

THE STAN CLARK FINANCIAL TEAM'S

# PERSPECTIVES

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It's been a dramatic start to the year, with major fallout from U.S. President Trump's tariffs across interest rates, credit and equity markets. In our *Quarterly Economic Update*, Michael Chu and I look beyond the drama for a realistic assessment of the impacts – and how, whether the Trump tariffs last or not, Canada and other countries can adapt and even benefit. In my behavioral finance article, I discuss how we make decisions depending on whether we're introverts or extroverts. And, how to avoid those often-destructive emotional decisions even if your personality is inclined toward them.

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## Behavioral Finance

### INTROVERSION, EXTROVERSION AND YOUR FINANCES

By Stan Clark, Senior Wealth Advisor

In his seminal book *Thinking, Fast and Slow*, Nobel Prize winner Daniel Kahneman describes our minds as a dual system of fast thinking (System 1) and slow thinking (System 2). Our fast-and-slow-thinking modes, says Kahneman, render us vulnerable to errors in making important financial choices.

But there's another fascinating dual system we all share: introversion and extroversion. Our levels of these two can also expose us to poor judgments and bad investment decisions.

In *Quiet: The Power of Introverts in a World That Can't Stop Talking*, Susan Cain compares introversion and extroversion, including how they affect our financial decisions. Cain says we have two different brains. In our primitive brain, located in the brainstem, anger and fear arise along with aggressive impulses. The other brain, our neocortex, gives rise to abstraction, reasoning, curiosity, speech and other qualities that make us human.

Our primitive brain watches for danger. It sends signals urging caution. The neocortex seeks novelty and pleasure. To help us find and experience these, it promotes risk-taking. The extent to which our neocortex heeds the warnings from our primitive brain determines our place on the continuum, from extreme extrovert to extreme introvert. Cain cites studies indicating one-third to one-half of us are mainly introverts in our behaviour; the rest, mainly extroverts.

Extroverts are more reward-sensitive. Their brains produce more of (or are more sensitive to) the excitatory chemical dopamine. Extroverts gamble because winning gives them a rush. Introverts resist

gambling. It's not so much that extroverts don't receive the same warnings from their primitive brains as introverts. But extroverts have innate biochemical mechanisms that let them ignore the warnings.

Extroverts tend to prosper in bull markets. They get excited. They decide and act quickly when presented with opportunities. They generally experience enough wins to offset any losses their rashness incurs.

Cain suggests it was the presence of so many extroverts in power at investment banks, brokerages and other financial institutions – as well as on the boards of large corporations – that led to the Enron-style meltdown of the housing and stock markets in 2007-2008.

That's large-scale extroversion. At the personal level, Cain offers the example of Alan, a 60-year-old extroverted Midwesterner. Through hard work, Alan and his wife accumulated \$1 million for their retirement. In 2008, hearing the government was going to bail out a troubled car company, Alan bought \$100,000 of that company's stock.

But the bailout didn't happen right away. Rumours abounded that the company would be allowed to fail. Its stock plunged. In a classic example of anchoring and loss aversion, Alan fixated on profits he still hoped to make. He clung to his stock.

The stock kept falling. Alan finally sold, losing most of his investment. Bailout rumours resurfaced. Alan bought in again. And again the bailout didn't materialize. Alan sold at a big loss. He bought in yet *again* and sold at a loss – until he had blown \$700,000 of his nest egg!



## TEAM TALK

**Elaine Loo**  
Wealth Advisor



Hiroshima – Atom Bomb Ground Zero

**Where have you traveled to recently?**

During Spring Break of 2025, my family and I visited Japan with another family. This is my second time in recent years. It was a fantastic trip and we had amazing weather too! My favorite city was Osaka. It was also interesting to learn and take part in the different customs.

**What's your favorite indoor/outdoor activity?**

My favorite activity is spending time with my kids, whether at home or outside. Recently, I have been doing a lot of chilling time with my younger son and it's been very enjoyable!

