GDS Investments

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As we find ourselves a little more than a month out from the presidential election, any surprise from the outcome is settling, and we are starting to get more insight into President-elect Trump's stated plans. Specifically, he has announced blanket 10% tariffs on goods imported from China and 25% tariffs on Mexico and Canada. He has also put forth several names for key economic positions, including:

- Hedge fund founder **Scott Bessent** for Treasury Secretary
- Investment banker **Howard Lutnick** for Commerce Secretary
- Economist **Kevin Hassett** as Director of the National Economic Council
- Attorney **Jamieson Greer** as U.S. Trade Representative.

His tariff proposals give us pause, but many of these nominations are more conventional than might have been initially predicted. In particular, much of the market reacted with relief to the appointment of Bessent.

Still, as investors, we are all certainly wondering what this new world will mean for us. Might other kinds of investments suddenly become more attractive in the economic environment into which Trump appears to be steering the United States? For example, does real estate become a more appealing investment vehicle now? "We also should consider that most of Trump's wealth is tied to real estate, so it's highly unlikely that he would implement policies that would work against his own bottom line," Robert Washington, a real estate broker argued to *Salon Magazine*.

Or, if not real estate, perhaps moving more money into cash? Warren Buffett's Berkshire Hathaway's November 2024 financial disclosures show they are holding a record amount of cash and cash equivalents ($325.2 billion, up from $276.9 billion at the end of June 2024) right now. Should other investors take a lesson from that?

We have four relevant comments here:

1. Good businesses are set up to succeed in all kinds of economic environments.
2. Always think critically about any source of advice or financial information to avoid opportunists.
3. Stay in your lane; avoid investments in areas where you lack expertise or insight.
4. Don't let your emotions (anxiety) make your decisions for you.

These are evergreen ideas to keep in mind. We are discussing them now in the context of Trump's incoming presidency, but all four apply in every kind of economic situation or change. Indeed, these truisms reflect a distillation of the same basic advice we've given repeatedly in the face of other economic fears and conditions, including the prospect of recessions, accelerating inflation, rising interest rates, and more.

The first item comes down to the fact that the fundamentals of value investing remain the same regardless of what's happening at the macro level.

Presidents can certainly move the needle economically here and there, but at the end of the day, it's very hard for investors to ever ride macro-economic waves to long-term value production regardless of who's in the White House. This doesn't mean you can't make money in (potential) new areas of opportunity, but if you didn't know real estate before, for instance, you likely don't know it any better now. As we've written previously, specialized fields like real estate require specific expertise to reliably achieve success:

"Most people think they understand real estate far better than they genuinely understand it … the best capital allocators focus on the forms of capital allocation they know best. Smart investors focus on areas where they have expertise, and they stay away from areas where they are intellectually honest enough to recognize they do *not* have the expertise."

That argument doesn't change just because a new president steps into office. We ourselves have no plans to change our foundational focus. GDS Investments has always been committed to owning "best in class" businesses with high unleveraged return on capital, industry-leading market share, shareholder-friendly leadership which manages for the long-term, and businesses with enduring moats and/or businesses which are disrupting industries with weakening moats. Those are the companies that can operate successfully in a variety of economic conditions, policy environments, and presidential administrations.

The second issue, thinking critically about where you get investment advice, is especially key in times of rapid change.

This is exactly the kind of time when a lot of opportunists will come out of the woodwork offering all kinds of "savvy" investment opportunities predicated on anticipated economic policies or changes.

However, it's important to remember that while there are certain people who are ethically and legally bound by *your* financial interests, most participants in the system are going to act in a *self*-interested way. They're marketers, not advisors, and they are preying on people's anxiety and uncertainty. Worse, they're not usually going to be held accountable if they give bad advice. They'll have already moved on to the next "exciting opportunity."

Or even if they're not pushing specific opportunities or trades, they might still want investors to do *something*.

