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Macro  
Memo

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## Lessons from the Capital Cycle

### Why Fundamentals Win

On December 26, 1960, the Philadelphia Eagles defeated the Green Bay Packers 17–13 in the NFL Championship Game. The loss deeply affected Packers head coach Vince Lombardi. When training camp opened the following summer, Lombardi did something unexpected.

As chronicled in *When Pride Still Mattered: The Life of Vince Lombardi* by David Maraniss, Lombardi assumed nothing. He treated his seasoned players as blank slates and began with the most basic instruction imaginable. Holding up a football, he addressed the team: “Gentlemen, this is a football.”

That radical return to fundamentals worked. In the 1961 NFL Championship Game, the Packers defeated the New York Giants 37–0. Over the next seven seasons, Lombardi’s teams won five NFL championships.

The lesson was clear: disciplined execution of the basics produces winning outcomes over time. The same principle applies to investing.

### Capital Allocation vs. Market Hype

At its core, investing is the disciplined allocation of capital into productive endeavors with the expectation of earning a return over time. This applies equally to corporations investing in physical and intellectual capital and to investors allocating financial capital to those businesses.



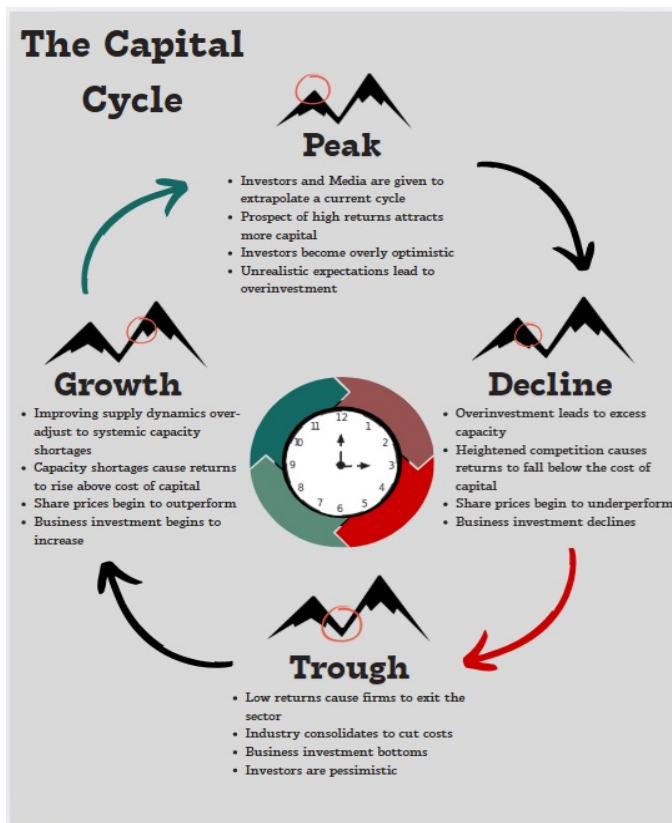
Success requires prudence, patience, and a focus on fundamentals. However, because markets are driven by human behavior, investors are often pulled away from discipline and toward momentum, especially when fear of missing out (FOMO) takes hold. When capital chases stories instead of fundamentals, investors often confuse momentum cycles with capital cycles. The former tend to be short-lived, while the latter drive long-term outcomes.

### How Capital Cycles Work

Capital cycles describe a simple but powerful pattern: money flows toward what’s working until it works too well. When an investment idea gains attention, capital pours in. Companies expand, new competitors enter the market, and production ramps up. At first, this growth feels exciting and profitable.

Eventually, however, too much capital leads to too much supply. Prices fall; profits shrink and returns disappoint. Investors lose interest, capital pulls back, and weaker companies exit the market. Over time, the remaining businesses cut capacity enough that supply tightens again. When demand returns, pricing improves, profitability recovers, and the cycle starts over.