As for exercise, my favorite is resistance and strength training. I attend classes twice a week and have full weight sets at home for home workouts!

I love the sound of water...I find it very peaceful and relaxing. It puts me to sleep right away!

What happened?

Most likely, Alan's reward sensitivity kept him focused on making a killing with his stock. He saw the potential rewards. He visualized a major coup. As an extrovert, he ignored the warnings raised over and over by the primitive part of his brain.

Had Alan been an introvert, he probably wouldn't have made such risky choices. Introverts tend to avoid big risks. In bearish markets, they fare better than extroverts.

The lesson: If you are highly extroverted, take a close look at your investment behaviour. Approach the market with rules and strategies based on objective data, rather than on emotions.

### Quarterly Economic Update

## RESILIENCE OVER REACTION

By Stan Clark, Senior Wealth Advisor and Michael Chu, Senior Wealth Advisor

It certainly has felt like a long start to the year! In this *Quarterly Economic Update*, we discuss the markets for the first quarter of 2025 and the significant volatility that followed early in the second quarter – particularly after “Liberation Day,” when the Trump administration imposed higher-than-expected tariffs, followed by retaliation by other countries and then a partial pause. Even before the full implementation of tariffs, business and consumer confidence were eroding, with layoffs, delayed investments and cautious spending.

There has been major fallout from tariffs across interest rates, credit and equity markets. But let's start with a recap of the first quarter. Some big shifts were already occurring. In addition to rising geopolitical issues from Ukraine, and even back home in Canada, escalating tariff threats and trade tensions clouded the economic outlook and were potentially stoking inflationary pressures. This created a challenging environment for central banks, which are tasked with balancing inflation and growth.

European and other international equities performed the best this quarter, perhaps due to relatively lower valuations. Canadian equities also outperformed, largely due to the surge in gold prices, benefitting the mining sector. The rise in gold prices was driven by both global uncertainty and central bank diversification away from U.S. dollars. Despite this positive momentum, Canada still

Investing with a disciplined, rules-based strategy – as we encourage our clients to do – removes emotions from your decisions. For extroverts, it's a little like having an introvert around to offer sound advice at crucial moments..



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faces challenges from U.S. tariffs and the political uncertainty on both sides of the border. Ongoing interest-rate cuts by the Bank of Canada were meant to counteract economic weakness, but have yet to fully restore confidence.

At home, the TSX was up 1.5% in the first quarter of 2024. The World Equity Index, a gauge of stocks around the world, was down 1.8 % (in C\$)

	1st Quarter 2025 Returns	Trailing P/E	Forward P/E	Forward Earnings Yield	Dividend Yield
Canada	1.5%	19.6	15.1	6.6%	2.9%
U.S.	-4.3%	25.1	20.1	5.0%	1.4%
Europe	10.8%	15.5	13.7	7.3%	3.1%
EAFE (Europe, Australasia, Far East)	6.9%	15.3	13.8	7.2%	3.0%
Emerging Markets	2.9%	15.1	12.0	8.4%	2.7%
World	-1.8%	21.5	18.2	5.5%	1.8%

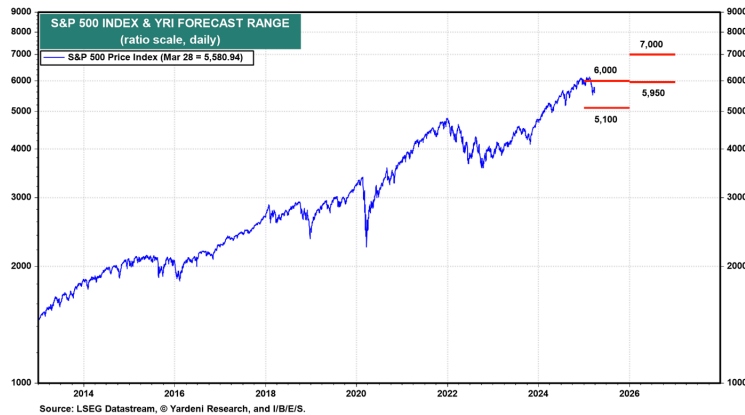
### Valuations

Today's forward (expected) price-to-earnings (P/E) ratio in the U.S. is 20 times earnings. It was around 22 times in February, when the market was at its peak – so, about 10% cheaper today. Top economist Ed Yardeni projects valuations staying the same for



