

The Optimistic Investor[®]

Focus on What Really Matters



Tariff Tantrums: How Investor Behavior Impacts Success

If you simply look at the most recent statement for your portfolio, you might think investors have enjoyed smooth sailing in the first six months of 2025. It's been anything but calm, however. To the contrary, we endured a period of substantial distress as equity markets transitioned from optimism to concern, to a full out bear market panic in just a matter of weeks. Then, nearly as quickly, they cycled from despair to hope, and seemingly back to optimism. It's been quite a ride.

As most of you know, the "excitement" was mostly caused by a system of tariffs proposed by the Trump administration. Our purpose here is not to debate the merits of this policy or how tariffs might change the world economy. More than enough has already been written and said on such matters, and we long-term investors know the great companies of the world will ultimately adapt and move on.

The more salient point is that the market convulsions we experienced in April offer valuable

insights on investment decision making. But, before we delve into what we can learn from the recent bear market, let's briefly recap what happened to set the stage.

Early in the year, broad equity markets drifted upward on optimism about the incoming administration's plans to reduce regulation and avoid a significant tax increase at year-end. Things began to change in late February, however, as it became clear the Trump administration would initially focus on cutting federal spending and restructuring trade policy via tariffs. Concerns that tariffs might rekindle inflation and slow economic growth caused broad market levels to decline in the weeks leading up to April 2nd, when President Trump announced a new "reciprocal" tariff framework.

After the announcement, what had been general concern about tariffs quickly morphed into panic and equity markets declined significantly over the

next four trading days. The new tariffs were much broader and more severe than anticipated, and fears intensified as the US and China took turns escalating their levies to eye-watering levels.

A week later, the President suspended most of the new framework for 90 days. The idea was that this pause would allow countries to negotiate for reduction or elimination of the tariffs. Markets surged on this news. The S&P 500 rose more than 9.5% on April 9th, and the recovery more-or-less continued into May and June as tariff policy evolved and tensions between the US and China cooled.

When the dust settled (for now), the peak-to-trough decline on the S&P 500 was -21.35% (on an intraday basis), but the rally that started April 9th brought the index back to a year-to-date gain of 1.47% through June 20th. Exhibit A recaps these dramatic swings.

This rapid reversal in sentiment and trajectory, and the emotional whipsaw investors experienced as it transpired, reveals two fundamental truths about successful investing.

Truth #1 – The Main Driver of Investor Return is Our Own Behavior

The first thing we can learn from this bear market is that the primary driver of our long-term success will be **how we behave**. In a very real way, the decisions we make in the face of uncertainty have a bigger impact than how our investments perform. To see this, we need to explore the concepts of **investment** return and **investor** return. There can be a huge difference between the two, and that difference is something we need to minimize to be successful over time.

Exhibit A: Select S&P 500 Closing Levels ¹					
	12/31/24–2/19/25	2/20/25–4/2/25	4/3/25–4/8/25	4/9/25	4/10/25–6/20/25
Begin	5,881.63	6,144.15	5,670.97	4,982.77	5,456.90
End	6,144.15	5,670.97	4,982.77	5,456.90	5,967.84
% Change	4.46%	-7.70%	-12.14%	9.52%	9.36%

Take particular note of the period from April 3rd through April 9th, as those are the key dates for the lessons we'll discuss below.

The roughly 12% decline in the S&P 500 over the four trading days that followed the April 2nd announcement was brutal. Many commentators (from across the political spectrum) denounced the tariffs as bad policy that would cause significant damage, share prices dropped rapidly as analysts and traders struggled to understand the short-term impact on corporate earnings, and the mainstream media reveled in the opportunity to usher in the latest "apocalypse." It was, to put it mildly, a very fearful time.²

As is so often the case, however, market sentiment turned on a dime. After most reciprocal tariffs were put on hold on April 9th, the S&P 500 surged ~ 9.5% in the third-largest daily increase since the index was created in 1957. And the recovery has continued steadily since then.³

Investment return is straight-forward. It describes the performance of an investment strategy over a given period of time. As an example, let's say we want to own large US companies and our strategy is thus the S&P 500. As noted above, the year-to-date **investment** return through June 20th is 1.47%.⁴

¹ The source for all S&P data is finance.yahoo.com.

² In an example of prevailing tone, the cover story of *The Economist's* April 5th edition was titled: [Ruin and Day: President Trump's mindless tariffs will cause economic havoc](#).

³ If you're curious, you can review the list of the S&P 500's largest daily increases [here](#).

⁴ For simplicity this essay will ignore the impact of dividends, taxes, and other costs.

Investor return is more nuanced. It's the return an investor actually earns during the applicable period. This can be the same as the investment return generated by the investor's strategy, but that's not always the case. It may sound strange, but investors often underperform their own strategies due to poor decision-making. They change course and adopt or abandon strategies based on short-term performance, and that reduces returns over time.⁵

The severe volatility we experienced in the week after April 2nd provides the perfect backdrop to examine this dynamic. Let's consider two investors who came into the year with an S&P 500 strategy:

- Investor A was nervous as markets declined through March and fell sharply in early April, but she didn't change her strategy. At the end of last week (through June 20th), her YTD investor return was 1.47%, the same as her strategy's investment return.
- Investor B was also nervous, and he panicked when the bear market hit. On April 8th, he sold his equity portfolio to hold cash until "things settled down," and he never reinvested because of ongoing uncertainty. B's YTD investor return is -15.3%.⁶

This may seem like an extreme example, but many people took the path chosen by investor B. They panicked and changed course during a time of market distress, and they're now significantly worse off for having done so.

