



EP126 - Staying the Course: Investing Through War & Uncertainty

Keith: Welcome to the Empowered Investor Podcast, brought to you by the advisory team at Tulett, Matthews & Associates. Have you ever felt overwhelmed by the number of voices telling you how to plan or invest for your future? We're here to help you cut through the noise, bringing clarity to your investment decisions and helping you build lasting financial peace of mind. Learn more and subscribe today at tma-invest.com. Welcome to The Empowered Investor. My name is Keith Matthews, and today I'm joined by my co-host, Jackson Matthews. Jackson, it's so great to have you on today's show.

Jackson: Thank you. It's good to be here.

Keith: This is episode 126, and this is, Jackson, our first episode together as father and son.

Jackson: Yes.

Keith: Fantastic to have you on today's show. You've done a lot of episodes with Marcelo and Lawrence. Today's a big topic. We're talking about the implications for investing through the Middle East conflict that we're currently dealing with. Before we get into today's content, tell us a little bit about your role, what you do at the firm, and how you help clients.

Jackson: Yeah, so I've been here, I'm going into my sixth year and I'm an associate portfolio manager. I've been working directly with clients for about three years now, and it's an excellent group of clients I've been working with. I take care of their portfolio management, assist them with their financial projections, help the tax team here, and more.

Keith: Yeah, it's a fully comprehensive set of services. I personally trained you, as I did with many of the other advisors, and it's fantastic to have a family member in the business. We have 15 individuals in our firm and you're thriving. You're doing very well. I'm excited that we're doing our first podcast together. It is a difficult subject today in the sense that we're dealing with how to manage money and portfolios through conflict. Conflicts are never easy. It seems like we've had a few conflicts in the last, I'd say, four or five years, with Russia and Ukraine, the Gaza conflict, and now we're dealing with a Middle East conflict as we approach the end of March. There's been a lot of human suffering throughout all of these, and we never like to see that. Of course, our responsibility is to make sure we can help investors navigate through these difficult periods. That's really what today's podcast is about. We've had a lot of headlines and a lot of uncertainty. We're now in the third week of March, and we're going to put our investment management lens on everything that's going on, the implications of the war, the implications on the market, how markets are doing, and the evidence around what's happened during previous wars. How have markets reacted in earlier periods of difficulty? And what are the dos and don'ts for investors?

Jackson: Yeah, exactly. To add to that, we're not here to predict outcomes or speculate on geopolitics. We're really here to talk about our investment philosophy and how we think about investing as a firm. We're here to help investors stay grounded and disciplined in their long-term approach to investing.



Keith: Absolutely. The investment philosophy we subscribe to is very much a long-term approach. It's worked out very well for all of our clients and those around the world who embrace this approach. So let's jump into the context of where we're at right now. We are approaching the end of Q1, Jackson.

Jackson: Yeah.

Keith: Give us a review of what's happened since January right up to today.

Jackson: Yeah. As most investors know, 2025 was an excellent year in the global markets and the first quarter of 2026 continued that momentum. Markets continued to advance in January and February, driven by resilient corporate earnings, moderating inflation in several major economies, and the ongoing technology and AI investment cycle. We really experienced what they call a bull market. But this quarter has been two distinct halves. We saw that early rally, but now we're seeing a market correction based on the ongoing conflicts that have occurred over the last couple of years. Now, with this new conflict with Iran, it's eroded some of the meaningful gains we had in the first quarter.

Keith: Yeah, I think we've lost probably 80% of the market gains. Surprisingly though, our diversified portfolios are still slightly positive year to date, including the recent corrections.

Jackson: Yeah, exactly.

Keith: Up until the high of the year, our equity portfolios were up about 8%, with value and small cap doing better than broad. So our portfolios were doing slightly better than benchmarks. And then in the last month, we've seen a complete erosion of those returns and a lot more volatility. Jackson, what are some of the declines we've seen in the major benchmarks, from peak to trough?

Jackson: Yeah, so the S&P/TSX Composite, the Canadian broad market, has been down 7.7% peak to trough. The S&P 500 is down 6.2%. The MSCI EAFE, which is the international market, is down 8.5%. And the MSCI Emerging Markets is down 8.1%. And of course, we did a podcast a couple of weeks ago about gold and its massive run-up in the markets, that is down 12% peak to trough.