Source: LSEG Datastream, © Yardeni Research, and Standard & Poor's, and I/B/E/S.  
\* Average weekly price divided by 52-week forward consensus expected operating earnings per share.  
\*\*Corrections are declines of 10% or more (blue shades). Bear markets are declines of 20% or more (red shades).

the next couple of years. But if a recession occurs, Yardeni says the forward P/E ratio could drop to 17 or lower. He also estimates that earnings will recover, so the stock market can go up even if valuations stay the same (more on this later).



### Inconceivable!

Tariffs have always been part of the Trump platform as a tool to help balance the U.S. trade deficits. But the initial tariffs the president proposed were significantly higher than expected. The effective U.S. tariff rate increased from about 2% at the beginning of Trump 2.0 to a whopping 22%. That's the highest rate since the early 20th century. It now exceeds even the infamous Smoot-Hawley tariffs that are widely blamed for contributing to the Great Depression of the 1930s. What's even worse, international trade is three times more important to the U.S. economy today than it was then. The bottom line is that there are negative consequences for economic growth and higher inflation.

Compared to normal trade deals, the proposed reciprocal tariffs were not a sophisticated calculation (i.e., involving a mix of tariffs, foreign exchange undervaluation, value-added taxes, etc.), but a simple formula based only on a country's trade surplus with the U.S. This simplicity provides grounds to believe that these tariffs weren't the end game, but rather shock therapy to start serious negotiations. Still, the question is how long will the current tariffs last?

Maybe the tariffs will last for many months or years. That would be the worst-case scenario for close trading partners like Canada and Mexico. But it is quite possible the high tariffs don't last and are reduced after negotiation. We believe the president and his advisors want strong growth, and negotiating strategies are very much part of this. Trump does not want the stock market to be falling going into the 2026 mid-term elections, so introducing these high tariffs now gives him time to adjust over the remainder of 2025.

### About-face

Coming out of the 2024 U.S. election, the assumption was that a Trump administration would be a boost to the U.S. economy in the short term. The logic was that the combination of tax cuts, deregulation and

a boost in *animal spirits* or confidence, would outmuscle the negative effects of higher tariffs and lower immigration. That logic is being put to the test now. Tariffs seem much higher than imagined and confidence, both consumer and business, from 2024 has significantly faded. This means that growth in 2025 may be weaker than what had been expected.

### Outside of North America

The U.S. economy decelerated in early 2025, but the opposite happened in the rest of the developed world. This has been surprising to many, given the underperformance of those economies in the last few years. There are a few reasons for this. First, central banks outside of the U.S. have been cutting interest rates – which provides stimulus. Weaker exchange rates have also boosted their competitiveness for exports. Also, other economies have more room to grow compared to the U.S. economy, which has been running near capacity.

### What about Canada?

It might not feel like it, but the Canadian economy has still been growing lately due to lower interest rates, a weaker currency and some bounce-back from weakness in past years. But some of the recent growth may be artificial, due to “front-running” tariffs – that is, U.S. businesses importing more before tariffs kick in.

The tariffs announced so far could be damaging to the Canadian economy in the near term. Significant adjustments will be needed, as it now seems clear that we are more reliant on the U.S. than we should be. If the announced tariffs are not reduced, this probably leads to a recessionary outcome. But if the tariffs prove temporary, then there is room for a significant rebound.

There's also lots of potential to improve

through more interprovincial and non-U.S. international trade in the longer term. This longer-term benefit may have been recognized by the markets, leading to the outperformance of Canadian stocks vs U.S. stocks this year.