This pattern repeats across industries and decades. Thinking about capital cycles as a clock face helps investors understand where risk and opportunity tend to live. It is to an investor’s advantage to own a company’s stock between 6:00 and 12:00 of the cycle when capital



With a lower capital base, Level 3 was able to profitably operate networks supporting services like Netflix and Apple Music. The technology succeeded, but early capital did not.

The Dot-Com bubble was certainly not an isolated or even uncommon event. Additional examples of overenthusiastic capital misallocation occurred during the housing bubble which culminated in the Global Financial Crisis of 2008. Another happened in the oil and natural gas pipeline sector in the mid-2010s stemming from the shale patch energy boom.

### Today's Capital Markets Signals

Today's AI investment boom shows familiar characteristics. Capital expenditures by AI hyperscalers have surged, (see chart below)<sup>1</sup> and reports of newly constructed data centers sitting idle due to insufficient electrical infrastructure<sup>2</sup> echo the overcapacity seen in prior cycles.

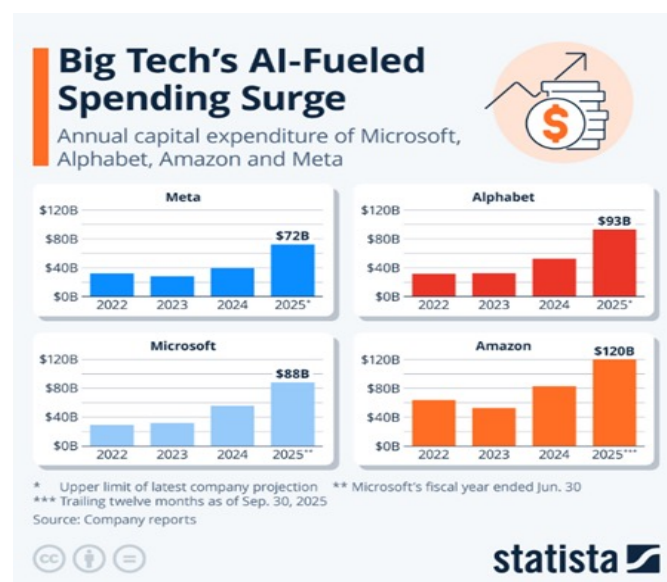
has already left an industry and expectations are low. Conversely, owning the stock between 12:00 and 6:00 works against the investor after years of enthusiasm, heavy investment, and rapid expansion.

### Lessons from Prior Bubbles

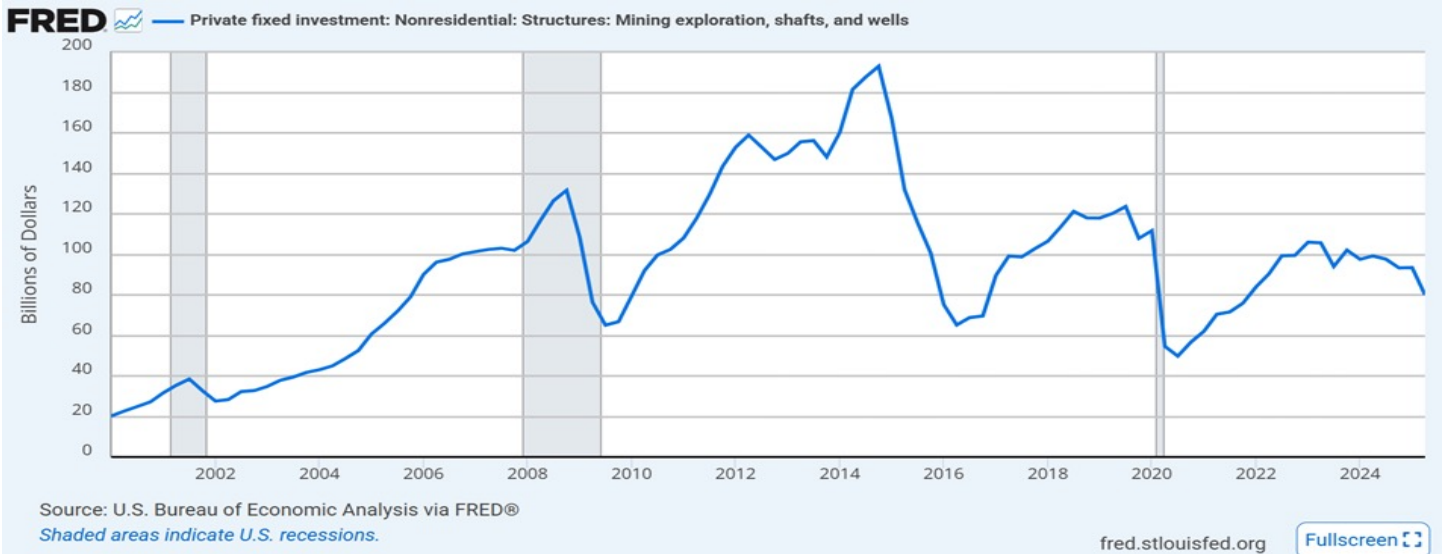
The dot-com era provides a textbook illustration of capital cycles at work. During the late 1990s, enthusiasm for the internet led to massive investment in telecommunications infrastructure. Venture capital poured into companies like Global Crossing and WorldCom, which raced to lay thousands of miles of fiber-optic cable across continents and oceans. Because the marginal cost of adding extra cable once trenches were dug was low, firms installed far more capacity than demand required.

