SOUNDSIDE
WEALTH ADVISORS

Soundings

What's New – April 2018

Quote of the month:

"The habits of a vigorous mind are formed in contending with difficulties. Great necessities call out great virtues." Abigail Adams

I have three words for this month's historic quote-smith, "You Go Girl!" Often, when trying to "help" those we love, we do them a major dis-service. It's tough to see our kids struggling with an issue or challenge that we've faced in the past. It's easy to step in and take their stress away. But there's no learning in that and danger that when a challenge or pressure presents in the future and God forbid, we're not around, their path is even more difficult. As America's 2nd first lady suggested above, in love (and investing) it often pays to think long term.

The market volatility we saw in early February persisted throughout March and has continued into the beginning of April. Since the S&P 500 peaked on January 26, the index moved at least 1% on a daily basis on half of the 43 trading days through the end of March. However, amidst all the recent market noise, economic conditions remain quite healthy. In a recent Federal Open Market Committee (FOMC) press release, the Fed highlighted strengthening of their economic outlook. Growth in the remainder of the year is expected to be relatively strong, with an unclear impact from fiscal stimulus such as corporate tax cuts and increased spending.

With the first quarter in the bag, we sit very nearly where we began on New Year's Day. Where we will end is the million-dollar question. In this month's ***Market & Economic Commentary,*** Raymond James' Chief Market Strategist, Jeff Saut makes the case for a continuation of the powerful bull market. First, the numbers…

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Market Update – Year to Date Returns

Major Stock Indexes	(As of 4/01/2018)*
Dow Jones Industrials	-2.5%
S&P 500 Index	-1.2%
NASDAQ	2.3%
DJ Global ex US	-1.7%
Russell 2000 (small cap index)	-0.4%
XAU (gold/silver)	-4.9%

Major Bond Indexes	
Broad Market – Barclays Capital Aggregate	-1.5%
High Yield Corporate - Barclays Capital	-0.9%
Municipal Bond - Barclays Capital	-1.2%

Lipper Mutual Fund Categories	
Large Cap Growth	2.9%
Large Cap Value	-2.4%
Small Cap Growth	4.1%
Small Cap Value	-2.5%
International	-0.8%
Balanced Fund	-1.0%
US Govt Bond	-0.5%
Corporate A-Rated Bond	-2.1%

*** Source: The Wall Street Journal**

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Market & Economic Commentary

When we were kids, we used to love having our parents read to us. Lewis Carroll's, Through the Looking Glass and Alice in Wonderland were our two favorites. One of the quotes was particularly striking - "Down the rabbit hole," a metaphor for an entry into the unknown, the disorienting, or the mentally deranging, from its use in Alice's Adventures in Wonderland. Unfortunately, the same can be said about the stock market recently. Another quote from the movie "1984" is, "Numbers mean what we say they mean!" And we were reminded of that quote while reading a blog from one of Wall Street's finest, John Murphy, over the weekend. The byline went on to say: Despite all the volatility during the first quarter, the first three months of 2018 weren't really that bad. The Dow Industrials were the biggest losers with a quarterly drop of -2.5%. The broader S&P 500 Index lost only -1.2%. While the tech dominated Nasdaq Composite gained 2.3%. Small caps saw only a marginal loss (-0.40%).

While all of those numbers are correct, where you stand is a function of where you sit, and as George Orwell wrote, "Numbers mean what we say they mean!" As stated, all the aforementioned numbers are correct if you measure from December 31, 2017. Yet, the carnage beneath the surface has been much worse. Verily, in last Thursday's "Morning Tack", we noted: From Election Day 2016 through the S&P 500's last all-time high on January 26, the index added $6.3 trillion in market cap to take its total market cap up to $25.46 trillion. Since the high on 1/26, the index has now lost $2.34 trillion in market cap, bringing the total down to $23.12 trillion. This means that 37% of the post-Trump gains in market cap have been erased during the current market pullback.

Indeed, in Big Tech over the past few weeks, the losses have been egregious. For example, Big Tech has lost $278 billion dollars in stock market value since the Facebook face plant. The loss numbers, according to the invaluable Axios service, are "Facebook $75 billion, Amazon $61 billion, Apple $54 billion, Google $62 billion, and Microsoft $26 billion." However, we have often noted that when the market leaders finally "give up the ghost", you are typically near the end of a decline, and that hopefully seems to be the case here. We have been steadfast in the belief that the S&P 500 (SPX/2640.87) would NOT retest its intraday low of 2532.69, a level which we told investors to buy, and it has not retested that level since then. We have also been of the belief that the lows are "in" and that the second "leg" of the secular bull market remains in place. Recall, we believe the first leg began in October of 2008 and ended in May 2015. The second leg began in February 2016 when The Royal Bank of Scotland told investors to "Sell everything but high-grade bonds", one of the great wrong-footed "calls" of all-time! How long the second leg will last is unknowable, but when it ends, it should be followed by an upside consolidation and then an upside breakout for the third leg of the secular bull market. As often stated, the third leg of the 1982-2000 secular bull market began in late 1994 and lasted until the spring of 2000.

