



Royds Report

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FEAR IS MORE DANGEROUS TO YOUR FINANCIAL HEALTH THAN VOLATILITY

A Globe & Mail columnist made some interesting points, quoted below, that I think are worth thinking about with today's volatile markets.

"We just had **the fourth most volatile week for stocks in the past 60 years**. But really, it's been endless chaos in financial markets since last fall, starting with the run-up in stocks that coalesced with Donald Trump's re-election.

From there, we had the threats to impoverish and take over Canada, the imperilling of the world economy via senseless global trade war, the brief wave of elation at its partial undoing, until panic set in once again over the growing rift between the world's two superpowers. And what was the net effect of all that on the stock market? Nil.

The **S&P/TSX Composite Index was up by 0.05 per cent from mid-September to Thursday's close [Apr 10, 2025]**. Investors who tuned out and did nothing over that time would be no worse off. **Had you hung on Mr. Trump's every whim, you'd be far more likely to make a serious mistake that puts your financial health at risk**. Fear is an intoxicant. Perpetual outrage isn't sustainable. By all means, change the channel on this dreadful psychodrama, or at least turn down the volume. You'll be saner and quite possibly richer for it. ... We are hardwired to loathe losing money. And on any given day, the stock market's likelihood of declining is basically a coin flip. **Those immersed in the daily volatility of the market subject themselves to a compounding emotional toll**. Long-term, the fluctuations are meaningless. Over spans of decades, the stock market rises by an average of 8 or 9 per cent a year, almost infallibly. This is the signal that ought to guide investor behaviour. ... **Research shows that those who follow their portfolios religiously don't do as well**. One often-cited (though possibly apocryphal) Fidelity study found **the best-performing investors over a 10-year period were those who**

either forgot they had accounts, or were dead.” Source: Shufelt, Tim (2025, Apr 14). Unfollowing Trump might help your finances. The Globe and Mail.

LEAVE IT TO THE PROFESSIONALS

We expect all of our fund managers to do in depth research and be disciplined in their process of selecting stocks to invest in or deciding when to sell them. Some managers may follow a stock for years, before they find it at a price, that they'd be willing to pay. Others will watch anything new for at least 6 months before risking a penny on it. Here are just some of the questions one fund management team seeks to answer before investing, just to give you an glimpse into how extensive research can be:

- “What is the outlook for sales, profit margins and capital spending?
- Who are the company's customers and why do they deal with the company?
- What kind of shape are its customers in?
- How's the company doing relative to its competitors?
- How is the company going to grow?
- How will growth be financed?
- What could really hurt the company in the next few years?
- How does management get paid and are rewards aligned with shareholders?
- Who could replace the current CEO?”
- Is management's compensation system shareholder-friendly?
- Does the company have a long-term focus that aims to permanently improve returns rather than focusing on short-term results?
- Is senior management developing good employees?
- Is the company looking at new markets, new products or projects and other growth opportunities?
- How will the company do if any of our assumptions are wrong?
- At current valuations, is there opportunity for stock appreciation or are there any extreme views embedded in the price?
- What do experts who have a long history of being able to project a company's financial future think about the company's prospects?
- How is the company priced compared to its valuations in the past or compared to its competitors?

To get answers to these questions, the fund manager is busy “reading company materials and research reports, talking with analysts, meeting directly with management, reading conference call transcripts, and listening to company webcasts”. Source: Kewell, Stu and Raymond, Doug (08/2021). Our approach to fund management. RBC Global Asset Management.

Other managers or their analysts interview the firm's suppliers to see if they're paying their bills on time, their customers to see if they plan to purchase more or less next year and their competitors to learn about competitive threats and competitive innovation that could lead to a change in market leadership. The analysts might also assess geopolitical, regulatory and currency risks to a company's suppliers, customers, production facilities etc. Lots of managers look at environmental, social and governance status to see if there is hidden risk there. And of

course, managers will assess a company's balance sheet (especially debt) and the strength and trustworthiness of management.

Do you know anyone buying individual stocks who has the patience, expertise or resources to do a fraction of that level of research on their own? How can we compete to find a stock that the rest of the world hasn't already found first? And now that some fund companies are using AI driven search engines to drive models they have developed over years or decades to determine appropriate valuations and prospects multiple times per day if there is new information, most individual investors are indeed outmatched.

