

THOUGHTS ON COMPOUNDING: *Navigating Uncertainty*

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In an environment filled with policy uncertainty, political drama, and unsettling headlines, the natural question for investors is: What should I do with my Canadian equity exposure?

For those invested in resilient, high-quality businesses - our answer is simple: nothing*.

The Pendulum Always Swings Back

History teaches us that chaos is unsustainable. Across biology, fashion, economics, and politics, systems that naturally swing too far in one direction will eventually self-correct. It is the pendulum effect, and we are seeing it play out today.

Consider:

- In biology, predator and prey populations self-regulate. If prey become too fast (or too well-camouflaged), predators evolve better hunting skills. If predators overhunt, prey populations crash – and predator populations follow. The system then resets, often swinging back and forth.
- In fashion, the reign of skinny jeans in the 2010s gave way to wide-leg, cargo, and '90s baggy jeans in the 2020s, which will inevitably revert as trends evolve.

In economics, we have seen repeated cycles of boom and bust. Expansion leads to overinvestment, overconfidence, and sometimes speculative bubbles. The pendulum swings too far in one direction. Two common occurrences are unsustainable debt and inflated asset prices. Then comes the bust: debt defaults, layoffs, and stock market price corrections (the painful reset). Classic examples include: the Dot-com bubble (1999-2000), the Housing crisis (2008) and the Crypto bubble (2021). Hyman Minsky describes this pattern with his theory: stability breeds instability – the longer things are stable, the more risk people take, until the system tips.

Politics and its impact on markets is no different.

Populist movements emerge in response to perceived political failures. When large segments of the public perceive institutions as corrupt, out-of-touch, or self-serving, the pendulum swings toward populist movements (left or the right). Populists often promise to upend elites and give power “back to the people.” But when those movements result in overreach or dysfunction, voters - history shows - eventually swing back toward stability, competence, and institutions.

Why Chaos Eventually Corrects

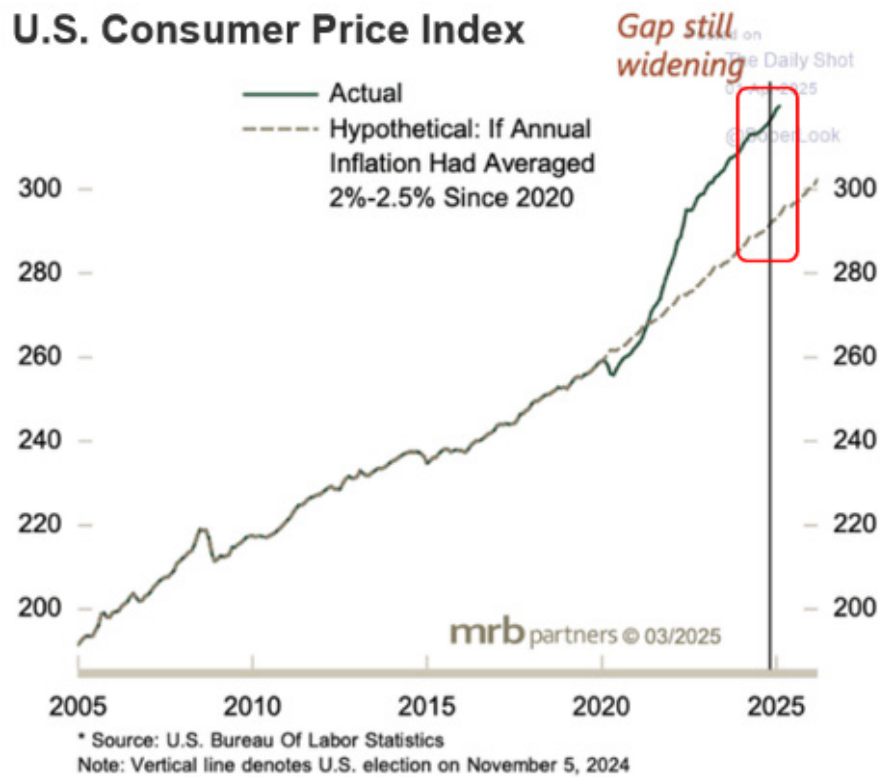
The current wave of political policy disruption in the United States manifested through unpredictable tariff threats and erratic policymaking, has now alienated a wide spectrum of groups:

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- Investors are seeing markets decline.