Keith: The irony of gold, of course, is that we did that podcast three weeks ago saying be very careful, don't overexpose, have market weight in gold. Gold is known as a safe haven, but it's actually not acting as one right now, it's off more than the broad markets. Ironically, the US market is probably off the least relative to Canada, Europe, and Asia. However, the non-US assets have done incredibly well over the last year, including the first two months of this year.

Jackson: Yeah.

Keith: So it's just a bit of rebalancing going on there.

Jackson: Exactly.

Keith: We don't believe in any type of rotation in portfolios, so we won't look at that. But we'll touch on it more at the end of today's show when we discuss what we feel are the right ways to manage money long term.



Jackson: Yeah.

Keith: So let's jump into why markets are reacting. What's going on here?

Jackson: Yeah. It's hard to pinpoint one exact reason why markets react negatively to certain conflicts, but in this case, it's really been oil prices and inflation fears. What's happening in the Middle East Iran conflict right now is that the Strait of Hormuz has effectively been shut down, completely halting the flow of oil through it. This strait is unique in the sense that 20% of global oil passes through it on a yearly basis. Countries like the UAE, Kuwait, Iran, and Saudi Arabia are all massive oil producers whose oil passes through this strait. It's now essentially shut down and has created a massive bottleneck. We're experiencing a bit of an oil crisis, and there have been shocks to the markets. The implications are felt more by Europe and Asia, specifically China. The reason this feeds into inflation fears is that everything from manufacturing to transportation of goods to food costs is associated with oil. So this can push up inflation, and that's why investors are worried.

Keith: There's a lot going on here. What I find interesting is a BCA report I reviewed before this podcast, it reminded me that the Middle East represents about 4% of global GDP. The region in conflict right now is actually very small in economic terms.

Jackson: 4% of global GDP?

Keith: 4% of global GDP, correct. However, it has a much greater impact on the passage of oil. And that, as you said, is really at the crux of why markets are more agitated than they would be in a traditional conflict. I'd also add that while the US and Israel are aggressively attacking Iran, Iran is fighting an economic war, trying to put pressure on the entire world. It seems to be working, at least for now. Every time we see conflict, people say, 'I've never seen this before. This is different.' And I think that's totally normal because all geopolitical risks and conflicts have their own unique flavors. This one definitely does, but that doesn't mean we should react differently. We'll talk more about that later in today's episode. What's really at stake here, Jackson? What's the trickle effect?

Jackson: Yeah, there are some larger implications. As I mentioned, rising oil prices can have a huge impact on inflation. If inflation goes higher, it can influence central banks, specifically, it might delay them from cutting interest rates, which could lead to lower stock prices.

Keith: So if they don't cut interest rates, or even increase them, that has an impact on stocks.

Jackson: Yeah, exactly.

Keith: For our listeners: stock prices are often impacted by interest rate levels. The higher the interest rate, the lower the valuation tends to be. That's what we're really speaking about here.

Jackson: Exactly. And further to that, the next trickle effect is higher consumer prices, from gas at the pump to flights to grocery store prices. Higher prices affecting the daily consumer can slow down economic growth, which could potentially lead to stagflation: high inflation paired with a stagnant economy.



Keith: Yeah, that's the ultimate worst-case scenario you often hear about. The last time we really saw stagflation was in the early '70s with the oil crisis, when we had massive inflation and growth was knocked completely flat.

Jackson: Yeah.

Keith: While stagflation sounds significant, and it is, it's not new, and it doesn't mean it's actually going to occur. I was reading the Wall Street Journal this morning, and there was a major article on what economists think. We don't build and manage portfolios based on predictions, but it is interesting that the vast majority of economists don't believe a recession is coming, even with everything going on. The probability of a recession is around 31%. A month and a half ago, it was 27%. It hasn't really moved the needle. Unless oil stays elevated for a long period of time, which is not expected, economists generally aren't worried about markets falling into a recession.

Jackson: They also expect CPI, the Consumer Price Index, to be up about 2.9% by December 2026 from a year earlier. Before the conflict, they expected a more modest 2.6%. They're now expecting 2.9%, which is 0.3% higher than before the conflict.

