

The Disciplined Investor Podcast – Guest Interview Summary

Guest: Manuel Blay

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Summary

Market Timing Definitions and Signals

Manuel and Andrew discussed market timing and their definitions of bear and bull markets. Manuel explained their unique definition, which requires a 16% drop in both the Dow Industrials and S&P 500 for a bear market, and a 19% rally for a bull market. They discussed how these definitions can provide a framework for market analysis, but good market timing doesn't always wait for these official signals. Manuel shared that they went 50% invested at the capitulation point in April and became fully invested before the official bull market signal in July. They also discussed the importance of using multiple signals for market timing decisions.

Bull Market Characteristics and Concerns

Andrew and Manuel discussed the characteristics of the current bull market, which Manuel described as a new bull market with different characteristics from old bull markets. They agreed that the first 6 months of the bull market had elapsed, and Manuel expected some choppiness in the market. Andrew pointed out the high price-earnings ratio of the S&P 500, which he considered a concern for the market's sustainability. Manuel suggested that liquidity and earnings could change the market's direction, but emphasized that it was not a solvency crisis.

Economic Liquidity and Market Monitoring

Manuel and Andrew discussed the current economic situation, focusing on liquidity issues and the potential for a solvency crisis. Manuel emphasized the importance of monitoring earnings revisions and liquidity indicators, including the repo market and high-yield bonds, while also keeping an eye on global markets, particularly China. They briefly touched on the differences between the U.S. and European economies, with Manuel expressing optimism about the U.S.'s prospects due to factors like energy costs and regulation. The conversation was cut short due to technical difficulties with the audio connection.

Margin Debt and Market Trends

Manuel and Andrew discussed the relationship between margin debt and stock market trends, noting that record-high margin debt in September 2025 could indicate either investor confidence or risk-taking behavior. They explored how margin debt has nearly doubled since December 2022 and the potential risks associated with its use in leveraged products and same-day options.

Margin Debt and Market Trends

Manuel discussed the high levels of margin debt, noting that while it appears elevated, adjusting for market cap shows it's not as extreme as it seems. He explained that as a trend follower, he measures margin debt trends using Dow Theory patterns rather than moving averages, and while a peak in margin debt typically precedes a stock market peak by 5-6 months, he currently sees it as a yellow light rather than a red light for the market. Manuel expects a potential decline in October due to liquidity issues, but until there is clear evidence of a trend change, he considers it bullish for the stock market.

Market Valuation and Timing Strategies

Andrew and Manuel discussed market valuations and timing strategies. Manuel explained his approach of using capital per capita and liquidity to assess market conditions, noting that higher capital per head tends to lower interest rates and increase P/E ratios. He emphasized that while current valuations may seem frothy, they don't necessarily indicate an immediate market downturn, especially for market timers with a one-year horizon. Andrew acknowledged the differences between market timing and using valuation metrics, and they agreed to revisit Manuel's bull market call from early 2025 in their next meeting.