- Consumers are feeling the sting of inflation and...

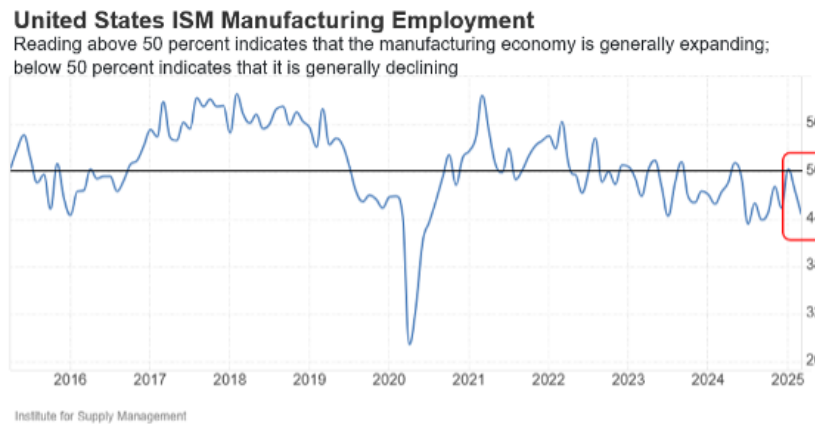


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...eroding consumer confidence:



- **Workers** are uncertain about their job security.



- **Civic-minded citizens** are concerned about the economy, individual rights, and social policies.

Latest Polls: Do Americans Approve of President Trump?

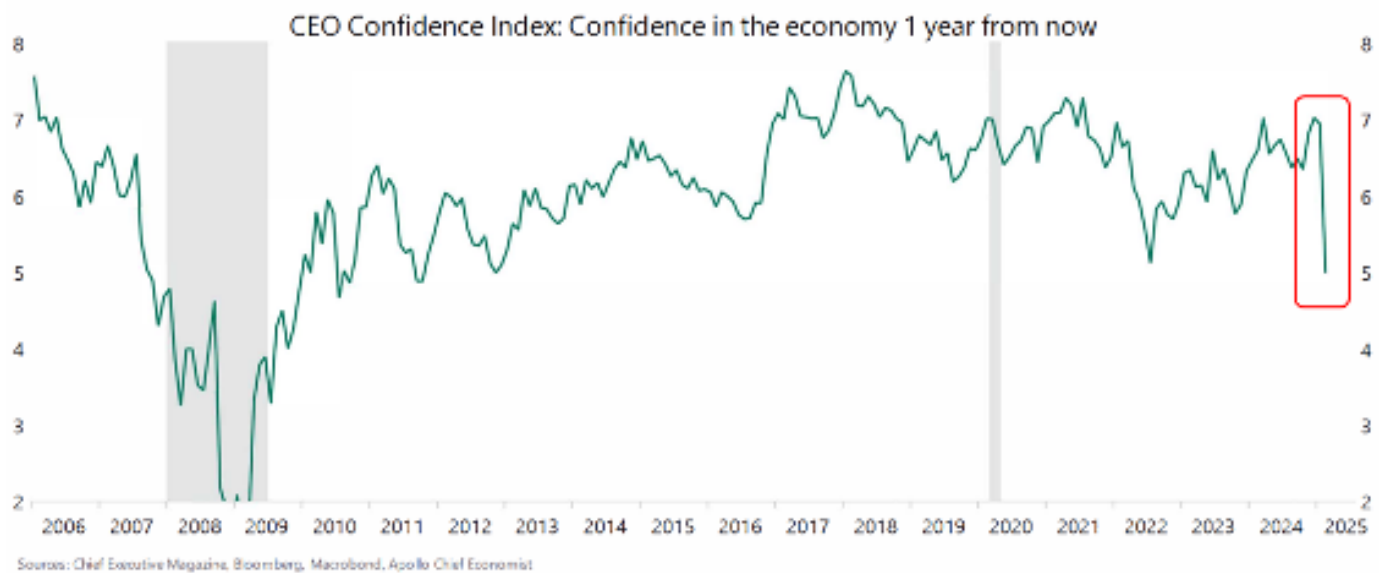
POLLSTER	SPONSOR	NET MARGIN	APPROVE	DISAPPROVE
♦ Ipsos March 30 - April 1 New	Reuters	Disapprove +10	43%	53%

Source: NY Times

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- **Businesses** are unable to plan. This is the most critical group for U.S. economic success. When predictability vanishes, rules change overnight, or tariffs shift with a tweet, businesses start asking themselves: Should we expand or delay? Can we price a multi-year supply agreement? Should we invest in a new plant? Capital sits still when economic policy becomes a moving target. This creates paralysis, not for lack of opportunity, but because the cost of being wrong becomes too high. And as investment slows, so too, does economic momentum.