Keith: So what we're really getting at is that the general economy is not expected to be dramatically affected unless we have a prolonged oil disruption.

Jackson: Yeah, exactly.

Keith: Let's keep going. Let's look at the 19 conflicts we have in this report from the National Bank. It's a great report that highlights the last 19 military events going back to 1939 and World War II.

Jackson: Yeah, exactly. Each geopolitical shock feels unique in the moment, but there are underlying trends in how markets have historically reacted. I'm looking at a table that reviews 19 different military events, wars, and how markets reacted before the event, after the event, and what returns looked like in the year that followed. On average, 12 months after each military conflict—

Keith: Actually, to be precise, these are military conflicts, not just geopolitical events.

Jackson: Military conflicts, yes. Markets have been up 5.7% on average 12 months after. And 67% of the time, markets have been positive one year after the military event. Further, the average maximum drawdown across all 19 events was 11.8%. Some wars produced larger drawdowns, negative 20% or 23%, but many also produced drawdowns of only negative 3% or 4%. So the average was 11.8%, not 20% or 25%. The underlying theme is that despite the conflicts, what has typically prevailed is human ingenuity and corporate earnings power pushing forward.

Keith: You're absolutely right, Jackson. Looking at this list, I've actually lived through 10 of the 19 as an advisor, which makes me feel a little dated. I was a bond trader when Iraq invaded Kuwait, and then we had the first Gulf War. I vividly remember that one. But probably the most vivid memory of any conflict was when the planes hit the Twin Towers in New York City in 2001. From a human emotion perspective, it was unbelievable. I vividly remember feeling like the world had changed. That was one of the most



volatile periods on this list. I remember getting on a plane two months later to go to Europe for a conference, just an eerie feeling in airports, because transportation had changed from that point on.

Jackson: Yeah, I don't doubt it.

Keith: One thing I'd point out: looking at this same chart, one week after the conflict, one month after, three months after, and 12 months after, going through all 19 events, there's a higher percentage of positive outcomes than negative ones.

Jackson: Yeah.

Keith: It's just another reminder that markets and economies are fairly resilient and do get through these military events.

Jackson: Yeah, correct.

Keith: Okay, so we've reviewed the evidence behind 19 military conflicts over nearly 100 years. Sometimes investors feel it's smart to trade through, to sell stocks, go to cash or bonds, and wait for calmer times. Let's jump into that next area. Should investors try to trade through conflict?

Jackson: Yeah.

Keith: What are some thoughts on that, Jackson?

Jackson: There are a couple of things here. During times of volatility, people might perceive opportunities to shift from one asset class to another, either to reduce risk or to spot an arbitrage moment.

Keith: And often it's driven by watching an investment account go down week after week, feeling uncomfortable, and thinking, 'If I just sell, I'll stop the pain.' That's just human nature.

Jackson: Yeah, and we have overwhelming evidence against that. We're looking at a Morningstar report that compares returns across different time periods for tactical asset allocation versus a simple buy, hold, and rebalance strategy. Tactical asset allocation, or TAA, is when people move between asset classes to reduce risk, avoid volatility, or chase what they perceive as an opportunity.

Keith: And these are professionally managed strategies, almost like hedge funds, that are trying to both reduce risk and maximize returns.

Jackson: Exactly. This table reports returns from professional tactical asset allocation managers compared to a professionally managed buy, hold, and rebalance strategy, a 60/40 versus a 60/40 TAA. Over 1, 3, 5, 10, and 20-year periods, every single period shows significant underperformance from the tactical allocation funds, anywhere from 280 to 480 basis points.

Keith: So anywhere from 2.8% to 4.8% per year. For example, looking at the 10-year results: the buy-hold-rebalance portfolio generated 8.27%, while the tactical asset allocation generated 4.6%. That's an underperformance of 3.67% over 10 years, which is astronomical.



Jackson: Yeah. And the 20-year period isn't much better. The buy-hold-rebalance returned 7.81%, while the TAA fund returned 4.97%. Over 20 years, \$1 in a tactical asset allocation fund would grow to \$2.64, while \$1 in a buy-hold-rebalance fund would grow to \$4.49. The buy-and-hold-rebalance investor ends up with approximately 70% more assets.