LIBERATION FROM A BULL MARKET

Here's a great summary from TD Asset Management (dated Apr 11, 2025) on what has been happening. "heading into April 2nd – the market was already down ~10% with defensive stocks leading. And then liberation day happened – suffice to say the magnitude, the questionable calculation methodology and the punitive degree of announced tariffs exceeded almost any but the wildest expectations. ... **The announced tariffs, if maintained, would place the overall tariff burden higher than the Smoot-Hawley Act of 1930 (widely considered by financial historians as exacerbating the Great Depression).** ... **the S&P registered the fourth largest 2-day decline in 75 years, the VIX [volatility index] was up 100%,** and HY [high yield] spreads widened 100 bps [1%], in a week! The armchair quarterbacks will tell you they saw this coming, why the surprise? We disagree with the idea that this was expected – the market seemed to be perfectly fine with tariffs, likely that a 10% tariff would've been fine, and it seemed priced in. What the market and we didn't expect was this announcement didn't seem to be about tariffs at all – by now, everyone's seen the math behind it, reciprocal trade balances are a very different idea compared to reciprocal tariffs. While the first part of the selloff felt orderly, last Friday's selloff was an indiscriminate rush for the exits where everything sold off, even Treasuries sold off, and VIX spiked to peak panic levels. ... The faster that the market regains a sense of certainty and directionality as to where this is going, the faster we get out of this temporary shock. Zooming out, **this is a self-induced policy driven ending of the bull market** – we didn't go down because there was too much risk in the system like the Great recession or a pandemic. It's a case where the hard data shows reasonably healthy wallets and balance sheets, while the sentiments have absolutely cratered. The longer this state of uncertainty goes on, the likelier we face some sort of slowdown. Conversely, the quicker there's a resolution and stable policy equilibrium, the faster fundamentals take center stage again." Source: Fernandes, Damian & Alancherry, Jose (2025, Apr 11) That Bears Watching – Liberation Day from a Bull Market. TD Asset Management

SELF INFLICTED WOUNDS

The words we hear most these days are "self inflicted wound". Fidelity sent out an overall summary and some sound bytes from their top people and the following parts really resonated with us: **“Going from bad to less bad, is a great way to make money”** [a Mark Schmehl saying] ... this market volatility has been self-inflicted and is very different to previous 20% declines:

2022 was inflation-driven, 2020 pandemic-driven, 2018 FED-driven. While sentiment is very bad, the fundamentals for the US economy are still okay - sound labor market, wages still high, and decent Q4 corporate earnings results (though this could change moving forward). ... [But,} ***“North America has the best CEOs on the planet, and can navigate around these tariffs”*** –Mike Hickey, April 2025 ***“The administration could change on a dime, it’s at the behest of one person. He could change his mind tomorrow and the market could turn the other way. You can’t get too bearish”*** –Mark Schmehl, March 2025 ***“Volatility creates dislocation and mispricing, and we are a global fund, so this gives us a great opportunity today to find opportunity”*** Source: Robertson, James (06 Apr 2025) Sunday Afternoon Volatility Guide E-mail. Fidelity Investments.

In a recent Desjardins economic study titled “Liberation Day: A Dark Day for the Global Economic Order”, they wrote, “Trump has all but singlehandedly broken the global economic order that has been in place since the end of World War II.” “while tariffs have a direct impact, they also do collateral damage. It’s been clear for some time now that Trump’s protectionist stance has been fuelling uncertainty, which has in turn caused problems in the United States and around the world.” “the situation may even be slightly less negative for Canada. ... economic conditions here and in the United States could still deteriorate, and there’s still a good chance that both countries will slide into a technical recession over the coming quarters.” “It will also be interesting to see if this new distance with the United States leads to greater solidarity between other countries.” Source: Genereux, Francis (04 Apr 2025). Weekly Commentary: Liberation Day: A Dark Day for the Global Economic Order. Desjardins.

