GROK – Elon Musk
3. Gemini – Google
4. Copilot – Microsoft
5. MetaAI – Meta
6. Perplexity – Wealthy investors & venture capital

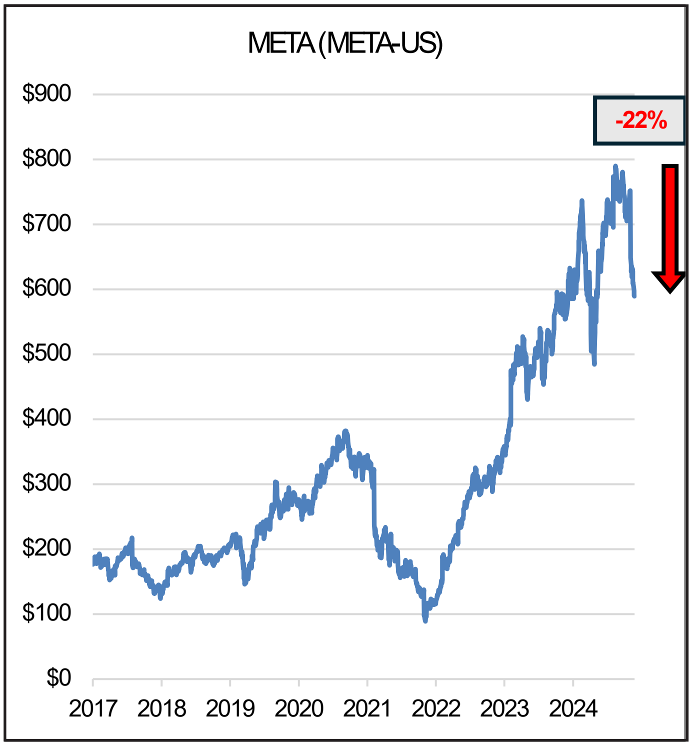
Some have estimated OpenAI will continue to burn cash with as much as $45 Billion of negative free cash flow in 2028. With that in mind, I'm not sure how those numbers will be able to attract a $1 trillion IPO that a lot of people are talking about.

