



April 2025

"In bull markets people put a premium on promises, and in bear markets, they put a discount on reality."
– Jim Chanos (renowned investor and founder of Kynikos Associates)

INVESTMENT PERSPECTIVES

Playing the Long Game: Turning Uncertainty into Advantage

As the first quarter of 2025 concluded, markets remained resilient despite ongoing uncertainty stemming primarily from the recent imposition of substantial tariffs. Initially met with caution, these new trade policies introduced volatility into the financial landscape, testing investor confidence and raising questions about future economic stability. Nonetheless, U.S. equity markets broadly maintained their momentum, supported by robust corporate earnings, anticipation of interest rate easing by the Federal Reserve, and renewed expectations for an economic soft landing. However, in early April, the market's strength was tested by announcements of new tariffs and a sharp rise in volatility, underscoring the importance of carefully evaluating risks and opportunities on a company-by-company basis.

In this edition of *Investment Perspectives*, we delve deeper into the themes shaping your portfolio amidst today's complex market environment. We explore how uncertainty around tariffs, while challenging, can create meaningful opportunities for disciplined investors who maintain a long-term perspective. Additionally, we highlight the critical role of focusing on quality businesses—those with resilient earnings, prudent management, and reasonable valuations—as essential components of effective risk management. Finally, we discuss why patience, a steady temperament, and clarity regarding your investment time horizon are more valuable now than ever, particularly as media narratives and short-term noise continue to influence market sentiment.

Navigating Tariff Turbulence: Steady Focus in Uncertain Times

New tariff policies have triggered widespread market volatility, leaving investors uneasy as they watch portfolio values fluctuate. To help clarify recent developments, it is useful to understand some key economic terms: the U.S. deficit occurs when government spending exceeds revenue, leading to increased borrowing. A trade imbalance is the result of imports exceeding exports, resulting in money flowing out of the country, and a tariff is essentially a tax imposed on imported goods, designed to make domestic products comparatively cheaper and more competitive.

President Trump's administration has implemented new tariff policies with the stated goal of reducing the trade deficit, protecting American manufacturing jobs, and pressuring trading partners (particularly China) to engage in what the administration considers more balanced trade practices. These policies have triggered retaliatory tariffs from trading partners, affecting financial markets in two key ways: the US dollar has weakened, reflecting reduced confidence in US assets amid heightened trade uncertainty and fears of slower economic growth, while bond yields have risen as investors anticipate potential inflation from higher import costs and possible reductions in foreign Treasury purchases.

Market responses to trade policy changes typically follow recognizable patterns—sharp initial declines fueled by uncertainty, then sector-specific adjustments as companies modify supply chains and pricing strategies. While media coverage emphasizes worst-case scenarios, we remain focused on investing in

companies with robust balance sheets and strong pricing power, which positions them to successfully navigate these challenges. Businesses with domestic manufacturing capabilities and diversified suppliers are showing particular resilience, validating our approach of selecting quality companies with durable competitive advantages. History demonstrates that markets often overreact to policy shifts in the near term, creating opportunities for disciplined investors to acquire excellent businesses at compelling valuations.

