

*"When it comes to macro events, you can either predict or react. I've proven time and again that my crystal ball is horrible, so my focus has to be on reacting to extremes in individual securities by selling at high valuations and buying at low valuations." Bruce Berkowitz*

### **Then the Market Rallied...**

We have not heard a positive thing about the economy or stock markets for so long now that it will be hard to know what to do if something was ever published that didn't call for economic destruction. There seems to be a disconnect between what the market is doing and what the forecasts call for. Throughout the election we were told that Canada is broken and only one of two candidates can help solve important issues such as affordable housing, high prices, weak economy and general health of the nation. I wonder how government policies outside of tax incentives and lower interest rates can have a material effect on any of these things. Yet here we are at all-time highs in western stock markets, including Canada. What does that tell us? It is often believed that markets are disconnected from the news cycle but that is simply not the reality. Markets absorb every iota of information and digest it into valuations, 24/7. What makes for a market meltdown are catalyst events such as a financial crisis of 2008, or Covid in 2020, while corrections are far more random. Perhaps what we saw following the market peak in mid-February through to May was just a correction. I didn't see anyone forecast that. I saw despair and fear of a dystopian future while our investment accounts were coming off of their highest levels.

### **Flash Bear Market**

A bear market is one that sees a 20% or more decline from its highs. We witnessed one of the sharpest drawdowns in the past century between late February and early May that touched the 20% watermark almost as if it was a goal to be reached, and just as fast, recovered. These are market events we have seen over and over, many times in similar forms. It sort of comes down and touches that 'scary' place to fool you and then resumes its upward slant. Think of it this way, even if you had the rare combination of foresight and luck to exit near the February peak, the window to re-enter before the recovery took off was incredibly narrow. It serves as a reminder that while it may be prudent to have elevated cash positions, it doesn't pay to be fully out of the market. From where I sit, I'm glad we put some funds to work. One must look at life as comedy or a tragedy, and I've never met a successful pessimist.

Early in the year markets were advancing on the heels of strong performance in 2024. Despite the rhetoric around tariffs that had been telegraphed since November, the April 2nd announcements threaten to send the economy back to the stone age. In anticipation of that April Rose Garden announcement, known as Liberation Day, markets began to weaken and following that event, pulled downwards and hard, losing over 1000 points a day here and there, with little relief. Suddenly, strategists adjusted targets on indexes downwards, analyst negatively revised estimates and economists downgraded forecasts. You can't blame them; they were trying to follow the dots of what effect the tariffs would propose...and those dots were moving all over the place. Market forecasts mostly became bearish and investor sentiment plummeted to record or near record levels of pessimism.

Then the market rallied.

Since then, we have seen tariffs moderated or postponed, de-escalation with China, investments from Saudi Arabia and a new \$400 million plane. However, deficits are now the fear among the pundits who point out that Moody's (a more than century old bond rating service) downgraded US debt which they hadn't done since 1917 including during the Great Depression, financial crisis, and Covid. Their concern is that they foresee budget deficits continue at current levels through 2034.

Then the market rallied to new all-time highs.

What this continues to tell us is that markets will climb the wall of worry, and while we would like to sell at the top, wait in the weeds and come in at the appropriate time, that is a pipe dream that few, if any, have ever been able to master.

While nothing can protect our holdings from sell-offs, I still believe that few have been able to achieve the long-term results that our investment accounts have witnessed. The system is not perfect, but the results speak for themselves.

Leave the worrying to us.

Thanks for taking a look, and as always,

## **All Good Things**