L-R: Bogue Clark, Juliana Weese, Blair Mott, Tony Liokossis, Stephanie Lindsay

March 2025 Commentary

The strong momentum of 2024 continued into late January before finally relenting. From December 2023 to late January 2025, our *Hypothetical Equity Model*[1] rocketed up 57%! This is roughly what an all-equity client would have enjoyed before fees. After a move like that, there is ALWAYS a correction, and then a recovery from that correction. At some point, the market has to exhale. It would not be unusual to give up a quarter to a third of our gains since the start of this run, before recovering. You never know when corrections will come, or what the catalyst will be. This time around, it turned out to be tariffs in January.

[1] If you are new to this newsletter, our reference to a 'hypothetical equity model' bears explaining. Because every client's portfolio is slightly different and customized, we track a 'hypothetical' model to represent our results. This model contains the same investments as the equity portion (i.e. the 'engine') of your portfolio. It excludes the bonds. Each trade is done at the same time and price as your portfolio.

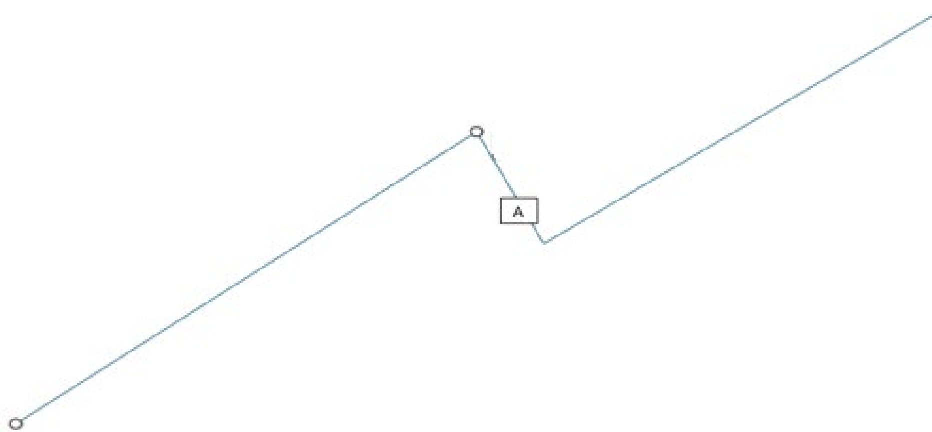
Our *Hypothetical Equity Model* closely approximates the actual performance of your equities before fees. It gives us context, allowing for various types of analyses & comparisons.

Though this correction is still evolving, for the record our *Hypothetical Equity Model*[2] gained 4.45% to the end of February versus our *Global Equity Benchmark*[3] at 3.82%.

Our Strategy to Navigate the Volatility

As of March 10th, we're about six weeks and ballpark -12% into this correction. As corrections go, it's a pretty good one but completely in proportion to the extraordinary gains we've enjoyed and consistent with many past such events. There is likely more to come. It's been quite a long time since we've seen a sharp move like this, going back to the Covid crash in early 2020.

During the big run up where we made huge profits, we did so by riding the momentum of market-leading stocks. When a correction hits, those leading names are the ones that get hit hardest and fastest as traders take profits and cover margins on their other losing positions. It is almost always like this. At the risk of over-simplifying things, if we were to guess we'd put our current position at A. on the graph below. In other words, we've already endured a lot - maybe most- of the correction.



Time will tell. For context, look at the graph of our performance since 2013 on the last page of this letter. The correction so far looks like many others over the last 12 years.

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[3] Global stock market is represented by *EWI785 World Stock Equal Weight Index*t, Courtesy of SIA Charts

So, what are we doing about it? Simply put, we are *tactical* advisors. Tactical means we move with the market. Every day we assess the risks and decide whether we should be in stocks or not. If our model says we should get out of stocks, we do. That is what we do day in, day out and it never changes. We *never* 'hold the course' and ride out the corrections and crashes. That is what most of our contemporaries do. Instead, we assess the severity based upon a number of measures and act as needed.

What is the severity now? So far this does not look like a major event like 2008 or 2000. It may seem like the markets are falling apart, especially with all the negativity about tariffs (more below). Quite the contrary. Markets are behaving in a very familiar manner consistent with a short-term, even-driven corrections - the likes of which we have seen many, many times before. Our risk indicators were maximum positive until early December. Since then, we've seen some softening but not enough to do any selling yet. That may change and if it does, we will pivot.