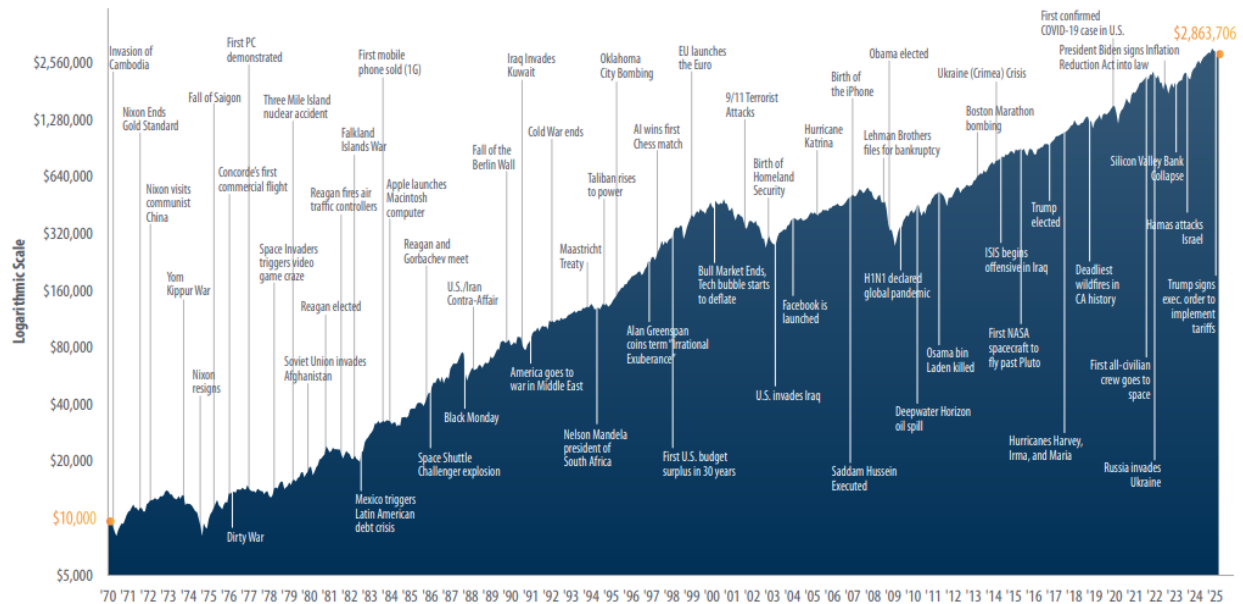
Volatility from tariff implementation may continue through coming quarters as global trade relationships evolve and potential retaliatory measures emerge. During similar trade uncertainties in 2018-2019, our disciplined methodology allowed us to exploit temporary dislocations by increasing positions in exceptional companies whose share prices were disproportionately impacted relative to their long-term earnings potential. Rather than attempting to predict policy outcomes, we concentrate on business fundamentals and valuation metrics that have proven reliable across various economic cycles and political administrations.

Though tariffs generate headline turbulence, maintaining perspective on long-term financial goals is essential rather than reacting to short-term market movements. When volatility increases, our valuation discipline becomes even more valuable, enabling us to reduce positions at full valuation and add to those offering attractive risk-reward profiles. Our investment committee adheres to our structured decision-making process, evaluating opportunities through the lens of quality, value, and long-term potential rather than responding emotionally to daily headlines.

Crises and Events

This chart shows the growth of \$10,000 based on S&P 500 Index performance since 1970.

The average annual total return of the S&P 500 Index for the period shown below was 10.80%.



Source: First Trust

The uncertainty surrounding tariffs underscores the importance of diversification across sectors with varying sensitivity to trade policy. Our portfolio construction deliberately limits concentration in any single economic factor, providing resilience against policy-specific risks while maintaining exposure to long-term growth opportunities. Companies with strong competitive moats and pricing power have historically demonstrated their ability to adapt to changing trade environments. These businesses often pass on increased costs to customers or find alternative supply arrangements without sacrificing