CEO Confidence is Declining



Even those who once embraced populism may recoil as the consequences hit home: higher prices, weaker purchasing power, lost jobs, and deteriorating international trust in American fiscal management.

Take tariffs, for example. While touted as a political lever, they are economically a tax on the consumer. They raise the costs of goods like autos, dampen corporate investment, fuel inflation, and strain global supply chains. These are not just abstract effects; they touch every household and every boardroom. As chaos intensifies, so too does the demand for a return to order.

However, we must ask whether anything could prevent the pendulum from swinging back—such as authoritarianism taking hold in the U.S. We believe this is unlikely due to enduring institutional and cultural safeguards: constitutional guardrails like separation of powers and federalism, a deep-rooted skepticism of centralized authority, a free press and protest culture protected by the First Amendment, an independent judiciary and state-level checks on federal power, and a military loyal to the Constitution rather than individual leaders. While the nation may face pressures, its democratic framework was built for resilience.

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Quality Investing: Certainty Through Process

Humans hate uncertainty. Neuroscientist David Rock's SCARF model explains this well. He identifies five key social drivers: Status, Certainty, Autonomy, Relatedness, and Fairness. Among them, certainty plays an outsized role in how humans process risk and make decisions. So, what can investors do in the face of uncertainty?

The answer is not prediction, it is process.

While we cannot forecast market movements or policy shifts, we can offer certainty in how we invest:

- A disciplined focus on businesses with durable competitive advantages (economic moats), predictable cash flows and strong financial positions.
- A consistent application of quality metrics like return on invested capital (FCF/RONA**).
- A process-oriented approach, built to weather storms, not avoid them.

Examples in Canada:

- **Dollarama:** Combines scale advantages with a clear value proposition for consumers—resilient even in inflationary periods.
- **Canadian National Railway:** Operates in a market with high barriers to entry and significant pricing power.
- **Constellation Software:** Its decentralized model, high switching costs, and recurring revenue streams make it a standout in any environment.

These companies offer durability, not just performance. In uncertain times, that durability becomes even more valuable.

Final Thought: Let Compounding Do Its Work

If your portfolio holds high-quality, cash-generating businesses with diversified exposures, stay the course. Rebalance if your asset allocation is out of line, or if you have short-term cash needs. But if your horizon is years, not months, trust the process.

Markets have weathered far worse. From the Black Monday crash of 1987 to the bursting of the dot-com bubble in 2000, from 9/11 and the Global Financial Crisis in 2008 to the European debt crisis, the 2013 taper tantrum,

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the COVID-19 pandemic, and Russia's invasion of Ukraine – not to mention periodic trade wars, energy shocks, and banking stress events like the collapse of Silicon Valley Bank – the cash flow compounding ability of resilient businesses has consistently endured.

The bottom line is that noise from the Trump administration, whether its political uncertainty, tariff threats, or erratic policymaking, can make even the most seasoned investors question their footing. But history teaches us that chaos is not sustainable. The pendulum will swing back. The United States, despite its turbulence, has resilient institutions and a deep-rooted democratic tradition that will prevent it from sliding into authoritarianism. For Canadian investors, the wisest course is to hold tight to a well-diversified, high-quality investment strategy. Compounding works best not in the absence of uncertainty but in the ability to endure it. The most reliable way to unlock long-term investment success is to remain invested in durable businesses - those with strong fundamentals and competitive advantages - even when headlines tempt us to flinch. In moments of anxious uncertainty, discipline is your edge. Quality is your anchor. Time is your ally.

Footnotes:

*Assumes a portfolio of diversified, resilient, cash-generating businesses. Rebalance only if needed for asset mix alignment or liquidity.

** FCF/RONA is a proprietary metric defined as free cash flow / return on net assets