By the early 2000s, estimates suggested that only 5–10% of installed long-haul fiber was actually in use. The resulting oversupply crushed returns. Global Crossing and WorldCom both declared bankruptcy in 2002, wiping out billions in investor capital.

Completing the cycle, those same fiber-optic assets were later acquired out of bankruptcy by Level 3 Communications at a fraction of their original cost.



At the opposite end of the capital cycle are companies that produce hard assets such as energy, base metals, and agriculture. Data from the Federal Reserve shows capital investment in developing these productive assets has declined by roughly 50% over the past decade<sup>3</sup>. This matters. Research from the Darden School of Business (Cooper, Gulin, & Schill) demonstrates an inverse relationship between a firm's asset growth (capital expenditure) and subsequent stock returns. Simply put, industries starved of capital often become the source of future returns<sup>4</sup>. Just as



Lombardi returned his team to winning by returning to the fundamentals, investors benefit from revisiting core principles when markets become dominated by hype.

### Bringing It All Together

Capital cycles remind us that successful investing is not about chasing the most compelling story but about understanding where we are on the capital cycle clock. While AI may continue to transform the economy, capital markets do not reward excess investment indefinitely. History suggests that returns accrue to disciplined investors who recognize when enthusiasm has already pulled future returns forward.

Today, the capital cycle appears far more favorable for producers of essential hard assets than for AI hyperscalers. Now may be an appropriate time to review portfolio allocations, assess concentration risk,

and ensure your investments remain aligned with long-term fundamentals, not short-term momentum.

If you would like to discuss how these themes may apply to your portfolio, we are always happy to continue the conversation.

<sup>1</sup>Felix Richter (2025) - "Tech's AI-Fueled Spending Surge." Published Online at Statista.com. Retrieved from: <https://www.statista.com/chart/35046/capital-expenditure-of-meta-alphabet-amazon-and-microsoft/> [Online Resource].

<sup>2</sup><https://www.bloomberg.com/news/articles/2025-11-10/data-centers-in-nvidia-s-hometown-stand-empty-awaiting-power>

<sup>3</sup>U.S. Bureau of Economic Analysis, Private fixed investment: Nonresidential: Structures: Mining exploration, shafts, and wells [E318RC-1Q027SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/E318RC1Q027SBEA>, December 14, 2025.

<sup>4</sup>Cooper, Michael J. and Gulen, Huseyin and Schill, Michael J., The Asset Growth Effect in Stock Returns (January 30, 2009). Darden Business School Working Paper No. 1335524, Available at SSRN: <https://ssrn.com/abstract=1335524> or <http://dx.doi.org/10.2139/ssrn.1335524>

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