

July 9, 2025



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Dear Client,

Hit the ground running. The advice I was given early on was to show the stuff you're made of, and don't waste time decorating your new office. We have seen spellbinding action from President Trump and his team over the past four months. Border security, immigration enforcement, dramatic tariffs across the board, bunker-busting destruction of Iran's nuclear facilities, and now the passage of his Big Beautiful Tax Bill! Even though we heard his promises and plans, I don't think anyone was quite prepared for this much speed and determination. Just two weeks ago, on Saturday June 21st, my wife and I were enjoying dinner at a local restaurant and the TV announced that President Trump was going to make an announcement at 9 P.M. on a Saturday night. This announcement must be a big deal! Sure enough, the fact that we were bombing Iran's nuclear facilities with stealth B-2 bombers flown round trip from Missouri was a surprise. By Sunday night, the mission was concluded with no injuries to our forces and the possibility that peace in the Middle East might finally be in sight. By Monday, after a brief morning stock market decline, stocks went on to have a very positive advance. How does one anticipate, plan, or prepare for these types of events?

Fortunately, other actions like the tax bill were already well known and actively discussed. The fact that the "One Big Beautiful Bill Act" would pass as quickly as it did was somewhat of a surprise, but the consequences, success or failure, were well known. Drew has prepared an enclosed description summarizing a few of the key provisions that may be important for you. I expect the stock market to greet the bill positively, providing certainty and relief from the negative consequences if it had failed to pass.

The sharp stock market decline in April caused by "Liberation Day" tariff announcement fortunately, exhausted itself, by early May. More moderate tariff levels have been and continue to be negotiated. Before having an income tax in the United States, our government was funded by tariffs and excise taxes (e.g. tobacco and alcohol).

In 1913, the ratification of the Sixteenth Amendment and the Revenue Act of 1913 greatly lowered tariffs and implemented the modern federal income tax system we know today. In my opinion, our income tax system has been pushed as far as it can without having a negative effect on our economy. To better balance our budget, we will have both an income tax and tariffs. Tariffs are a tax on goods and are in fact paid by us, the consumer. As an encouragement to manufacture and buy products made in the USA, tariffs only apply to foreign-produced products.

Important trading partners (e.g., Canada and Mexico) will be treated more favorably, while countries like China will be impacted by the diminished trade with us. In the case of China, the slack caused by loss of trade with the United States can be made up by demand from an emerging consumer class in China and possibly other countries around the world. China today is about where we were as a nation in the 1920s, as we went from an agrarian economy to an industrialized economy. This shift is already happening and is moving very quickly. Today, China has dozens of small companies manufacturing electric vehicles that are well made and selling at very low prices. Unfortunately, many of these companies are overproducing cars, losing vast sums of money, and in desperation, dumping them in Europe and emerging markets like Brazil, Thailand, and Indonesia. These electric vehicles are selling for less than \$20,000! Drawing parallels with history is not a precise endeavor, but the Chinese electric vehicle manufacturers may want to read about our overproduction in the 1920's.

One last comment on President Trump and his tirade against Federal Reserve Chairman Jerome Powell. I am told that every President tries to pressure the current Chairman. Lyndon Johnson reportedly summoned then Chairman William McChesney Martin to his Texas ranch where he physically pushed poor Mr. Martin. Although I have sympathy for Mr. Powell, he knows the game and has thick skin. I'm glad I'm not in politics.

Lots of news and once again a diversified portfolio of quality, dividend-paying stocks have proved themselves. The outlook for the rest of the summer should be very positive.

Very truly yours,

Richard J. Fruth

PS – Our hearts and prayers go out all those impacted by the tragic flooding over the weekend in Central Texas.