RESEARCH CAPITAL
CORPORATION

Dear Client,

As you know, my background is History with Economics 101 and Business 101, thus when there is an event that affects our lives (politics) and our savings (economics), I look to the past for guidance. What did I say in the past and what happened in the years following the situation? Of course, when reviewing the past there is the disclaimer that past actions/performance do not guarantee future results, but they can give us a good indication.

Black Monday, October 19, 1987 – an unexpected global financial crisis happened, and the global stock markets fell more than 20% in one day. Stock markets continued downward for a couple of more days. The word depression was used a lot. No one knows for sure what caused the financial turmoil. The markets before the crash had been declining due to monetary and foreign trade agreements that depreciated the U.S. dollar. It was thought that a portfolio insurance strategy kicked in that triggered panic selling by individual investors, which triggered more selling as margin calls triggered in panic.

Computerized trading was relatively new at the time. The volume of trades generated more trades creating imbalances, overwhelming the system. Added to this were the hostilities in the Persian Gulf and a concern about rising rates.

The federal bank acted fast and reduced interest rate rates. Banks were encouraged to increase liquidity. Within days, the global markets started to recover and the Dow Jones was up 2.26% by the end of the year. Two years later the S&P 500 was up 54.4%. When the situation stabilized, there was a review, circuit breaker rules were implemented along with other checks and balances. These are still used today to slow trading irregularities caused by computer action.

How did I react and respond to the crash of 1987? I was new to the investment side of business, started in September 1985 and had only experienced a positive market. The recession of 1979-1980 had had no effect on me. The crash of October 1987 was a panic-inducing catastrophe, we should be selling everything. My mentor, George Beck, remained calm and said, “Why should we sell? The world needs food, transportation, healthcare and energy.’’ The companies we were invested in were well established with many of them having a solid record of increasing dividends. They would not implode and probably would continue to pay a dividend. Hold the course. Stick with your investments and in time the markets will rally, and while you wait, the dividends continue to come in. He was right.

The period from 1950 to April 8, 2025, 1987 saw the worst market crash. Looking at a chart today it’s just a tiny blip. See *Appendix A*.

Since 1987, there have been many events, economic and political, that have triggered market and economic downturns – many of them globally. You may remember them, and a list can be found in *Appendix B*. Some of these stock market disruptions have lasted more than a year – others, like Covid, a few months. During each downturn I am reminded of what I learned in 1987. "This will pass, and stock markets will start to recover." – See *Appendix C.*

Looking Forward

In 2020, we were in uncharted water. This time, even though we are again dealing with many unknowns, there are some facts we do know.

<u>Tariffs do not</u> necessarily cause a reshoring of manufacturers and other businesses. Reshoring and creating all the infrastructure of a supply chain means finding land, building a new plant, and hiring/training skilled workers. This takes millions of dollars and often years of planning and building. Companies would have to raise money or cut costs elsewhere, which may not be possible. Additionally, there may not be much hiring: if you are going to build a new plant, you are going to make it as cost-efficient and productive as possible, and this means automatizing everything.

<u>Tariffs can</u> activate inflation as companies' increased costs are transferred to consumers.

<u>Tariffs can</u> disrupt supply chains, which results in production delays, increase business cost, and lower margins. The result is layoffs.

<u>Interest rates</u> will rise if there is inflation, which further increases cost for consumers and businesses. There is also concern that as costs rise, they bump against slowing economic momentum, which is stagflation. No one is familiar with stagflation, so the concern would be how to fix it.

What we don't know is how to negotiate with Trump. What will be the trigger/motivation to make him back down?

We do know: the on, off, on, hold tariff situation means that companies do not want to invest in themselves. Canada already has a problem with productivity and this pause will make it worse.

We do know how to handle recessions and inflation.

Buying Canadian and getting rid of interprovincial barriers is helping, and hopefully the momentum continues.
Whoever becomes Prime Minister will need to bring all their diplomatic and negotiating skills to the fore.

Remember: you should exercise your right to vote on April 28, 2025.

When will the tariff war be over? Probably when the US economy starts to really feel the pain. When companies report declining or stagnant earnings and project lower future earnings. When the consumer stops spending. The Americans are not great savers and tend not to have a cushion for difficult times.
When more businesspeople start to speak out against tariffs. When politicians start campaigning for the midterms in 2026 and realize they are losing their supporters and finally start to exert themselves. Unfortunately, this will all take time, and it will be almost impossible to avoid a recession.

So what about your portfolio? As I learned in 1987 and still believe in today, here are my comments from my March 2020 quarterly.