It is important to remember that we must let the portfolio move around. It is normal and it is necessary because you cannot be too sensitive. It's a compromise knowing how much to endure so you are not in and out every minute, without enduring so much that you lose too much. It is more complicated than simply selling after a certain percentage decline. You also cannot sell in anticipation of short-term, event driven corrections. Instead, we squeeze every drop from every bull market and then assess and react as needed. Our current approach was arrived at with much experience and a massive amount of data analysis, and we expect to continue to evolve as we learn more.

Tariffs and Volatility

For years now, the vast majority of our equity holdings have been in the U.S. That is still true today and if our long-held big-picture view of where the world's markets are headed is correct, we will remain mostly in the U.S. for several more years. For this reason, while most of the commentary on the trade war we've seen is from a Canadian perspective (and very negative), our point of view is that of an investor with most of their funds south of the border.

Not to put too fine a point on it, but we have no idea how this will play out in the short term. However, we don't view the policies as most critics do, namely that they are chaotic, unplanned and shot from the hip. Good or bad, like them or loath them, there is a clear strategy. Tariffs are only one part of it. We view these measures more as a blitzkrieg, action so furious and decisive that it makes resistance difficult for entrenched interests of the status quo. Short term there is probably going to be dislocation in the economy and certainly in the markets as we are already experiencing. Bigger picture, our takeaway is that the tariffs are an attempt to level the international trade playing field for U.S. producers and it is designed to have two major effects.

Firstly, tariffs will incentivize corporations to repatriate manufacturing of U.S.-bound goods back to the U.S. and for consumers to buy U.S.-produced goods. This is already happening with amazing speed. Tech, auto and pharma corporations, among others, have announced new or expanded manufacturing investments. Names like Toyota, Eli Lilly and, probably the most headline grabbing, $500 billion inbound from Apple.

Secondly, tariffs are intended as a revenue source to offset or eliminate federal income tax. We cannot overstate the boost to an economy that this would bring.

However, tariffs are just one leg of the economic strategy.

The second leg is reduced spending. Nothing in history has prepared anyone for the speed and alacrity with which they have pursued cutting costs. There are opinions good and bad on the nature of the cuts and whether some might be counter productive. That aside, our study of history shows clearly that as government spending increases as a percentage of GDP, economic growth slows. When you hit about 40%, your economy is in trouble. However, it works both ways. Cutting government spending is hugely beneficial to a nation's long-term economic performance.

The third leg is reduced taxes. Can they actually reduce the IRS in size or even eliminate it? It seems unimaginable. If they just get their annual budget to where it was five years ago, that alone could allow them to largely eliminate federal income tax.