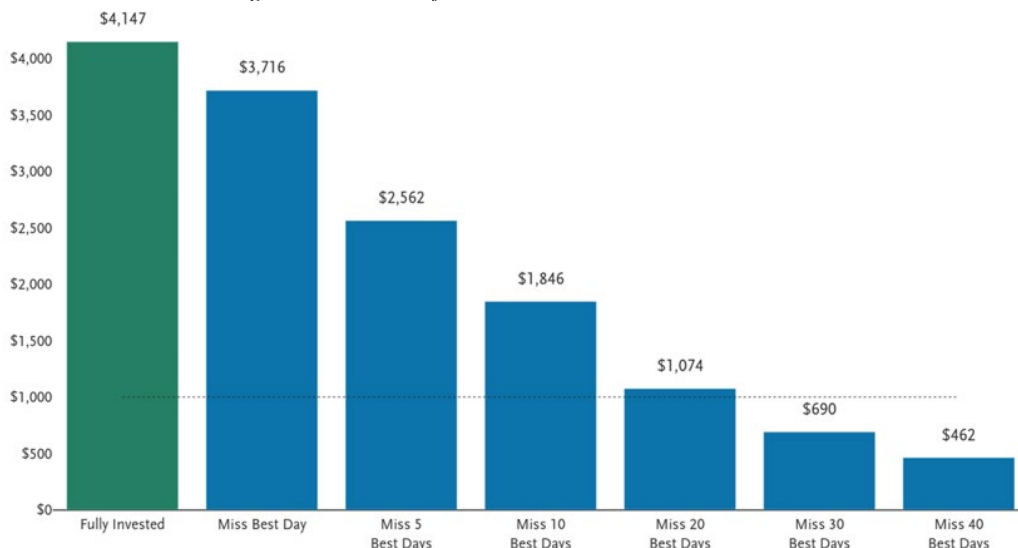
profitability. While we cannot eliminate volatility from your investment experience, our value-oriented approach provides a margin of safety that helps protect capital during uncertain periods. Markets have weathered numerous trade disputes throughout history, and well-positioned businesses have consistently adapted to changing conditions.

Investing for the Long-Term in a Short-Term World

In today's media landscape, financial headlines bombard investors with urgent market predictions demanding immediate action. CNBC, Bloomberg, and financial news sites publish over 5,000 market-related stories daily, creating a perception that successful investing requires constant portfolio adjustments based on breaking news. Meanwhile, the average holding period for stocks has plummeted from 8 years in the 1960s to less than 10 months today—clear evidence of how short-term thinking dominates market behavior despite overwhelming research showing such frequent trading undermines returns. Our approach stands in deliberate contrast to this frenetic activity, maintaining an average holding period of approximately 5 years that allows the power of compounding to work effectively in your portfolio. This patient strategy also delivers significant tax advantages by deferring capital gains and focusing on after-tax returns—a critical component of long-term wealth building that headline-chasing investors frequently sacrifice.

Staying Invested: Missing the Best Days

*The impact of missing the best market days over the past 25 years
Based on an initial \$1,000 investment using S&P 500 returns before transaction costs*



Source: Clearnomics, Standard & Poor's as of April 10th, 2025

The disconnect between financial media coverage and actual wealth creation becomes particularly evident when examining historical returns. While media outlets amplify daily market movements, research consistently demonstrates that investment success comes from identifying businesses with durable competitive advantages and holding them through market cycles. A JP Morgan study found that missing just the 10 best market days over a 20-year period would have reduced returns by nearly 50%—yet these crucial days often occurred during periods of maximum pessimism when media coverage was most negative. Our research-driven process deliberately screens out businesses vulnerable to disruption while focusing on those with strong balance sheets and pricing power capable of weathering economic uncertainty. This disciplined methodology enables us to maintain perspective during volatile periods, using market overreactions as opportunities to acquire exceptional businesses at temporarily depressed valuations.

The fundamental truth about successful investing remains unchanged: sustainable wealth creation comes from owning shares in exceptional businesses purchased at reasonable prices and held through market

cycles. While media outlets promote "get rich quick" narratives and instant portfolio adjustments, our approach focuses on the less glamorous but more reliable path of compounding returns over meaningful timeframes. This time arbitrage—focusing on horizons measured in years rather than days—represents one of the few remaining structural advantages available to individual investors in today's market environment. Our quality-focused, value-oriented approach identifies businesses with enduring competitive advantages capable of thriving through economic uncertainty while our valuation discipline provides a margin of safety during inevitable market corrections. As headlines continue to promote urgency and action, we remain committed to the patient, disciplined approach that has consistently built and preserved wealth for our clients across market cycles.

The Four Pillars of Practical Risk Management

When discussing risk management in investing, many professionals resort to complex quantitative models and sophisticated-sounding terminology. Truly effective risk management is more straightforward—though not necessarily simpler—than what's often presented in academic finance journals. The essence of managing risk lies not in mathematical formulas but in fundamental principles that have withstood the test of time. A sound risk management approach rests on four interconnected pillars: business durability, financial resilience, valuation discipline, and investor temperament. These dimensions, when properly integrated, create a framework that can navigate various market environments while protecting capital.