We also have federal elections coming up fast on April 28. Polymarket currently assigns a 73% chance that the Liberals form the next government, vs a 27% chance for the previously-favourite Conservatives. But the race isn't over yet. As we've seen in Canada, the U.S. and around the world, voters can change their minds quickly.

### China diversifying

There's a lot happening in China. The U.S. has hit that country with very heavy tariffs. While China is still a significant trade partner with the U.S., its reliance as a percentage of total exports with the U.S. has been falling over the years. This should make the tariffs a bit easier for China to manage.

China's monopoly on *rare earths* – metallic elements needed for a wide range of industries, from autos to military to semi-conductors – will be a source of strength in any negotiation.

And, from a geopolitical standpoint, the U.S. stepping back from the international stage may present an opportunity for China to fill the void.

### Off-ramp

Professor Jeremy Siegel of Wharton noted that Trump's aggressive tariff measures have injected both economic and political uncertainty into the markets. While the latest employment data is still strong, warning signs are emerging that suggest a sharp deterioration in economic activity should these tariffs remain in place. Siegel views these policy decisions as self-inflicted and believes the Fed should cut rates even at the risk of inflationary pressure. He believes that employment is the real signal to watch as tariffs distort the inflation signal.

Siegel stresses that investors should maintain perspective: In the event of a sharp earnings decline, the market's long-term value proposition remains. History shows that markets often overreact, leading to opportunities.

Further, Siegel sees the potential for a sharp rebound for stocks if political pressure forces an off-ramp for tariffs. President Trump could easily reverse course and declare victory after some concessions or commitments to move more production to the U.S. Trump has done this before, and markets have responded with

vigour. Ultimately Siegel believes investors should stay the course, as stocks remain the best long-term hedge against inflation and provide the best expected returns of any asset class.

This volatile period may test even the most seasoned investors but again, it's critical not to overreact. As we've seen with the 90-day pause, a single tweet can result in a sudden rally.

### Stock, bond and currency vigilantes on the lookout

At the formal imposition of the 104% tariff on China, the U.S. 10-year bond yield rose 60 basis points in a little more than 48 hours to almost 4.5%. The actual yield is not overly alarming, seeing it was 4.8% just a few months ago. But it was the speed of its ascent that aroused concern. This happened because there were worries that big U.S. bond holders (i.e. China) might start selling some of their U.S. bonds and as a result, credit markets were showing signs of stress.

The stock and bond vigilantes are signalling that the Trump administration may be playing with fire - that something might blow up in the capital markets because of the stress created by the trade war.

Coined by Yardeni in the 1980s, *bond vigilantes*, or big investors, are believed to serve as a market-driven check on fiscal and monetary policy. Bond vigilantes step in when government policies appear misguided. They wield market power by selling government bonds en masse to drive up borrowing costs and force policy changes.

**How is the economic situation today different from the Great Depression? There are some disturbing similarities, but also many differences!**

U.S. Treasury bonds rarely have high interest rates. Traditionally, Treasury bonds have been seen as a safe, if not *the* safest, investment. When yields rise, it suggests a selloff. It also likely means higher costs to borrow for both companies and the government. And, because Treasuries are seen as a safe haven, yields usually go down in times of economic stress. This has made the bond market activity all the more alarming - indicating a loss in faith in U.S. assets as a safe haven. The U.S. dollar has also been declining; usually in times of stress the opposite happens. Add the weakness in the stock market, and you get a massive trifecta pressing for a big U-turn on tariffs.

### Damage

Tariffs are *stagflationary* because they cause economic growth to weaken and inflation to increase. Stagflation is bad for the financial markets: Weak growth hurts the stock market while high inflation hurts the bond market.