Keith: And that is massive. Individuals tend to underestimate the impact of a percentage point in returns, but when compounded over a long period, 1% is huge, let alone 2% or 3%.

Jackson: Yeah. And one more important point: the time periods we're reviewing for TAA include many volatile periods, which is exactly when a TAA fund is supposed to outperform, because they're meant to spot opportunities and know when to reduce risk.

Keith: That's what human nature tells us, that we need one of these strategies to get through difficult times and manage money better.

Jackson: But over the time period we reviewed, there were nine different periods of significant market corrections, and not once did the tactical asset allocation funds outperform.

Keith: Nine distinct opportunities for professional money managers who believe they can move in and out of markets. Nine massive events, from the credit crisis, to Greece defaulting, to COVID, to the Russia-Ukraine war, to last year's trade tensions, and in none of them was there value added by trading through it.

Jackson: Yeah, exactly. One other thing worth mentioning, I'm looking at another chart produced by Dimensional Fund Advisors. It covers the performance of the S&P/TSX Composite from January 1977 to December 2020. If you invested \$1,000 in January 1977 and stayed invested the entire period, that \$1,000 would grow to \$63,000. But if you missed just the single best day in the market, maybe because you stepped out during a volatile period, that \$63,000 becomes \$57,000. And if you missed the 15 best single days, that \$63,000 drops to \$23,000. The critical point is that those best days typically occur during the most volatile periods. Markets might correct sharply, but within that volatile stretch, there's often a single day where markets bounce 5% or more. Those are the days you don't want to miss. You need to stay invested to capture those upswings.

Keith: That's well put. If you think you can trade through volatility, you might get the first move right, get out, feel relief because your portfolio stops moving. But once you're out, there's a very high chance you'll miss the best day or two. Think about last year's Liberation Day. Right around that period, after markets fell sharply, there was one day when markets bounced back 8%.

Jackson: Yeah.

Keith: And if you missed that 8% day, that's a significant blow to your long-term returns.

Jackson: Yeah.

Keith: So that's a great point, Jackson. My final comment on tactical asset allocation, bringing it together with the historical evidence, is this: we know that market volatility during wars is typically short-term.



We know that trying to trade a portfolio tactically doesn't generate better returns. You shouldn't combine the two. That's one of the big messages in today's episode. We're wrapping up now, Jackson. Let's talk about long-term perspective. What are your final thoughts?

Jackson: Right now we're seeing a lot of short-term changes in the marketplace, but it's really important when thinking about investing and your financial plan to think long-term, that's when the real difference comes into play. It's very important to have a plan, to have the right asset allocation in your portfolio that you can stick to through these periods, and to focus on the things that matter: your spending habits, your saving habits, and your emotions. If you can control those things, you're more likely to have a successful long-term investment journey.

Keith: That's fantastic. So that's your takeaway.

Jackson: That's my takeaway.

Keith: Great. Investment philosophy is the most important thing. If you have a philosophy, you use it to get through difficult and volatile times, and we're in one of those periods right now. On a slightly lighter note, I've had clients tell me one of their favourite quotes from these podcasts is: a portfolio is like a bar of soap, the more you touch it, the smaller it gets. I had a client say that just last week. So to our clients: congratulations for staying the course through all these different years. Our phones are not ringing off the hook right now. Jackson, are you getting a lot of calls?

Jackson: No, they're staying in their seats, staying disciplined, staying smart about their long-term plan. And I think that's what's important.

Keith: Yeah, and if they have questions, we're here to answer them.

Jackson: Absolutely.

Keith: For individuals who are not clients: good luck with your investment experience. Stay the course, stay long-term, diversify well across multiple asset classes, and in periods of drawdowns, add money to your portfolio if you can. Jackson, thank you so much. We've done our first father-son episode, it's been fantastic.

Jackson: Yeah.

Keith: You've got a great podcast voice and we get a lot of good comments on that. And to our listeners, thank you so much for tuning in. Good luck with everything, and we'll see you in the next episode.

Jackson: Thanks.

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