INVESTOR'S EDGE

Tariffs are likely to cause market angst for months

There's no need to make big changes if you have a well-crafted investment plan.

Jim Burns CFA *Guest columnist*

"When stock prices are rising, it's called momentum investing; when they are falling, it's called panic." — Paul Krugman, Economist

Well, that was an interesting month for investors.

Following President Trump's tariffs announcement on April 2, stocks were down at one point around 15% — over the span of four days — marking one of the fastest broad market declines in history. Though stocks have rallied off their early April lows, many readers are understandably concerned about the market's direction from here.

So, let's have a question and answer column.

Now that President Trump has somewhat softened his stance on tariffs, do you believe the worst of the market volatility is behind us?

Possibly.

I think we can all agree that having our trade and fiscal situation in a better balance is a necessary and admirable goal. However, it has been the size and intensity of the tariff implementation that has really rattled the financial markets. So, President Trump's April 9 announcement of a 90-day pause on reciprocal tariffs for most countries and a lowering of the tariff rate to 10% for all countries except for China, was more in line with what the market was expecting and welcomed by investors.

Uncertainty has been reduced, to a degree. If ongoing trade negotiations are productive, this will also be constructive for markets and dampen volatility.

However, even at the 10% level, these tariffs are still big, and the announced delay was only for 90 days.

This issue is not put to bed and will likely be a source of angst for the markets, for at least the next few months. If there are further trade escalations with China, or indications that ongoing negotiations with other trading partners are unsuccessful, the market will react negatively. Hang on.

What kind of diversification tools could I use to take shelter from the volatility or a weakening United States economy?

During the height of early April's volatility, asset classes across the board were sold off, leaving little places to hide. One asset that rallied to new highs, however, was gold. Gold can be considered a safe-haven investment during times of geopolitical instability or economic turmoil.

If trade tensions re-escalate or our economy heads for a recession, gold should be a solid investment. As readers of this column know, I have in the past recommended the i-Shares Gold ETF (symbol: IAU), but I would limit the size of the position to about 3-5% of your portfolio.

Also remember the safe haven of high-yield money market funds. Most still yield slightly over 4% — a solid risk free return that doesn't require you to lock up your money in a CD or treasury bond. Check with your brokerage firm to see your options.

Where do you see opportunities to go "on offense" in this market?

The Magnificent Seven technology stocks were sold off hard during March and April and are currently trading at far more reasonable levels than they were at the beginning of this year. These companies have a proven track record of resilience and profitability. I have recommended all these stocks in past columns — at much lower prices — and continue to believe they are good buys now.

Over the last several quarters, I have recommended to our readers international stocks, specifically the Vanguard International Dividend Yield ETF (VYMI). It's been an excellent investment since then, up about 12% year to date with the S&P 500 Index solidly negative. International stocks trade at more attractive valuations, pay higher dividends, and have tailwinds from both fiscal and monetary policy versus their U.S. counterparts. Keep adding to international stocks and VYMI in particular.

Are there any lessons to be learned from April's roller coaster month?

Yes indeed. April's powerful swings in stock prices — up and down — provides a real time reminder of the dangers of trying to time markets and the uber important need to maintain a long-term investment time horizon.

For all the sound and fury of April's stock market swings, at the time of this writing, the S&P 500 Index is down less than 1.5%! The fact is, the best thing an investor could have done last month was go to a remote island with no internet, have a couple of drinks, and ignore their portfolio.

The lesson is clear: don't mess with your well-crafted investment plan just because

Shipping containers are ready for transport at the Guangzhou Port in southern China's Guangdong province in April. *Ng Han Guan, Associated Press*

of market volatility.

Heading into May, I remain constructive on the rest of the year. Keep in mind, since 1990, when the CBOE Volatility (VIX) index spikes above 40%, as it did in early April, stocks have historically bounced back strongly. In fact, the average return of 12 months out for the S&P 500 Index is 11.3% and three years out is 46.9%.

Additionally, according to the American Association of Individual Investors, bearish sentiment is now at the third highest ever recorded. The last time bearish sentiment was this high was on March 5, 2009, when it reached 70.3% amidst the turmoil of the financial crisis. Four days later the stock market bottomed, and a powerful bull market began.

Here's hoping for a repeat.

Enjoy the springtime!

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