Depending on Government actions, there could be a lot of collateral damage to business and consumer confidence and, yes, the word recession is very much out there as a real possibility. The Central Banks around the world have been dropping rates, but far from reassuring, this is creating concerns that they are running through their ammunition too soon, and this worry is triggering selloffs instead of calming the waters. This, however, was also an issue in the 2007-10 recession and we managed to get through that in one piece.

To put it all in perspective, here is a truth that I have expressed many times: we are not looking at your portfolio for yesterday, today or tomorrow. The focus is on years to come, whether your financial goal is to have a steady income for retirement or to have an estate for your children. We focus on that future and not the transitory happenings that bedevil our lives. The crash of October 1987 was the worst of all time and induced widespread panic; now it's a blip on the charts, and a very small one.

Moreover, I also remind you that while past performance is no guarantee of the future, during the recession of 2007-10, portfolio values declined dramatically, but their underlying strength meant that everyone's monthly draw continued unchanged. In addition, the markets, when they recovered, far exceeded anyone's expectations.

We are in a bear market – the past weeks have been extremely volatile, and in many cases an overreaction. Your portfolio is diversified among the five main sectors: utilities, manufacturing, consumer, and resources. Some of these sectors will be under extreme pressure during this period and others, while being pressured, will hold their own and claw back. We need the banks, food, heat, and telecommunications, so we can feel confident that the fundamental value will withstand the present pressures. Dividends may not increase much this year but at this juncture, they are not being cut. If you are drawing income from your account, at the beginning of the year, I raised capital for most accounts to cover the monthly draw for 2020.

As in past periods of turmoil – 1987, 1990, 2000, 2007-10 and others – stay calm, have patience, and above all, stay healthy.

What I said then holds true today.

What you can do:

- If you have excess cash in your bank account, more than what you need for three months' expenses, it should be in your investment account at Research Capital, so that I know it is there and can invest it for you. This is called dollar cost averaging, which works much better than trying to time the markets.
- Stop obsessing over the news. Manage what you read and watch and be sure to only look at credible news sources. Social media/Tik Tok is not written by experts.
- Look at your investments once a month or maybe even every six months. We are not trading the markets, we are investing and building a portfolio.
- Call me if there are any changes in your life now or soon, i.e. retirement.

I am not offering platitudes. Markets rise and fall over the years and will do so in the future, but the trend is upwards. Staying invested, collecting dividends, and saving funds is a solid philosophy that has stood the test of time. It is very much a tortoise and the hare situation, and we have to be realistic as to our expectations. As we have seen in the past, we have had years of negative numbers and years of positive. What we are looking for is an annual average of 6-8% and growing dividends. This is realistic and conservative.

I put my money into the same investments as you. My retirement and my family are dependent totally on my investments and who I manage them for.