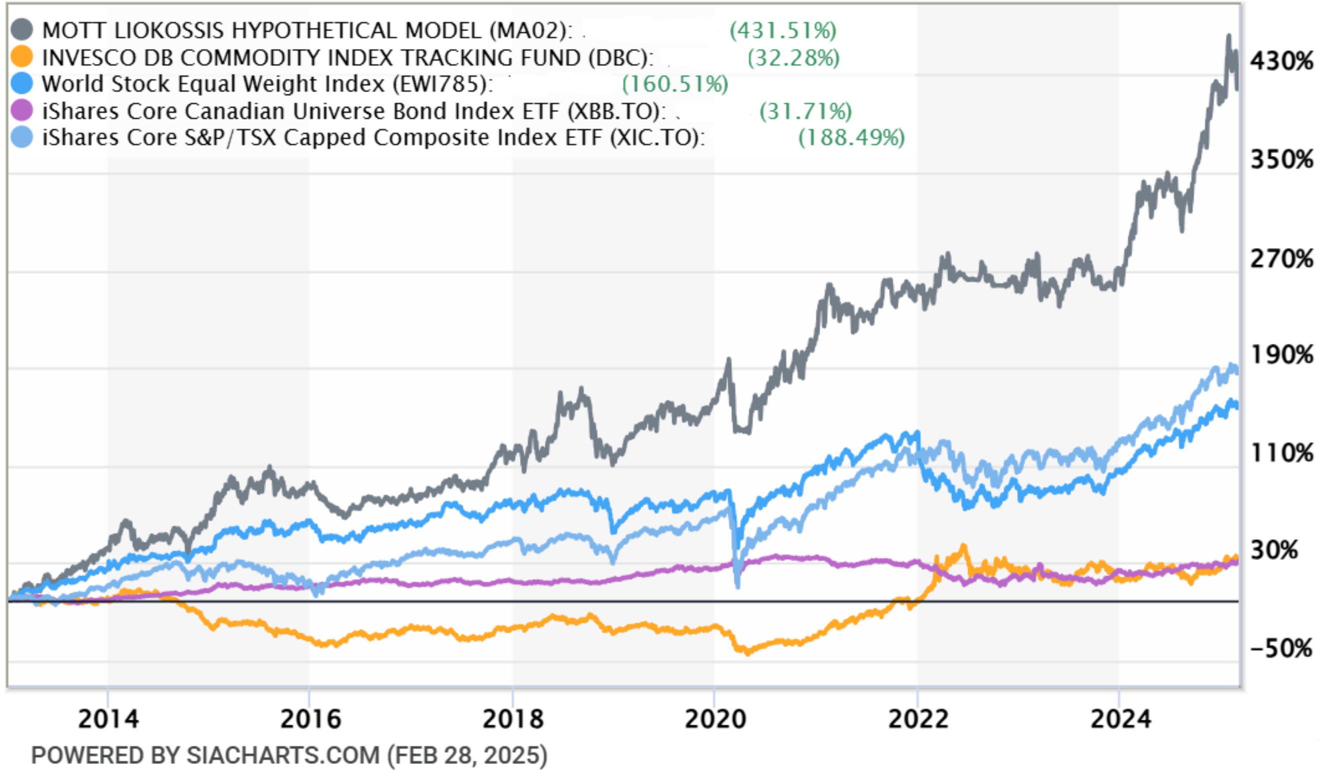
The fourth leg of the stool is cost reduction from lower energy prices via higher production. Every single object within your view as you read this letter was either made of petroleum or transported using petroleum. Energy costs are woven into the fabric of literally *everything*. When you lower energy costs, you lower all costs, and it is a similar effect to lowering taxes. It's big.

Who knows what degree of resistance they will face with this set of policies. If they can pull it off, we think it would be a game changer. As an economic policy blueprint, it is something truly unprecedented. We are watching with great interest to see how it evolves.

MOTT LIOKOSSIS HYPOTHETICAL EQUITY MODEL – HOLDINGS on FEBRUARY 28th, 2025

Weight	Equity Name	Symbol	Sector	Price	TTM Yield
7.79%	EMBRAER S.A. ADR	ERJ	Aerospace and Defense	$68.93	0.00%
6.79%	TAPESTRY INC	TPR	Consumer Non-Durables	$123.56	1.14%
6.94%	SAP SE ADS	SAP	Computer Software	$397.79	0.60%
5.64%	INTERDIGITAL INC	IDCC	Telecommunication Services	$309.03	0.55%
38.85%	SIA ML GLOBAL TACTICAL POOL CLASS I	SWI220	Alternative Equity Focused Equal Weight Idx	$30.74	1.29%
5.68%	EXPEDIA GROUP INC	EXPE	Internet	$286.35	0.00%
5.48%	SPOTIFY TECHNOLOGY S.A.	SPOT	Media	$879.49	0.00%
8.62%	BMO SIA FOCUSED CANADIAN EQUITY ETF	ZFC.TO	Canadian Equity	$45.80	0.04%
5.58%	QIFU TECHNOLOGY INC.	QFIN	Financial Services	$57.98	2.04%
6.81%	HOWMET AEROSPACE INC	HWM	Aerospace and Defense	$197.59	0.16%

MOTT LIOKOSSIS HYPOTHETICAL EQUITY MODEL
Percent Gain 04-JAN-2013 to 28-FEB-2025



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Blair Mott, FCSI, CIM, FMA
Senior Wealth Advisor & Portfolio Manager
519-646-2146
blair.mott@nbc.ca

Tony Liokossis, B.A., FCSI, CIM
Senior Wealth Advisor & Portfolio Manager
519-646-5728
tony.liokossis@nbc.ca

Stephanie Lindsay, HBA
Wealth Associate
519-646-2149
stephanie.lindsay@nbc.ca

Juliana Weese
Wealth Associate
519-646-2152
juliana.weese@nbc.ca

Bogue Clark
Wealth Associate
905-980-6331
bogue.clark@nbc.ca

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