Consider investment banks or financial advisors who make money from trading. They want financial activity because it's how they make money; the last thing they want is for investors to sit tight on their holdings. As a result, even entities that give every appearance of being smart, serious advisors with your best interests at heart will push out reports *designed* to get people to start trading, in particular by activating people's emotional responses. On that note…

The third and fourth points add up to the same conclusion: do *not* suddenly shift investing gears out of fear, especially when the change to your strategy would put you outside of your comfort zone.

Are there sometimes changes in circumstances that necessitate alterations to our investment strategy? Of course. But the fact that you are suddenly unduly anxious *or* optimistic about the future is not one of those circumstances.

Here, we would argue that the key is to know yourself. We already alluded to this above: if you are investing in an area that falls outside of your own circle of competence, as Warren Buffett terms it, it becomes all the easier to either (a) second-guess yourself or (b) over-estimate the likelihood of success, consequently falling prey to bad advice, and end up moving into investments that are predicated more on your hopes or fears than the fundamentals of good investing.

Remember, buying is (relatively) easy. The hard part is then understanding what you own and setting yourself up for success during the ownership period.

Often, doing nothing and holding steady is the best course for stock ownership, even in the face of upheaval or temporary downturns. In fact, it's a pillar of the value investing strategy (this may be a good point to re-familiarize yourself with How GDS Invests). Remember Warren Buffett's classic argument: "When we own portions of outstanding businesses with outstanding managements, our favorite holding period is forever."

This is why the stock ownership phase will test investors in ways the stock picking phase doesn't. It takes an entirely different skillset to keep those emotions in check in the face of the opportunists and motivated advisors pushing for movement when standing still is the correct answer. Becoming as Spock-like as you can, from a logic standpoint, overrides everything else as a stock owner.

Here, we are reminded of the grandfather of value investing, Ben Graham, who argued the investor's independence is their single biggest advantage. Yielding that advantage to others is foolhardy. "The investor who permits himself to be stampeded or unduly worried by unjustified market decline in his holdings is perversely transforming his basic advantage into a basic disadvantage," Graham said.

This brings us back to the new economic environment we may see in 2025.

What are investors to do with the changes that are almost certainly coming? At this point, it is too soon to rush to judgment, and we should resist voices that are making premature judgments or pushing big changes.

We do not mean to be dismissive of very real concerns around potentially inflationary policies nor overly pessimistic about potential new opportunities, but we simply still have no idea how any new economic policies will play out. *Discussion* of new tariffs (or any economic policy) is not the same as *implementation* of news tariffs. "The size and direction of a 'Trump bump' will depend on what campaign proposals ultimately become policy and when ... and the details will matter," Danielle Hale, chief economist for Realtor.com, told Investopedia. She was talking about housing policy, but the same idea applies broadly.

For example, there remain many unknowns about tariffs, including how many products or companies may be granted exemptions. Even if we knew precisely how the policies would be executed, we don't know how other countries will respond, and what counter-response the U.S. will then make. Canada, for example, certainly has options for dealing with new tariffs in different ways.

As a result, even deeply affected parties are taking a wait-and-see approach. "We're not going to spend a lot of energy trying to worry about what could be," off-road vehicle maker Polaris Chief Executive Michael Speetzen told *The Wall Street Journal* this month. Polaris outsources much of its manufacturing to Mexico, and under the proposed tariff scheme, their company could face an added $400 million in costs that would be passed on to customers, but as Speetzen says, "[T]here's a million different scenarios."

So, be wary of making major changes—or anyone pushing major changes—before we have more information.

In the meantime, GDS Investments will watch for new policy updates while continuing to focus on finding strong businesses capable of weathering a wide array of economic situations. Remember, uncertainty can be a crucible for opportunity as attractive positions are suddenly made available at a discount. While others respond emotionally to apparent shifts in the ground beneath our feet, GDS Investments will maintain a long-term view of a world right-side-up; and as we move into 2025, we pledge to continue our commitment to you, your families, and your future.

With warm regards and our sincere wishes for a happy holiday season filled with family and friends,

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