Sincerely,

Susan Howson

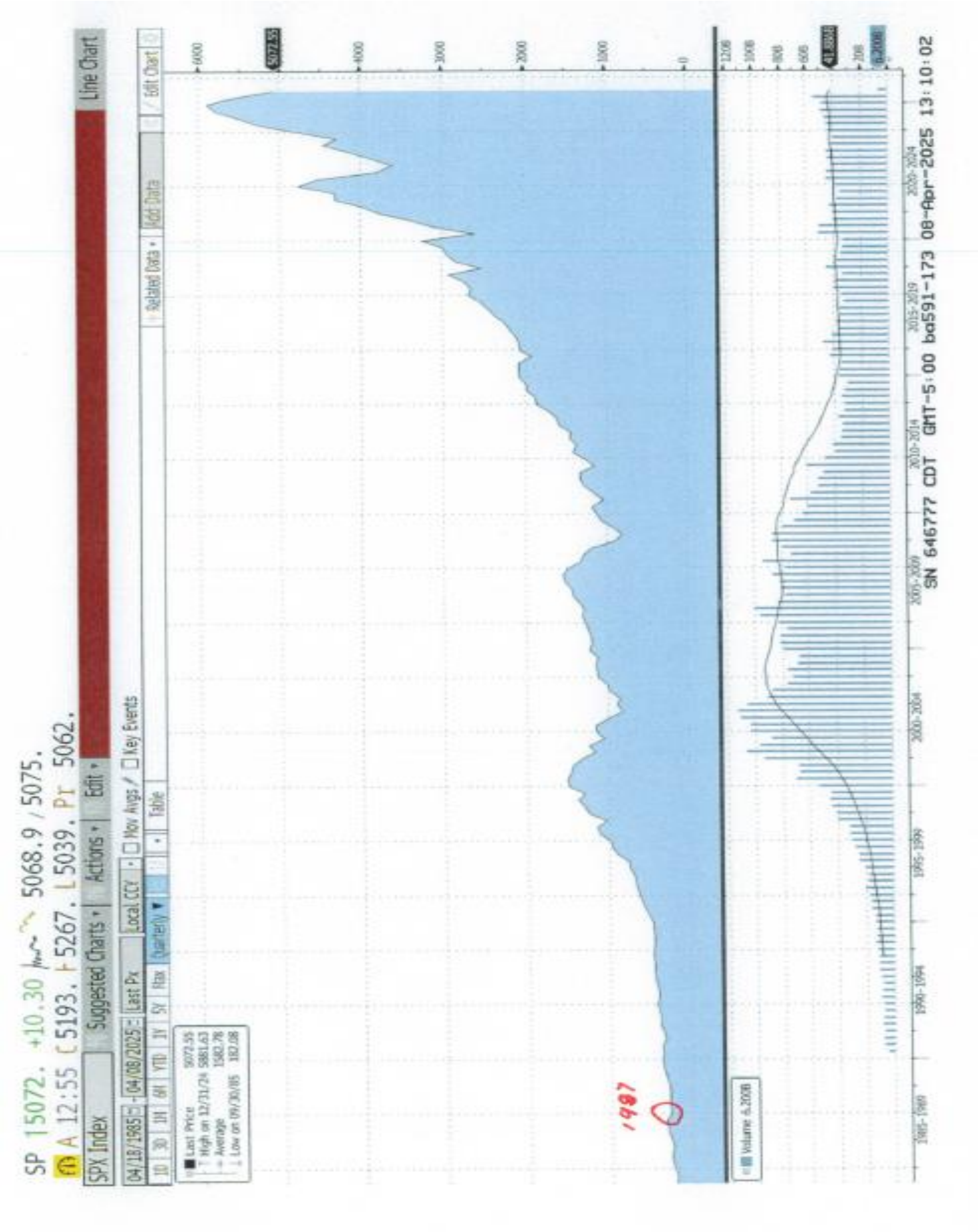
Director, Portfolio Manager

Email: showson@researchcapital.com

Phone: 416-860-7605, or 1-800-749-6663

Website: susanhowson.com

Appendix A



Source: Bloomberg

Appendix B

Remember these events?

1965	Civil rights marches	**1984**	Record federal deficits	**2005**	London train bombing
1966	Vietnam War escalates	**1985**	Economic growth slows	**2006**	India, Israel, Lebanon bombings
1967	Newark race riots	**1987**	Record-setting market decline	**2007**	U.S. housing bubble bursts
1968	USS Pueblo seized	**1988**	Junk bond scandal	**2008**	Global financial crisis
1969	Money tightens – markets fall	**1989**	October "Mini-Crash"	**2009**	Financial crisis lingers into early 2009
1970	Cambodia invaded – Vietnam War	**1990**	Persian Gulf crisis	**2010**	European debt issues emerge
1971	Wage/price freeze	**1991**	Recession	**2011**	Japan, Fukushima earthquake
1972	Largest U.S. trade deficit ever	**1992**	Riots sweep Los Angeles	**2012**	China slowing growth concerns
1973	Energy crisis	**1993**	Bombing of World Trade Center	**2013**	U.S. government temporarily shuts down
1974	Nixon resigns	**1994**	Rising U.S. interest rates	**2014**	Russia and Ukraine conflicts
1975	Clouded economic prospects	**1995**	Oklahoma City bombing	**2015**	Paris terrorist attacks
1976	Economic recovery slows	**1996**	Taiwan Strait crisis	**2016**	Brexit – U.K. votes to exit the EU
1977	Market slumps	**1997**	Collapse of Thailand economy	**2017**	Britain triggers Article 50
1978	Interest rates rise	**1998**	President impeachment proceedings	**2018**	U.S. – China trade tensions
1979	Oil prices skyrocket	**1999**	Y2K 2000 Internet stocks plummet	**2019**	U.S. – China trade tensions continue
1980	Interest rates at all-time high	**2001**	September 11 terrorist attacks	**2020**	COVID-19 pandemic
1981	Market slumps	**2002**	WorldCom accounting scandal	**2021**	Global supply chain disruption and inflation
1982	Worst recession in 40 years	**2003**	War in Iraq	**2022**	Rising inflation and monetary policy tightening
1983	U.S. Embassy. Marine barracks bombed	**2004**	Madrid terrorist attacks	**2023**	Stable inflation and peaking interest rates

If you had invested $100,000 in the U.S. stock market on Jan. 1, 1960, it would be worth $ 51,318,138 on Dec. 31, 2023!

If you stayed invested!

*Invested in the S&P 500 Index in local currency terms. Source: Bloomberg, Fidelity Investments Canada ULC.