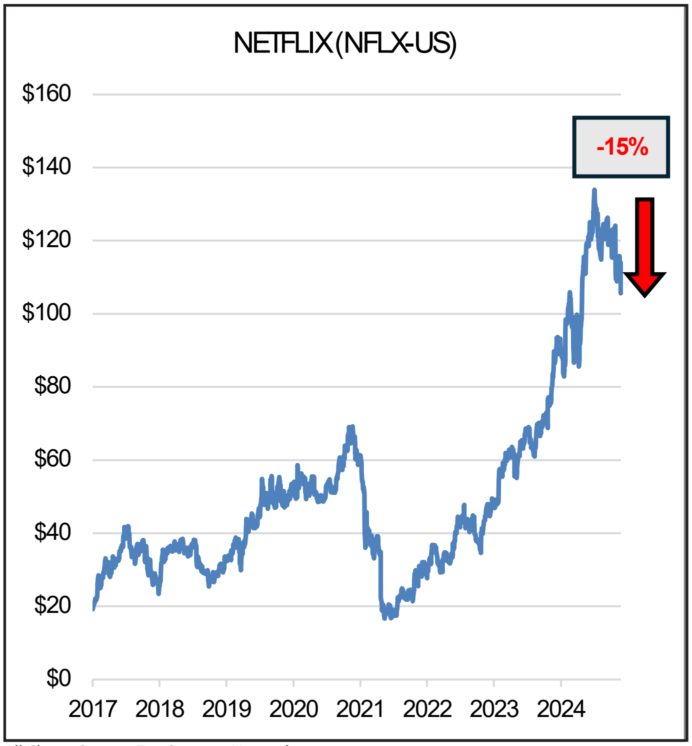


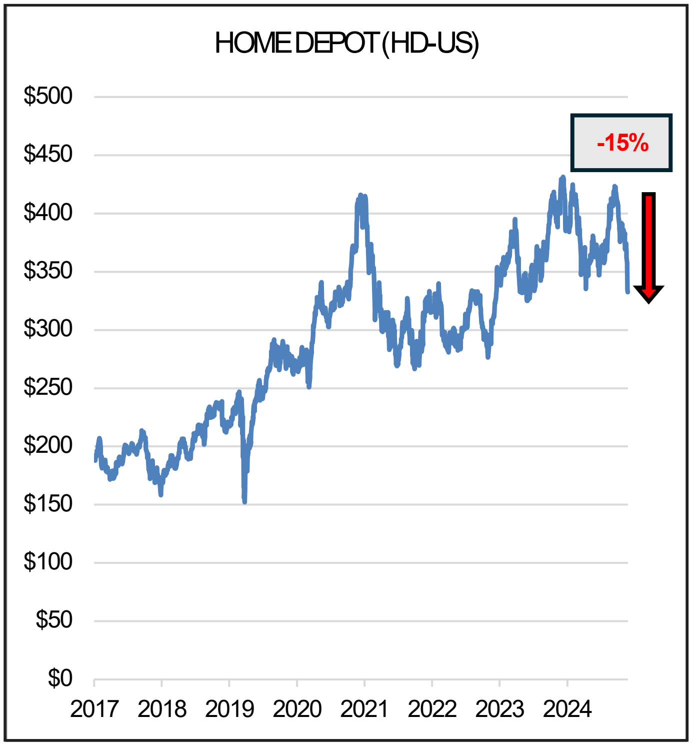
In my opinion, the most likely scenario is OpenAI will lose market share. Furthermore, I don't believe we will end up with seven winners in AI. The bottom-line here is that investors are most probably not assessing the risk / reward profile of OpenAI (like in the case of the bottom tier of crypto) correctly today and therefore there is a lot more downside than upside. Looking back at 2000, another fact I keep in mind is how the early winners didn't end up winning the long-term race of the internet boom (Yahoo; AOL; Netscape) but they rather came later (Google, Netflix, Facebook, etc).

Finally, another sign that we have started a bear market is by observing the large numbers of leading stocks cracking down. Have a look for yourself:

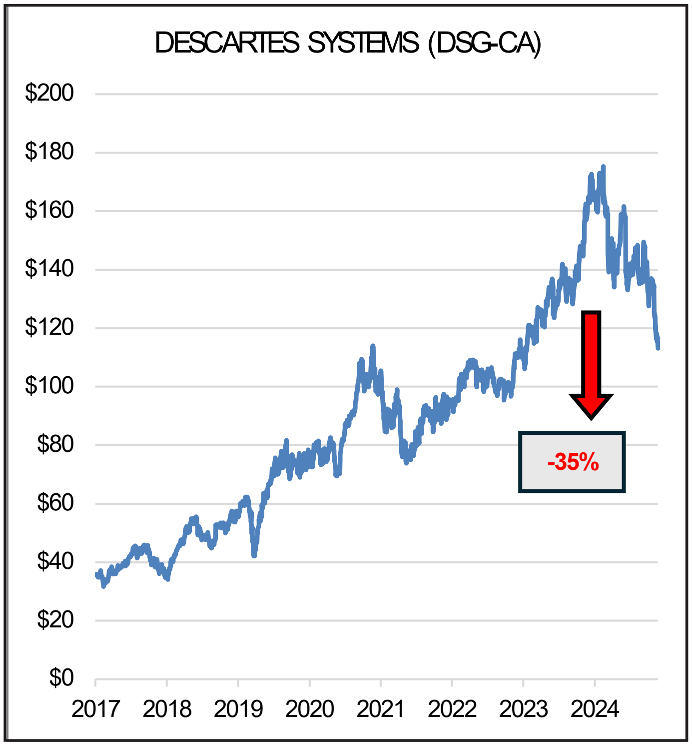


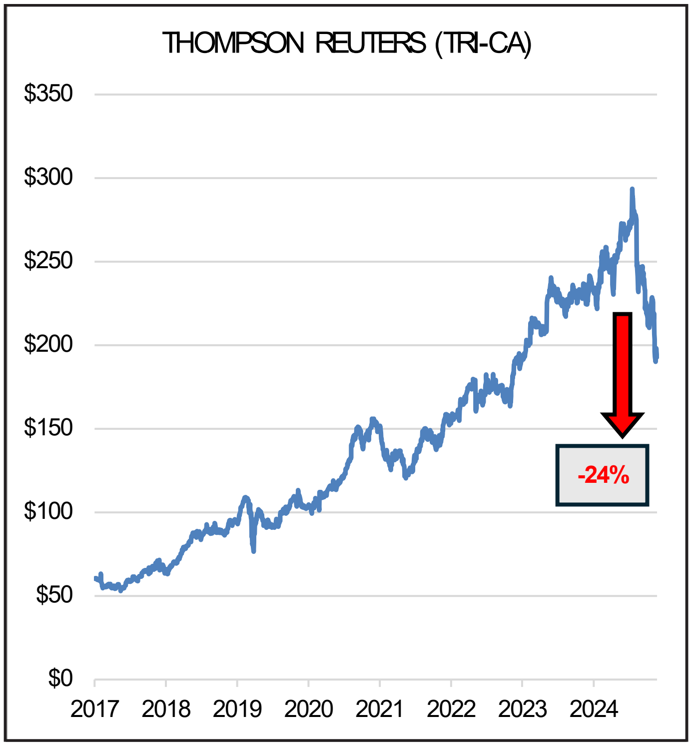


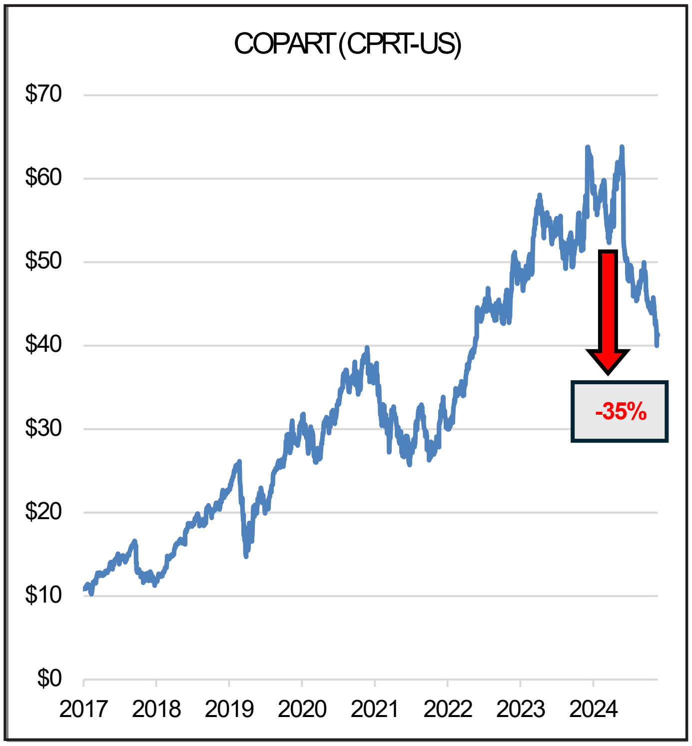




All Charts Source: FactSet as at November 20







All Charts Source: FactSet as at November 20

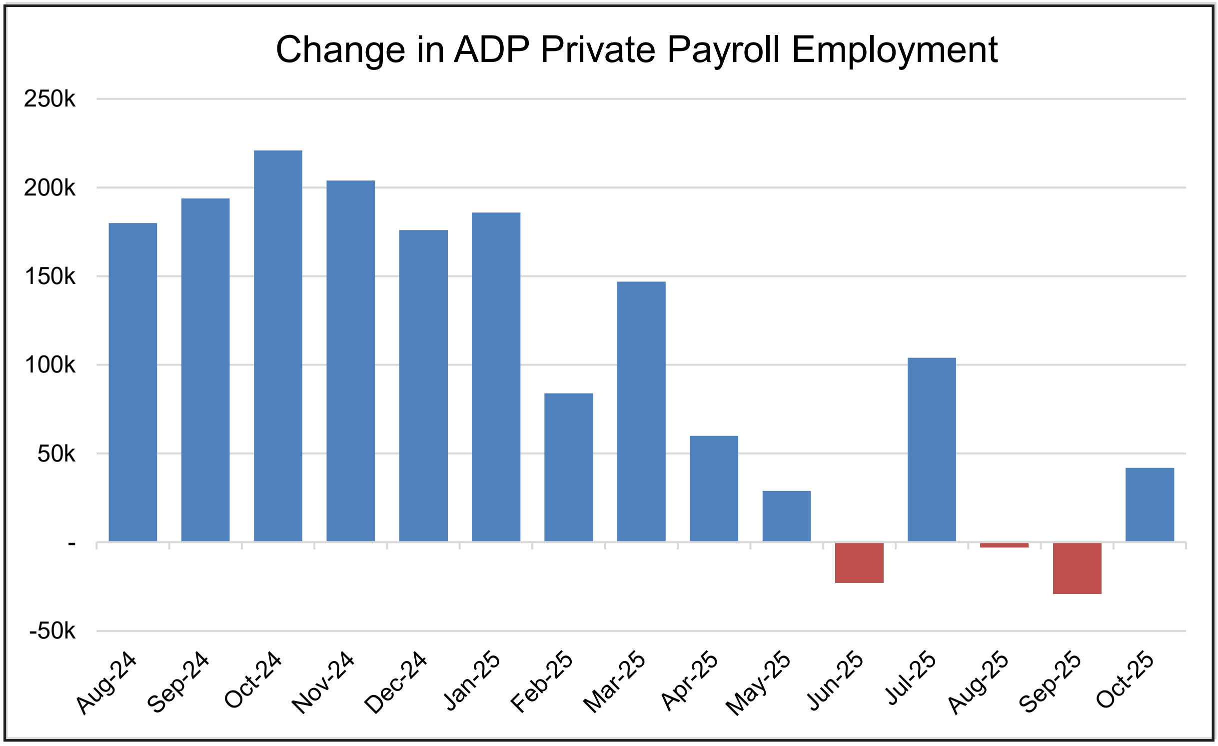
Economic Data is Weakening

Due to the government shutdown, we haven't been able to follow much economic data for a while. Once the government reopens and the data gets published, I expect the data to show how the economy has softened as the number of layoff announcements in the news seem to be accelerating. As an example, Verizon announced the cut of 13,000 jobs out of 100,000 employees they have.[1] Here is a list of additional layoff announcements:

- UPS: extended layoffs to 48,000 from 20,000[2]
- Intel: 24,000
- Amazon: 14,000
- Microsoft: 9,000
- Target: 1,800
- Nestle: 16,000
- Accenture: 11,000
- Novo Nordisk: 9,000
- ConocoPhillips: 3,000
- American Airlines: 2,700[3]

As we've written previously, under the uncertainly of tariff rules, a lot of business decisions have been put on hold and this is now starting to appear more clearly in the data. For example, **U.S. manufacturing contracted for an eighth straight month in October.** The Institute for Supply Management (ISM) said on November 3rd its manufacturing PMI fell to 48.7 in October from 49.1 in September. A reading below 50 indicates contraction in manufacturing, which accounts for 10.1% of the economy.

Look at the next 3 charts to see a very clear trend:



Source: Bloomberg

1 https://www.cnbc.com/2025/11/20/verizon-cutting-more-than-13000-jobs-as-it-restructures-.html

2 https://www.reuters.com/business/world-at-work/ups-cut-34000-jobs-first-nine-months-2025-2025-10-28/

3 All companies down from Intel to American Airlines https://intellizence.com/insights/layoff-downsizing/major-companies-that-announced-mass-layoffs/

