



Wealth Management
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Part One – Investing When Tarrified

The first quarter ended but a week ago and already it seems long ago. To my mind, tariffs are a bad idea. When I was studying economics at McGill in the 1970s, I was taught that free trade is the closest thing to a free lunch that there is in economics. Countries can sell a lot of what they are relatively good at, like Canada shipping oil to the U.S. Trump's "Liberation Day" announcement that tariffs would rise from 2.5% at the end of 2024 to over 20% when fully implemented was shocking. I wish I had seen that coming. It is unknown if the tariffs are more tactical than permanent. As announced the tariffs seem impractical.

Warren Buffett says you should never let your politics influence your investing. Half the time the candidate he voted for has not been President but that hasn't changed how he invested. However, I find it hard to be agnostic about this President. The haphazard implementation of Trump's trade war, including the irrational manner that tariff levels announced on April 2 were calculated, have created a fog of uncertainty. The proposed tariffs are at a level not seen in a hundred years – higher even than the Smoot Hawley Act of 1930 that precipitated the Great Depression. The rational side of my brain tells me that the magnitude of the tariffs is so severe that they must be temporary or at least subject to negotiation.

Tom Lee of Fundstrat (April 6) charges that the "resulting market fury is not due to a reaction to a trade war, but rather, in our view, the fact the White House broke a core covenant of capitalism – stable and predictable regulatory environment...essential for long-term investment and planning." The last time the stock market fell 5% two days in a row was in March of 2020 when the pandemic revealed how vulnerable supply chains can be. This time the threat was abrupt executive orders.

So, what is an investor to do? In the face of this much chaos to me the answer is little. We have balanced portfolios with significant reserves. We will try to keep calm and carry on consistently

rebalancing portfolios to their long-term investment targets. When stocks go way down, I am tempted to buy. But there is no rush. I prefer to let markets calm down and to buy gradually in small increments. If Trump suddenly changes his mind and stocks go racing back up, well we already own a lot of stocks. If the trade war escalates our reserves can be deployed to buy even bigger bargains. My experience with previous crashes is that buying gradually creates staying power. By the time you read this the April 9 deadline for 'reciprocal tariffs' will have passed, and this letter may be dated.

Last week I attended a talk by Howard Marks of Oaktree Capital. I have enjoyed reading his essays for 30 years. His message on April 1 was to stop trying to predict markets and to accept volatility. Little did he know how much volatility was to follow on the following days.

Part Two – A Personal Note

This part is not about investing and may not be of interest. I was trying to explain to myself and to my kids why I was so emotional about Trump's threat to annex Canada by 'economic force'. My family history must be a big reason I get upset when Trump calls Canada the 51st state.

All my grandparents immigrated to Canada. The Stedmans came because my grandfather wanted to win the prize for the first person to fly across an ocean. His plane's water pump broke before the fog cleared in Newfoundland, so he didn't. But they liked Canada, and E.W. became an early member of the Royal Canadian Air Force. An engineer, by the time of the Second World War he was Air Vice Marshall. In the early 1950's he was invited with other military brass from around the world to witness the Bikini Atoll Hydrogen bomb test. The U.S. wanted to impress the world with the viciousness of the new weapon. The heat from the explosion was so intense that he had to duck behind the gunnel of the ship. Two years later he and many other witnesses were dead from cancer. My father refused to sue the U.S. government, although many did, saying that his father was a military man who was proud to have been invited. E.W. was accidentally killed by the U.S. military in peacetime.

My father served in tanks in the British army and won his first Military Cross in North Africa a year before the US even entered the war.

My mother's parents came from Boston. C.D. Howe joined the government of Mackenzie King as the Minister of Canals and Railways in 1935. Although American, C.D. felt strongly that Canada should have its own national airline, so he created what is now called Air Canada. He thought Canada should protect its culture, so he created the Canadian Broadcasting Corporation (CBC). To support Great Britain during the Second World War he (who was now known as the Minister of Everything) supported the creation of dozens of Canadian manufacturers. In the 1950's C.D. Howe felt strongly that for its security Canada should safeguard a supply of energy by building a pipeline from Alberta to Ontario through Canada, above the Great Lakes, even though it would have been cheaper to build it south of the lakes, through the USA. The parliamentary debate about the creation of Trans Canada Pipelines led in 1957 to the defeat of the government of Louis St. Laurent and of my grandfather.

Canadians recently seemed to have been lulled into complacency about a potential threat from the USA. The North American Free Trade Agreement in the 1990s (which my brother Charles negotiated as Assistant Deputy Minister in the government of Brian Mulroney) created a sense of security that was only enhanced by the U.S. Mexico Canada Agreement (USMCA) signed by Trump in 2018.

That sense of trust is now broken. Personally, I think Trump has underestimated how much economic hardship Canadians will endure to keep our country. I feel my family is invested in Canada.

Thanks for reading.

Sincerely,

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