Moreover, after being pretty bullish for much of 2017, our intermediate/short-term models telegraphed that last February was the first point of downside vulnerability in over 18 months, and we advised raising some cash on a trading basis. Subsequently, we put some of that cash back to work, mainly in the midstream MLPs, at the February "undercut low" of 2/9/18. It is worthy of mention that the Advance-Decline Line has not confirmed the 12% drop from the SPX's intraday highs to its intraday low. This is likely due to the outperformance of the small/mid-capitalization stocks Despite the February/March gyrations, the SPX still resides above its 200-day moving average for a streak of 443 sessions above that MA. Since 1928, there have only been six other such 400+ session strings; truly remarkable and it demonstrates the power of this secular bull market. It is interesting to observe that the percentage of S&P 500 industry groups above their respective 200-DMAs is only 37.5% and that the percentage above the 50-DMA is zero! Likewise, the percentage of stocks above their respective 50-DMAs is a mere 15%. Equally amazing is that ALL of the international Exchange Traded Funds (ETFs) we monitor are in oversold territory. For the full report, please see https://www.raymondjames.com/pointofview/down-the-rabbit-hole

Jeffrey Saut, Raymond James Chief Market Strategist, "Down the Rabbit Hole", Weekly Investment Strategy, April 2, 2018.

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On a Personal Note

Kathleen and I have a new (future) daughter. First, some history. Joan and Jerry Kagan had three sons. I was the first, followed by Jay and Joshua. Kathleen bore us a pair of male offspring. Jay and Joanie had three sons of their own. Joshua and Krys brought another two boys to the world. See the pattern? Well, Good Friday was even better this year as Claire Carpenter answered, in the affirmative, the big question posed to her on bended knee from our first-born son, Alex.

As reality sinks in, the world feels so different. In past missives, I've written of Claire. We loved her from the start, everyone does. Kathleen and I made the trip to Tuscaloosa to be a part of the immediate post-proposal weekend and we got to meet Claire's family who flew in for the event. A young woman like Claire does not usually come by chance, so we were not surprised by how wonderful both her parents Daniel and Cynthia, and younger sister Katharine, were to be around. Everything felt right amongst the majestic old live oaks, draped in Spanish moss, as the sun began to set in that serene park along the banks of the Black Warrior river.

Now the fun really starts. Alex and Claire will graduate from the University of Alabama by the time you receive the next Soundings. Claire has already accepted a spot at NYU's Master of Social Work program this coming August and Alex is actively (to say the least) seeking meaningful employment in the Big Apple. The good news is thanks to clean living, a solid academic record, great connections (thanks Jorge and Cynthia), and a newfound confidence coupled with an acute sense of urgency, the kid's working at least a half-dozen potential tracks. My money is on the table that he'll have a choice of offers.

As part of the process, the "kids" took a trip up to the city that never sleeps during their spring break. Among the whirl-wind of activities, Alex had several interviews, they visited the campus of NYU, and scouted out some potential areas they might lay their heads in the future. As you'd expect, money will be tight and the digs affordable to a young couple starting out their new lives will be spartan. Their likely pad will be in the neighborhood of 400 square feet and you'll have to go out in the hall to change your mind. That said, what an adventure! Stay tuned.

Admittedly, it's the Alex-show this month. Collin's life was relatively uneventful. That said, he made some forward progress. After meeting with his advisor, it's official. The lad will be graduating in December of this year, a semester early. He doesn't realize, but this is quite an accomplish and I am very proud of him (provided he scores a real job and doesn't revert to slinging slop at a local eatery come January!) To that end, I'm excited to report that Collin will be working with me this summer. I'm going to bring him in as an intern for the month of July. He will learn what it means to be a financial planner and if you choose to come in for a review, you may even meet him. I've told both my sons that my long-term career plans could include them. I insist that they go over the horizon out in the real world, find fame and fortune, and in 10 years or so, if it feels right, shoot me a resume. If they are competitive I just might call them in for an interview and see what happens.

I've been a Rotarian for nearly 20 years. It's a wonderful organization that makes a difference both locally and around the globe. One of this year's goals of Rotary International is for the local clubs to plant a tree for each of their members. My club chose to plant ours at the site of My Father's Arrows, an organization dedicated to at-risk foster-children up in the north county. With the mantra, "Hope to the hopeless. Care to the lonely. Compassion to the broken. Love to the invisible" they hope to open Mama's House later this year and become a model for other facilities across the country. I have no doubt they will succeed.

As always, I hope you're enjoying each day as it comes.

Warmest regards, *Jon*

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