Banyan Capital Management

April 9, 2025

Dear Client,

Banyan's equity composite gained 2.8% in the first quarter while the S&P 500 lost 4.3%. Since the start of 2019, when yours truly officially took the helm, our equity composite has compounded at 13.7% per year versus 15.6% for the S&P 500. Click here to see our equity composite.

First quarter figures already seem stale thanks to tariff turbulence. While we cannot calculate mid-month performance precisely, our *estimated* year-to-date loss was 6% through April 8th versus a 15% loss for the S&P 500. Losses are never welcome, but our losses have been modest so far.

Tariff Economics

Imagine a world where you sew your own clothes, hunt your own food, and build your own home. Our ancestors lived in that world. We, on the other hand, live in a world of specialization and trade, and we are wealthier for it. Living standards have marched higher alongside rising productivity and product diversity. Adam Smith, anticipating this long ago, wrote in *The Wealth of Nations*,

> "[I]f any branch of trade, or any division of labour, be advantageous to the public, the freer and more general the competition, it will always be the more so."[1]

Adam Smith was correct of course. We all benefit from free trade. At the personal level, think about a trade between you and Apple. Are you $1,000 poorer after buying an iPhone? Of course not. You have an iPhone, which is worth more than $1,000 to you or you would not have made the trade, and Apple is better off to the tune of its profits. Both parties benefit. Society wins twice.

The same is true for trade between the US states. Our Constitution forbids interstate trade barriers because trade between the states makes our nation wealthier. Mississippians, for example, would be poorer if they produced everything they consume. They could not buy much of what they want, and what they could buy would cost more. Mississippians' living standards would fall as a result.

Trade between nations is no different. We buy from other nations what we (1) *cannot make* cost effectively or (2) *will not make* due to opportunity costs. The latter point is crucial. Resources used to make one thing cannot be used to make another. Our nation grew wealthy by using its resources to make ever-more valuable things and trading with other nations to satisfy the rest of our needs.

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[1] Adam Smith, *An Inquiry into the Nature and Causes of The Wealth of Nations*, MetaLibri (2007), 256-57.

That is why we do not assemble our own iPhones. The bottom 20% of Americans earn $65,000 a year if government support is included.[2] The Chinese, meanwhile, earn $6,032 a year assembling iPhones.[3] Thus, iPhones made *by* Americans would be too costly *for* Americans. Who, then, would buy American-made iPhones? No one, of course, so no one would be employed making them.

In any event, a nation's goal should be to increase its people's wealth, not employment itself, and what is wealth if not higher living standards? Living standards depend on the quantity and quality of goods we can buy. More specialization and trade are therefore the means to a wealthier end, and free markets with low trade barriers will get us there. Less trade only makes us poorer.

Granted, all do not benefit equally from trade. Those whose jobs move offshore are hurt, but people are also displaced by new technology. The tractor took the plowman's job. Should we be like the Luddites and ban John Deere? Of course not. That would take food off all our tables. We should help the plowman learn to drive a tractor so his son never pushes a plow to begin with.

Admittedly, some nations "dump" goods into our market at prices below their costs, but is that not *our* gain and *their* loss? Some counter that "dumping" is a predatory scheme to annihilate trading partners' industrial base in hopes of reaping monopoly profits later. If so, it must be rare. We found no real-world examples of nations succeeding at this. These predators must lurk only in textbooks.

Targeted protectionism is, however, justified for national security reasons. Nations have a right, if not a duty, to protect industries (a) critical to national defense *and* (b) otherwise uncompetitive. Few industries meet both conditions, but many will claim to when protection is at stake. A parasitic alliance of special business interests and politicians inevitably form to exploit the national host.

To be fair, America's trade partners have protected their markets from us for decades. Europe and China are guilty of this. Perhaps this trade war will result in lower trade barriers for all. That is a worthy goal worth some short-term pain, but time is of the essence. Damage builds with each day that passes. A quick resolution of this trade war is needed to avoid a global recession.

A final point – tariffs will *not* eliminate our trade deficit. We run a trade deficit because we *consume* more than we *produce*. What do you expect of a nation where everyone is a consumer but less than six in ten are employed producers? We simply live beyond our means, and we are eating our seed corn and mortgaging the farm to pay for it. This is *our* doing, and only *we* can change it.

Mr. Market's gloom is therefore warranted. A recession is all but certain if this trade war persists. A wealthier future awaits, however, if lower trade barriers are the result, but the clock is ticking. Thankfully, the clock may not tick long. The courts will likely find the Executive lacked authority to impose unilateral tariffs. In the meantime, we will be cautiously opportunistic. "If you wait for the robins," says Buffett, "spring will be over." That is key to ***building permanent wealth***.

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[2] Phil Gramm and John Early, *The Census Defines the Poverty Rate Up*, The Wall Street Journal (Apr. 2, 2025), *available at*: https://www.wsj.com/opinion/the-census-defines-poverty-down-measure-poor-welfare-transfer-payments-f09be540?page=1

[3] *Foxconn Wages Fall Below US$3 Per Hour in Shenzhen as Apple Shifts Supply Chain Away from China*, South China Morning Post (Apr. 19, 2023), *available at*: https://finance.yahoo.com/news/foxconn-wages-fall-below-us-093000356.html.

Sincerely,

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