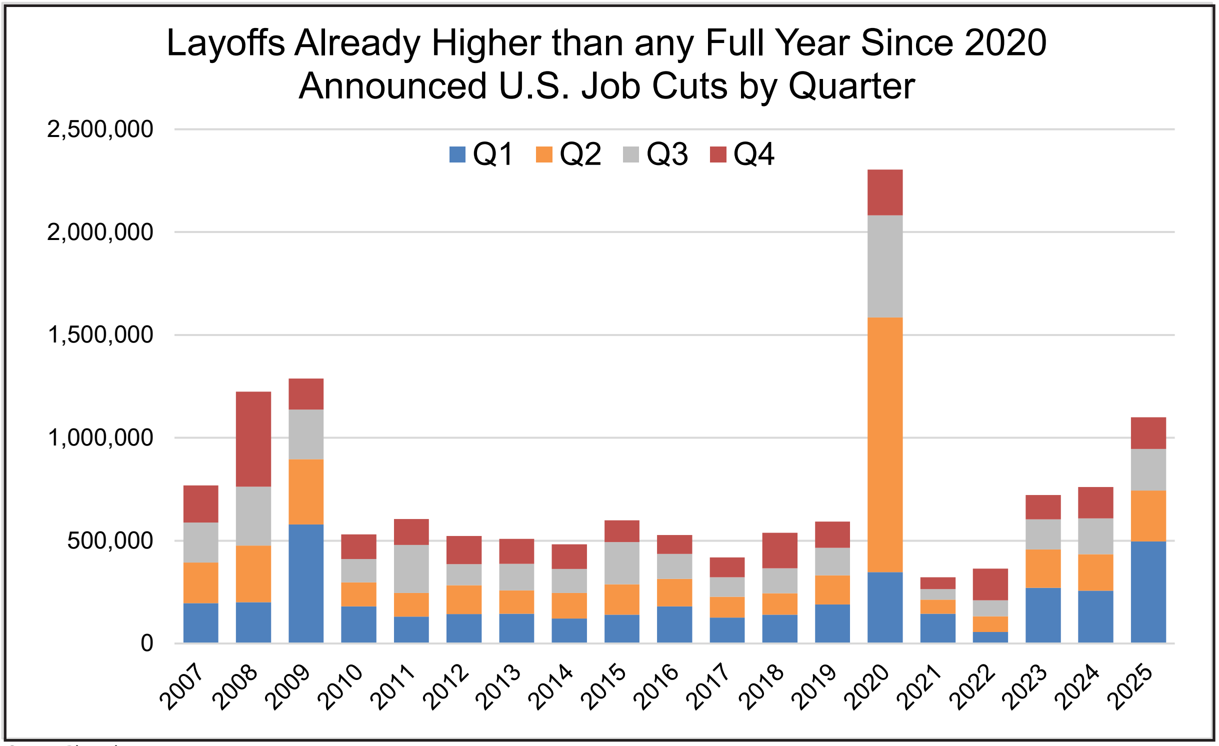
The job market is weakening fast, "Through October, employers have announced 1,099,500 job cuts, an increase of 65% from the 664,839 announced in the first ten months of last year".[1] In fact, the layoffs in October alone were almost as large as many fourth quarter totals in prior years.

Challenger U.S. Job Cut Announcements by Quarter:

	Q1	Q2	Q3	Q4	Total
2007	195,986	197,513	194,095	180,670	**768,264**
2008	200,656	275,292	287,142	460,903	**1,223,993**
2009	578,510	318,165	240,233	151,122	**1,288,030**
2010	181,183	116,494	113,595	118,701	**529,973**
2011	130,749	115,057	233,258	127,018	**606,082**
2012	143,094	139,997	102,910	137,361	**523,362**
2013	145,041	113,891	128,452	121,667	**509,051**
2014	121,341	124,693	117,374	119,763	**483,171**
2015	140,214	147,458	205,759	105,079	**598,510**
2016	180,920	132,834	121,858	91,303	**526,915**
2017	126,201	100,799	94,478	97,292	**418,770**
2018	140,379	104,800	120,879	172,601	**538,659**
2019	190,410	140,577	133,882	127,687	**592,556**
2020	346,683	1,238,364	497,215	222,493	**2,304,755**
2021	144,686	67,975	52,560	56,749	**321,970**
2022	55,696	77,515	76,284	154,329	**363,824**
2023	270,416	187,793	146,305	117,163	**721,677**
2024	257,254	177,391	174,597	152,116	**761,358**
2025	497,052	247,256	202,118	153,074	**1,099,500**
Average	**212,972**	**211,782**	**170,684**	**150,900**	