There is considerable uncertainty around the implications of these tariffs. Not just the tariffs' extent and duration, but their direct impact on the economy as well as policy response. Will the U.S. economy descend into a recession? Yardeni raised his subjective probability of a recession this year from 20% to 35% on March 5, and from 35% to 45% on March 31. He also slashed his year-end target of the S&P 500 from 7,000 to 6,000 and cut his earnings projection from \$285 to \$260.

In addition, Yardeni lowered his real Gross Domestic Product (GDP) growth-rate prediction for this year from 3% to 1.5%. He expected trouble from Liberation Day, but hasn't further cut his outlook, as he's unwilling to bet against the resilience of the U.S. economy or its consumers. Yardeni believes the tariff nightmare will go away sooner than later. Fortunately, he still expects the Roaring 2020s scenario to prevail over the rest of the decade - as it has, until recently - after about a year of stagflationary risks.

### Is a depression possible?

How is the economic situation today different from the Great Depression? There are some disturbing similarities, but also many differences! According to Yardeni, the most catastrophic cause of the Great Depression was the *Smoot-Hawley Tariff Act* of 1930 - not the stock market crash, not the bank failures and central bank policy errors, not the rise in interest rates, not the tax increases. All these events contributed to the explosion, but the detonator was the tariffs. Importers, manufacturers, foreign governments and economists warned President Hoover not to pass the tariff bill. But Hoover signed the bill anyway, and the tariff rates rose to an all-time high in American history. As predicted, trade partners retaliated on a massive scale and world trade collapsed. This was followed by financial panics and monetary collapse.

Could it happen again? Yardeni says there could be some protectionist sentiment, but a repeat of the Smoot-Hawley disaster is not likely. While the American public acknowledges unfair trade, they also want their low-cost foreign products. Recent banking issues were quickly contained and halted, so financial panics shouldn't happen. And the Fed is likely to drop interest rates and provide needed liquidity if the economy stalls, unlike what happened in the 1930s.

### Looking ahead

The road ahead will have its twists and volatility, but our approach remains the same: Focus on resilience over reaction and discipline over distraction. The ongoing trade disputes underscore the importance of a diversified portfolio by industry and geographically around the world. It might not be easy, but companies and countries *can* adjust - giving us continued faith in investing based on disciplined methods coupled with asset mixes determined by your financial plan. This will help you stay secure in these unusual times.



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## SCFT Trivia

### Trivia Time!

Thank you for reading this month's newsletter. Test your knowledge with our trivia questions! Each question relates to one of the articles featured in this edition. See how many you can get right, and check your answers at the bottom of the page. Good luck and happy quizzing!

*Hint: You can find the answers inside this newsletter.*

1. Amid the the economic uncertainty around U.S. President Donald Trump's tariffs, Canadian equities performed well in the first quarter of 2025, largely because of:
  - a) Trump's assurances that tariffs are a good thing.
  - b) The new mood among Canadians to buy only Canadian.
  - c) The surge in gold prices, benefitting the mining sector.
  - d) Confidence that the U.S. government always makes wise decisions.
2. Alarming as the Trump tariffs seem, the Stan Clark Financial Team believes:
  - a) The president and his advisors want strong growth, and using tariffs to negotiate strategies is very much part of this.
  - b) As the 2026 mid-term elections approach, Trump does not want the stock market to keep falling due to high-tariff impacts.
  - c) Introducing high tariffs now gives Trump time to adjust them over the remainder of 2025.
  - d) All of the above.
3. As Susan Cain discusses in *Quiet: The Power of Introverts in a World That Can't Stop Talking*, humans tend toward either *introversion* or *extroversion*. Extroverts, being happier and more confident, are more likely to make good decisions, including in finance:
  - a) True
  - b) False
4. Those of us who gamble by making rush decisions:
  - a) Have innate biochemical mechanisms that cause us to ignore warnings.
  - b) Have to act fast because our schedules are so busy.
  - c) Are too smart to waste time poring over dull facts and information.
  - d) Know that any background we need is available via quick bytes on social media.

Answers: 1. C, 2. D, 3. B, 4. A

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