GLIMMERS OF HOPE

AGF’s political analyst offers some reasons why market recovery may not be as far away as one might think:

- Some Republicans worry that if tariff and market turbulence don’t end soon, the 2026 mid-term elections could see voters swing to elect Democrats
- If the Federal Reserve cuts interest rates as expected this year, and the promised tax cut bill is passed, that’s stimulus for the economy
- Deflation, rather than hyper-inflation could be coming if consumers become reluctant to buy goods
- It’s hard to imagine a recession when unemployment in the US is only 4%

Let’s also not forget that markets usually recover before the economy. So, we may not have so long to wait for markets to return to previous higher levels. Of course, that means prices to invest more would also be higher. Source: Valliere, Greg (07 Apr 2025). AGF Insights and Market Perspectives. AGF Investments

The forward price-to-earnings ratio for major equity indexes ... are now below their past 10-year averages”. That means that stocks are cheaper than normal as measured by P/E ratios, as of Apr 5, 2025. “The upside of this down market is that valuations are now looking more compelling and

are no longer stretched". Source: <https://www.edwardjones.com/us-en/market-news-insights/stock-market-news/previous-weeks-weekly-market-update>

MORE GLIMMERS OF HOPE

"Canada fared relatively well compared to other major trading nations, with lower incremental tariff rates than China and Europe. As a result, the economic impact might not be as pronounced as once expected for Canadian products. These headwinds could also be partially mitigated by a weakening Canadian dollar, government stimulus through rate cuts and fiscal spending, a reduction of provincial barriers, and an increased focus on alternative trading partners". Source: <https://www.nbinvestments.ca/perspectives/article/canada-competitive-edge.html>

IF HISTORY REPEATS, NOW IS THE TIME TO INVEST MORE

Hindsight is 20/20, but we don't have benefit of that now, while markets and international politics seem so scary – again, and so soon after the last time. Wouldn't it be nice though, to know where markets are going to be a year from now, or 3 or 5? As Mark Twain is often credited with saying and the financial services industry likes to quote, **"History doesn't repeat itself, but it often rhymes."** So let's take a look at how today stacks up to past downturns and what history has to show us about where markets have gone EVERY TIME after experiencing markets like we just had.

"The S&P 500 also crossed into bear market territory, with a peak-to-trough decline of over 21%. This was the 4th bear market for the index in the last 7 years and the 5th correction of more than 20% since the March 2009 low."

"Last week was one of the wildest in markets that we've ever seen. At the close on Tuesday [April 8 2025], the S&P 500 was down 12.1% over the previous 4 trading days, the 12th biggest 4-day decline since 1950. What has happened in the past following the biggest 4-day declines? Stocks moved substantially higher over the next 1, 3, 5 years every time.

Meanwhile, the Volatility Index (\$VIX) had increased 143% over just 4 trading days, the 3rd largest 4-day spike ever. What has happened in the past following the biggest \$VIX spikes? Stocks have tended to bounce back with above-average returns over the next 1-5 years. High volatility/fear = opportunity for long-term investors. The \$VIX also closed above 50 last Tuesday [Apr 8 2025] which was in the top 1% of historical readings. What has happened in the past following closes above 50? S&P 500 gains over the next 1, 2, 3, 4, 5 years every time with above-average returns overall.

[Only] 6% of stocks in the S&P 500 closed above their 50-day moving average on April 8 [meaning 94% of stocks closed lower than their 50 day average], a reading more oversold than 98% of historical data points.

What happens when stocks are extremely oversold?

They tend to bounce, with above-average forward returns.

And bounce they did, **the very next day, with the S&P 500 gaining 9.5%** after the new Tariff announcement (rate dropped to 10% for all countries except China with a 90-day pause on the higher planned rates).” And that is why we don’t just sell out of bad markets or try to time markets. We would have missed this huge rebound. **“That was the 3rd biggest one-day gain for the S&P 500 since 1950.**

What has happened in the past following the biggest 1-day gains?

Stocks moved substantially higher over the next 1, 3, 5 years every time.

