Spring 2025

The newly announced tariffs and ensuing market volatility caused much anxiety and uncertainty. So, let's take the advice of our old friend Warren Buffett who said that "what you really want to do in investments is figure out what's important and knowable. If it's unimportant and unknowable you forget about it."

With this in mind, we're going to eschew the usual fables and stories and instead focus this *folio* on what we believe is both important and knowable, starting with how we've prepared for times like this.

We know markets can be stormy, and one way to prepare for these periods of volatility is by diversifying our portfolios. In nearly every *folio*, over hill and dale, we note the importance of diversification. We've said this before, most recently in this month's Perspective, but it bears repeating: We don't just invest in a few companies—we invest across hundreds of stocks, spanning developed and emerging markets outside the U.S., and private assets and fixed income. The latter of which serves two primary objectives—safety of principal and generating income.

Whether a storm, like tariffs, is predicted or not, your well-diversified portfolio is designed to provide shelter. The hems of our pants will likely be soaked, and the winds might cause some sideways rain, but we're not expecting to be thoroughly drenched.

And the storm will pass.

How do we know? Our confidence is rooted in history. U.S. stocks (and global for that matter) have *never* failed to recoup their losses, and nothing indicates that the current market correction will make history.

Additionally, we've seen this kind of volatility often causes many outstanding companies to become undervalued, and this short-term mispricing opens up opportunities. In last summer's *folio*, we shared how we purchased West Fraser Timber at a significant discount in 2017 when there were 24% tariffs on Canadian softwood (an exception in Trump's new tariffs, for the time being). We later sold West Fraser Timber at a profit.

Here's what else we know—nobody, perhaps not even the President himself, knows anything for certain about these tariffs. Including, crucially, whether or not they'll remain for any length of time. Or which countries will continue to be targeted.

To wit: On Tuesday April 8th, the Magnificent Seven stocks, the S&P darlings, were all down between 25%-50% in value as Trump slapped tariffs on imports from countries, including China, a major tech market and exporter. We believed the market had greatly overreacted: while the short-term outlook for these stocks may have been ruffled by the tariffs, the long-term prospects of these companies continue to look good. The potential tariff impact was not consistent with the amount their stock prices had fallen.

By Wednesday afternoon, however, President Trump announced he would pause most of the “reciprocal” tariffs for 90 days, and the global markets soared. Leading the charge? The Magnificent Seven stocks, which gained more than $1.5 trillion in market value in the short time between Trump’s announcement and the close of the market.

The chaos only underscores what we’ve always maintained: reacting to the day-to-day, even minute-to-minute, changes in the market is folly.

We know that while tariffs affect prices, currency fluctuations can help mitigate price differences. For example, the Canadian dollar (CAD) lost approximately 10% of its value to the U.S. dollar (USD) over the last four months. If the new tariffs on Canadian goods come in at 10% (no sure thing, as we’ve seen), the cost to the consumer may not change at all. Because the importers got a 10% discount due to cheaper CAD relative to the USD they pay for goods.

We know that Trump’s tariffs, in whatever form they take, will be a large tax shock. Folks can argue over who will pay that tax, but somebody will. And history has shown that tax hikes are rarely good for global growth. It has also shown that higher taxes don’t necessarily lead to a recession. There wasn’t a recession after President Reagan’s 1982 TEFRA tax nor after President Clinton's 1993 tax hikes. Even the Smoot-Hawley Tariff Act of 1930, the most infamous of all tariffs, didn’t lead to the Great Depression.

We know that the essence of diversification, what we do, is building a portfolio with things that tend to behave differently in the short run. So, for example, while U.S. equities are down for the first quarter, your allocation to equities domiciled outside the U.S. has performed better, and your fixed income is up. And when it’s time to rebalance, there will be a lot of great companies on sale.

And, finally, we know this: In the time it takes to write the last line of this *folio* and ship it off to your inbox, more Trump tariff headlines are likely to emerge on your news alerts and scrawls. And none of them will change the fact that we have, with a deep understanding of your goals and needs, planned for this.