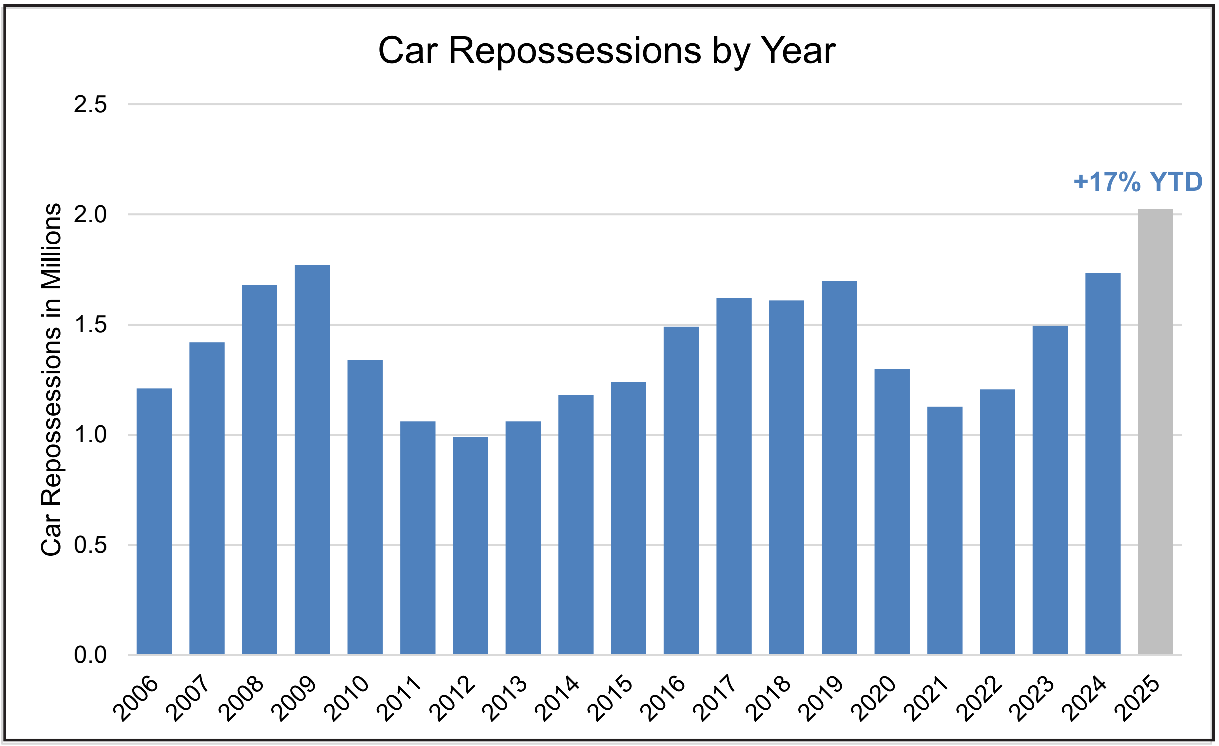
Source: Bloomberg. Note 25Q4 shows only up until October

1 https://www.challengergray.com/blog/october-challenger-report-153074-job-cuts-on-cost-cutting-ai/



Source: Bloomberg

Another sign of economic weakness is the number of car repossessions which is at its worst since the 2009 Great Recession record. Through September, total repossessions in 2025 are up another 17% vs already elevated 2024 levels.[1]



Source: COX Automotive, CU Repossession

1 https://curepossession.com/rdn-repossession

Portfolio Positioning

Considering we believe that generally asset valuations are inflated, speculation is rampant, and government deficits and debts are too high, we believe we have seen the signs of the beginning of a bear market or a significant correction. With that in mind, you would not be surprised to see our portfolio with a low net exposure along with a significant amount of put options.

Having said that, we continue to look for stock specific opportunities on both the long and short side. On that front, we have found many new ideas. Therefore, the portfolio names have changed more significantly than usual in the past 12 months. We have added to our gold equities which we believe have significant upside. We also have spent a lot more time focusing on larger cap (instead of small and micro cap) names. We have added on the long side names like Extendicare, Exchange Income Corp, Microsoft, Elevance, Chipotle (very recently), Dutch Bros (recently), Rockpoint Gas, British American Tobacco, Circle Internet, Prairie Sky, Russel Metals and Calian. We have reduced or eliminated positions that have met our expected return like Chemtrade, Premium Brands, Canaccord, Diversified Royalty, Doman, Uber and Lyft. Also, we have reduced or eliminated positions that have not worked or have had fundamental results go the wrong way like Mattr, Data Communications and Ag Growth. The focus is to do more of what works and less of what doesn't work within a framework that we have probably started a bear market or a significant correction.

Jean Francois Tardif
President & Portfolio Manager
Timelo Investment Management Inc.

For more information please contact:
Timelo Investment Management Inc.
647-725-2865
Info @riskreward.ca
372 Hollandview Trail Suite #305
Aurora ON L4G 0A5