- **Business durability.** The most fundamental risk mitigation strategy begins with selecting businesses that possess enduring competitive advantages. Companies with deep economic moats—whether derived from network effects, high switching costs, or proprietary technology—can maintain their market position through economic cycles and withstand competitive threats. These businesses typically generate consistent cash flows even during difficult periods, offering a natural buffer against market volatility. Particularly valuable are enterprises in industries with stable demand characteristics and minimal disruption risk. While technological innovation creates tremendous opportunities, it also introduces substantial obsolescence risk for incumbent players. The businesses least vulnerable to disruption are often those providing essential products or services with consistent demand patterns, regardless of economic conditions or technological change.
- **Financial resilience.** Balance sheet strength represents the second critical dimension of risk management. Companies with low debt levels, strong liquidity positions, and prudent capital allocation policies can survive economic downturns that might cripple their more leveraged competitors. During the 2008-2009 financial crisis, countless overleveraged businesses faced existential threats, while financially conservative enterprises not only survived but often emerged stronger by acquiring distressed assets or gaining market share. We specifically seek businesses with low leverage and a history of generating free cash flow throughout economic cycles. This financial resilience provides these companies with strategic flexibility precisely when opportunities are most abundant—during periods of market distress.
- **Valuation discipline.** Even the highest quality business becomes a poor investment when acquired at an excessive price. The relationship between purchase price and intrinsic business value represents a crucial yet frequently overlooked risk factor. By maintaining strict valuation discipline, investors establish a margin of safety that helps protect capital during inevitable market corrections. History demonstrates that paying 30 times earnings for a business growing at 10% annually introduces substantially more risk than paying 15 times earnings for the same business—regardless of company quality. The highest risk portfolios often combine premium valuations with optimistic growth assumptions, creating a precarious situation where even minor disappointments can trigger severe capital impairment. We've observed repeatedly that valuation compression can overwhelm business growth, delivering poor returns even when a company's operational performance meets or exceeds expectations.
- **Investor temperament.** Perhaps the most underappreciated risk factor in equity investing is the investor's own psychological makeup. Markets inevitably experience periods of both excessive

optimism and unwarranted pessimism. The ability to maintain analytical discipline and emotional composure during these episodes represents a powerful competitive advantage. Studies consistently show that investor returns substantially lag fund returns due to poor timing decisions—buying after periods of strong performance and selling after declines. By adopting a business owner's mindset and focusing on fundamental economic value rather than short-term price fluctuations, investors can transform market volatility from a source of risk into a source of opportunity. Our experience suggests that extending your investment time horizon is among the most effective risk reduction strategies available, as short-term price movements increasingly give way to long-term business fundamentals.

When properly implemented, these four dimensions create a comprehensive risk management framework that doesn't sacrifice return potential. Indeed, our experience suggests quite the opposite—by focusing on durable, financially sound businesses purchased at reasonable valuations and held with patience, investors can simultaneously reduce risk while positioning for attractive long-term returns. This approach requires discipline and often contrarian thinking, but the historical evidence supporting its effectiveness is substantial. As Howard Marks astutely observed, "The riskiest thing in the investment world is the belief that there's no risk."

In Conclusion

The principles of discipline, patience, and resilience remain at the forefront of our investment philosophy. Though recent tariff-induced volatility has tested investor sentiment, history reinforces that maintaining a steady, long-term perspective and adhering to valuation discipline provides the best protection and growth potential over time. We remain vigilant, carefully evaluating each holding and opportunity to ensure your portfolio is positioned effectively in this dynamic environment.

Our ongoing commitment is to select quality businesses capable of weathering uncertainty and thriving in the years to come, regardless of temporary market disruptions. We deeply value your continued trust and partnership, and we invite you to reach out with any questions or to discuss your individual financial objectives in greater detail.

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