Fidelity INVESTMENTS

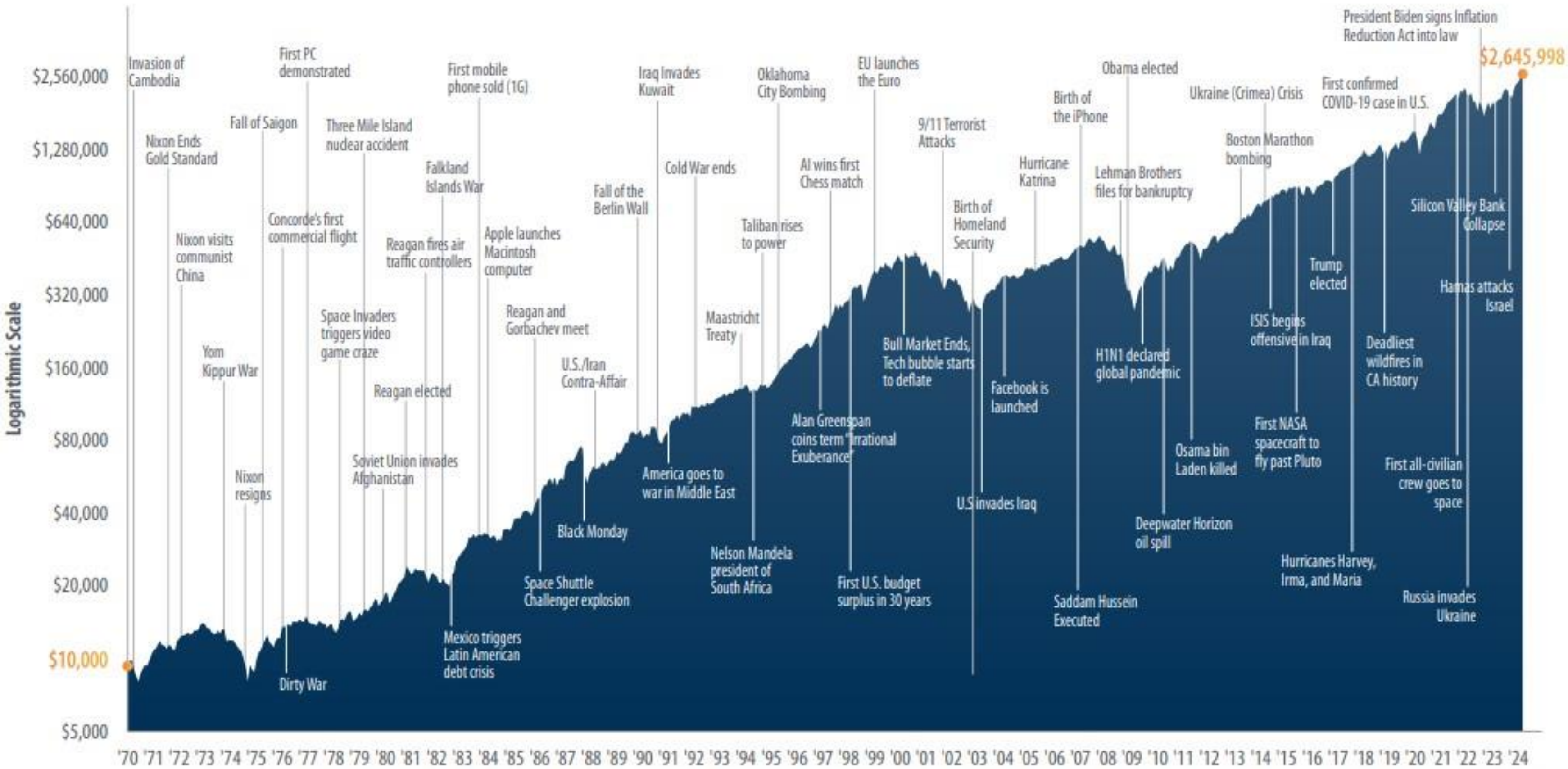
Appendix C

Crisis and Events

S&P 500 Index: Since 1970

This chart shows the growth of $10,000 based on S&P 500 Index performance over the last several decades. We believe looking at the market's overall resiliency through major crises and events helps to gain a fresh perspective on the benefits of investing for the long-term.

The average annual total return of the S&P 500 Index for the period shown below was 10.83%.



Source: Bloomberg, First Trust Advisors L.P., 12/31/1969 - 3/28/2024. **Past performance is no guarantee of future results.** This chart is for illustrative purposes only and not indicative of any actual investment. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. Stocks are not guaranteed and have been more volatile than the other asset classes. These returns were the result of certain market factors and events which may not be repeated in the future.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.