The key insight here is that the difference between A and B's returns had nothing to do with market dynamics or how their S&P 500 strategy performed during the panic. Those were identical for both parties. The variance is entirely due to the fact that A and B behaved differently in the face of great uncertainty.

⁵ A company called Dalbar publishes an annual study on this exact topic. It's called the "quantitative analysis of investor behavior" (QAIB). Since its inception in 1994, the QAIB has consistently documented a persistent gap in the performance of the "average investor" and broad market returns. You can learn more about Dalbar [here](#) and access their most recent QAIB press release [here](#).

⁶ If B put his cash in a money market yielding ~4%, he would have made roughly 1% since April 8th, reducing his YTD loss to approximately -14.3%.

Once again, the primary driver of our long-term investment outcomes is our own behavior. The decisions we make and how we manage our emotions, especially around market highs and lows, will largely determine whether we succeed or fail to achieve our goals.

Truth #2 – The Best Way to Maximize Investor Return is with a Long-Term Plan

The great Yankees catcher, Yogi Berra, once said: "if you don't know where you are going, you might wind up someplace else." It may sound funny at first, but there's some profound wisdom in that statement. And there's a corollary that applies in the world of personal finance, which is that clearly defining your goals gives you a much better chance of achieving them.

In past editions we've stressed that those who consistently act on a long-term plan put themselves in position to succeed, and those who fall into the trap of reacting to current events are doomed to fail. But what exactly is a long-term plan and how does it pave the way for success?

When we refer to a long-term plan, we're talking about a framework through which we build and utilize wealth to achieve our goals. There are many different elements involved, but the most critical are:

- A comprehensive list of goals and clear understanding of what they will cost.
- A portfolio designed to maximize the likelihood of achieving your goals and minimize the risk of running out of money.
- A specific strategy to generate the cash you need to live, which predefines how this element of the plan will vary (if at all) in times of market distress.

If you have a plan that encompasses these three things, you'll be clear on what you're trying to accomplish and what's required of you over time. Most critically, though, you'll know exactly what you need to do when we go through turbulent markets like we saw in March and April. The importance of

that knowledge can't be overstated. It's what allows you to keep confidently working your plan when the rest of the world is panicking, and that's how you avoid emotion-driven decisions that can throw you off track.

Having a plan that helps us avoid these costly mistakes will minimize the gap between our investment and investor returns over time. And that maximizes the likelihood of achieving our long-term goals.

Markets may or may not have seen the worst of the tariff saga at this point, but either way you're prepared because you have a long-term plan to guide you through whatever the future brings. And we're always here to help you stick with that plan and earn the investor returns you need to stay on track for your goals!

Innovation and Good News

1. In January, a New Hampshire man named Tim Andrews received a [new kidney from a genetically modified pig](#). He has now lived longer than any other recipient of a pig kidney, and on June 11th [he threw out the first pitch](#) at a Red Sox game in Boston.
2. A baby born last summer has been successfully [treated with a custom gene editing drug for the first time](#). The child was born with a rare genetic disease that's often fatal, but doctors designed a custom CRISPR therapy for him in less than two months. They obtained special FDA approval and completed the treatment in April.
3. A [new stem cell therapy for type I diabetes](#) appears to have cured 10 out of 12 participants in a small clinical trial. The study is ongoing, but early results are promising.
4. In past editions, we've highlighted the transformative potential of quantum computing. Quantum communication is a concept that relies on the same principles of physics to offer a means of transmitting data that is vastly more secure than current methods of encryption. Such technology has great potential for businesses and individuals concerned with data security, but it's been held back by the fact that it generally requires cryogenic cooling, which is very expensive. Recently, however, scientists in Europe [devised a way to send quantum data 158 miles](#) using only ordinary computers and an existing fiber-optic network. It could be a turning point for this powerful innovation.
5. A scientist at the University of Maryland created a process that can [make ordinary wood stronger than steel](#). This "superwood" has 50% greater tensile strength than steel with a strength-to-weight ratio that's 10x better, plus it's resistant to flames, rot and pests. Commercial production is supposed to begin this summer.
6. Exciting news in the fight against Alzheimer's disease. For many years it's been thought the disease is caused by plaques that build up in the brain (called amyloid and tau). But there is increasing evidence that these plaques may be the brain's response to viral infection and that [viruses are the underlying cause of Alzheimer's](#). If true, existing vaccines and anti-viral drugs may provide viable treatments and possibly prevention. A double-blind randomized clinical trial is now underway to test the effectiveness of antiviral drugs against dementia.

Team Kooman Corner

Our team has a lot of exciting news this quarter:

Congratulations to Jackson Boyer, who recently passed the CERTIFIED FINANCIAL PLANNER® Exam! Jackson has also completed the extensive coursework required and is on track to become a CFP® Professional next spring.

The Anderson family celebrated a major milestone when Stacy's son, Dylan, graduated from high school last month. Dylan will be attending Robert Morris University this fall, and we have no doubt that great things are in store for him.

Taylor and Matt Canole are expecting their second child this October! We're all thrilled for Taylor and Matt, and we can't wait to welcome their baby boy to the Team Kooman family.

Please note that our office will be closed on Friday afternoons until Labor Day to give our team additional time with their families this summer.

Have a great summer!

KOOMAN & ASSOCIATES

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- If there are any changes in your personal/ financial situation or investment objectives, so we can review, evaluate and/or revise our previous recommendations as needed; or
- If you would like to impose, add or modify any reasonable restrictions on our investment advisory services.

Unless and until you notify us, in writing, to the contrary, we will continue to provide services as we do currently.

Please also remember to advise us if you have not been receiving account statements (at least quarterly) from your account custodian.