SOUNDSIDE
WEALTH ADVISORS

Soundings

What's New – August 2018

Quote of the month:

"You can't go back and change the beginning but you can start where you are and change the ending." C. S. Lewis

I don't know about you, but I wouldn't go back if I could. At 54, here are my thoughts on life by the decade. In our 20's, we don't know enough to be worried; 30's: Will things ever work out; 40's: I sure hope things eventually work out; 50's: I think things just might work out; 60's: I can't believe it's all worked out; 70's: I sure hope my grandkids can work things out; 80's: What was I ever worried about?!

Despite all the headline noise, the major U.S. stock indices were up for the month of July and remain positive for the year. It's a different story for the international markets. The proxy DJ Global ex US index is down more than 3% year to date on trade concerns. Bonds have been no safe haven. The fed's rate ratchet has brought the proxy Barclays Aggregate Index down nearly 2% year to date. Noise aside, the economy is roaring. GDP logged a whopping 4.1% growth rate in the second quarter, and corporate earnings have been stellar, with solid forward guidance. With such a strong backdrop, any summer weakness in the markets are for buying according to Raymond James Senior Equity Portfolio Analyst Joey Madere.

In this month's ***Market & Economic Commentary,*** Raymond James' Chief Technician, Andrew Adams, writes of market predictions, throwing darts, financial fear-mongers, and his process for staying sane and serving clients well. It's a great read and after nearly 20 years of practice and observation, I couldn't agree more. First, the numbers…

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Market Update – Year to Date Returns

Major Stock Indexes	(As of 8/01/2018)*
Dow Jones Industrials	2.8%
S&P 500 Index	5.3%
NASDAQ	11.1%
DJ Global ex US	-3.1%
Russell 2000 (small cap index)	8.8%
XAU (gold/silver)	-9.4%

Major Bond Indexes	
Broad Market – Barclays Capital Aggregate	-1.8%
High Yield Corporate - Barclays Capital	0.8%
Municipal Bond - Barclays Capital	-0.1%

Lipper Mutual Fund Categories	
Large Cap Growth	11.7%
Large Cap Value	3.5%
Small Cap Growth	13.8%
Small Cap Value	4.7%
International	-0.3%
Balanced Fund	2.2%
US Govt Bond	-1.0%
Corporate A-Rated Bond	-2.2%

*** Source: The Wall Street Journal**

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Market & Economic Commentary

Predicting the future is hard. We have all seen the limitations of statistical models and betting markets across many different areas in the past few years – from politics to sporting events – but the financial markets are one area in particular where predictions often feel like dart throws. To be sure, even well-aimed darts can sometimes miss their target, as a great article from Charlie Bilello at Pension Partners illustrated last week. In short, his note discusses the very depressing recent forecast for stocks and bonds by the renowned asset manager GMO, which expects a negative 2.2% per year from U.S. large caps and just 1.9% per year from U.S. bonds over the next seven years. Based on that dreary outlook, we might as well all just throw our money into cash and go hide under the bed until 2025! The problem, however, is that seven years ago, GMO had a very similar forecast for the financial markets – a paltry 2.7% from U.S. large cap stocks and 2.8% from bonds – and yet that ended up being quite far from the mark in the case of the stock market. In actuality, U.S. large caps returned 13.2% per year (10.5% above their forecast), and U.S small caps returned 12.0% instead of the 0.1% that GMO expected. Whoops!

The point is not to pick on GMO, which undoubtedly employs people smarter than me to make these calls, but we believe trying to predict what the financial markets are going to do over an extended period of time is a futile exercise in the first place. There are just too many variables that factor into the global economic machine to have any expectation of precision, so we'd rather follow the overall trend and adjust as needed as new information arrives instead of relying on sophisticated models built on a number of assumptions and averages. These types of forecasts generally compare the current state of the market to some "normal average" environment and then expect investors to make rational, math-based decisions. Yet, the issue is that stock market environments are rarely "normal" and "average," and investors are rarely, if ever, rational. It also ignores the fact that people (and, more importantly, institutions) typically invest based on what they need out of the market, not what experts say they can get out of the market. Pensions, for instance, are perhaps the dominant investor in today's marketplace, and they are still targeting returns in the realm of 7-7.5% per year, on average, to make up for what is too often an already underfunded plan. There is absolutely no way they have any hope of achieving that target without investing heavily in the stock market, which has helped keep demand high regardless of the limited expectations (not to mention many individuals have little hope of retiring without strong performance out of stocks).