The fears over tariffs have translated into more people fearing a recession. Two-thirds of respondents in a poll [Charlie Bilello] conducted last week said the US economy is headed for a recession in 2025. The Atlanta Fed’s model continues to forecast negative real GDP growth in Q1 with their latest estimate at 2.4% annualized. This is impacting the attitudes of consumers as well, with the University of Michigan **Consumer Sentiment Index crashing to 50.8. This is the 2nd lowest reading in the survey’s history which dates back to 1952.** The good news for stock market investors? **The best returns historically have come after the worst consumer sentiment readings, and vice versa.”**

Source: https://bilello.blog/2025/the-week-in-charts-4-14-25?utm_source=charlies-newsletter-88171d.beehiiv.com&utm_medium=newsletter&utm_campaign=the-week-in-charts-4-14-25&_bhlid=53e5a6842ff18b06df672059abaa9d4f3a38fe49

You have probably seen scores of disclaimers saying that **historical performance is no guarantee of future performance.** And we’re sure not in a position to guarantee the future. But personally, we’d rather take our cue from history than risk thinking, “This time it’s different.” Those words are sometimes touted as the four most dangerous words in investing. **If history does repeat itself, or even rhyme with its performances in past downturns, we could have a buying opportunity staring us in the face right now. We can’t say if there would be an even better buying opportunity in a couple of months, but we have learned that many people wait for a better opportunity that doesn’t come and they miss out on the opportunity that did present itself.**

VISIT FROM A FAVOURITE FUND MANAGER

On rare occasions, we have had fund managers come to our office to visit just with Jordan and Elaine. We’ve been lucky enough to have 3 fund manager visits this year already. One was a TD Asset Management co-manager of 4 funds, \$20 Billion big, Jose Alancherry. He was fascinating, and we thought you might be interested in some sound bytes from his visit about the state of world markets, the economy etc. It’s one extremely knowledgeable and analytical man or team’s view, but it echoes what we hear from other fund companies. Here are snippets from our notes from his visit on Apr 15 2025:

-when the bond market reacted to tariffs, we were close to the limit of Trump’s pain. Last term he was sensitive to the equity market. He’s sensitive to loan costs now

- companies providing services rather than goods will be less affected by tariffs. Companies depending on China for their supply chain will suffer more with tariffs
- the domestic engine in the US is still strong
- Canada could get competitive if it goes up the value chain for our resources, like building refineries, and provincial trade barriers are eliminated
- Canada has too many regulations and lacks shipping infrastructure (like for our natural gas)
- Canada is sitting on a winning lottery ticket and not cashing it in. Canada is too dependent on the US for refining, plastic production etc.
- the housing market is on hold for the medium term. There isn't enough supply, but the bank of mom and dad kept prices too high
- Canadian consumers cut their spending and are therefore in a better financial situation than American consumers. American consumers didn't cut their spending
- we're going from a unipolar world (US centred) to a multipolar world: US, India, China, Russia, Europe and the Middle East. There may no longer be a single great power dictating world order
- Chinese-born tech talent found they hit a glass ceiling working in the US, so they migrated back to China, where they got capital funding. So, it was no accident that China became so competitive in the tech world. They had a lot of American trained talent
- India is targeting taking over Chinese manufacturing
- China has an advantage in that all parts of their supply chain are located within kilometers of each other
- USD and gold bullion won't be the world's only reserve currencies. Gold is a problem because no matter who owns it, it's all stored in Fort Knox. So, even if another country owns it, in time of conflict, could they even get access to it. A reserved currency has to be backed by an economy large enough to handle capital flows. Only the US is currently large and liquid enough. China's currency is managed so it doesn't qualify. The reserve currency must have a free market. So, the answer may be a diversification (basket?) of currencies going forward
- if policies stabilize in the next 3-6 months (negotiations with 80% of countries are done), then there won't be a recession. The market is pricing in a slowdown, not a recession. If uncertainty continues for 6-8 months, business and consumers will stop spending and there will likely be a recession
- we need to get through the next 6 months with minimal scar tissue and then he'll be bullish on the US
- the bull market is on hiatus. The market needs to stabilize before continuing on. We're waiting for fundamentals to take centre stage again, not headlines.

There is a lot of conflicting news and sentiment out in the investing world now. We hope that the information and pieces of wisdom we have quoted above will help you put things in better perspective. Panic and trying to time the market can be dangerous. Keeping a long term perspective and staying the course has worked for us (and others) in the past. It's never easy going through market volatility, but it seems to be a little easier every time. And we believe that it really helps to try to tune out the media and not watch your portfolio very frequently (once a quarter or less is minimizes stress in times like these). Call us if you want to talk about your

portfolio, have a planning need, want a regular review or have money you want to invest, now while the market is lower than it was.

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