Keep in mind, too, that while there are many good-intentioned analysts and strategists making market calls (like GMO), there are also those who create the illusion of expertly predicting the future of world markets when really they just enjoy being pessimistic contrarians. They would rather be right while everyone else is wrong than actually make money in the markets, yet many of them have no problem making money for themselves by scaring people into subscribing to their newsletters or investing in their fund. Fear sells; boring bullish arguments don't, and these perma-bears are very well aware of that fact. We spend a great deal of our time responding to their frightening predictions when asked about them by our clients and have done so regularly during the entirety of this bull market. They never go away because the potential concerns never go away. As we often tell our audiences during presentations, "If you're waiting for all the risks to go away, you're never going to own stocks again," and, paradoxically, the real time to worry is probably when there appears to be little to worry about. It's the snake you don't see that usually bites you, not the snake that has a thousand scary articles written about it. And we think it's safe to say that there remains plenty to worry about at the moment based on the prevailing sense of unease afflicting the market.

Despite the concerns, though, the S&P 500 continues to climb the wall of worry, breaking out yesterday to its highest point since February 1. The NASDAQ is back to new all-time highs, as well, and the Value Line Geometric Index (roughly the median stock in the market) is only about 1.50% from its all-time high. This latter point is important for anyone who still believes it's only the FAANG stocks lifting the market. Obviously when the largest stocks in cap-weighted indices are doing well, it's going to exaggerate the returns of those indices, but, to repeat, this is NOT a narrow market where only a handful of companies are rising. **Andrew Adams, Raymond James Investment Strategy: "Charts of the Week", July 18, 2018** https://www.raymondjames.com/jonkagan/resources/2018/07/16/weekly-investment-strategy

On a Personal Note

For a short period of time, we had both boys back under the roof. Alex and Claire were here for a couple of weeks, Collin about 5 days. Don't tell them I said so but it was nice. Collin turned 21 since his last visit so we got to buy him his first beer. The lad has turned "Greyhound-ing" into a verb as his less-than-trusty Swag Wagon ™ can no longer be relied on for any trips outside of Mickey's hometown. He jokingly thanks *sweet baby Jesus* every time he steps through the dirty bus doors at his destination and did so for the second to last time in Fort Walton Beach. He'll begin his last semester later this month and graduate to a career that hopefully leads to Soundside Wealth Advisors sometime down the road. If that doesn't work, there could be an auto mechanic in the family. A trouble-shooting session with uncle John led to an internet search and YouTube video that pretty accurately described both the problem and potential fix for the old Saturn. RockAuto.com brought a new a new coil pack magically to his door in a few days and some borrowed tools brought an end to a pesky problem. Our newly minted 21 year old, who'd just had his first beer, walked with a newfound swagger, sense of confidence and manliness that comes from facing down the man-versus-machine conflict, and kicking it's ass. In my son's words, "now all I need to do is buy a few motorcycles and I will be even closer to being Jon Kagan!" Obviously, I am very proud.

Pensacola has a special tradition on the second weekend of July. It's the homecoming show of the U.S. Navy flight demonstration team, the Blue Angels. It's a treat no matter how many times you've seen them. Flown over the waters of Pensacola Beach, this show is extra cool. We were one of hundreds (thousands?) of boats anchored off the beach. Prime seats and the water, even at 83 degrees, was a respite from the blistering heat of the afternoon. As usual, scores of extended-family travelled in for the weekend. We were quite a flotilla. Max, one of our grand-nephews from Orlando, went all European on us. But Instead of topless, he shed his trunks and let it all air out. He's only 2 so I guess it's okay but when someone mentioned how nice it would be to be able to do the same, I thought, no thanks. Sunburn, chafing, and even with the water so warm, there's gonna be some shrinkage. Not to mention the possibility of a snagging and potential de-jones-ing injury. I'll take my board shorts thank you.

Later that weekend was a party for the soon-to-be-newlyweds, Alex and Claire. Four generations were represented at the Begley house and once again, no one got stabbed or lost an eye. The grub was outstanding, as always. The main course featured some of the most expensive fish ever consumed when you figure in all the dough Jack has shoveled into his boat (*Retirement Forsaken*) from which it was caught. Claire gave a speech that left many, including yours truly, sweating from our eyelids.

I had to channel my inner son-of-a-bitch last week, not a real big stretch, but one of those, "it's gonna hurt me more than you" moments. My eldest son texted me a request. He wondered if I could see it in my heart to give him some cash for his trip to NYC before he starts his new career and collects his first paycheck. I'd been waiting for it since the lad had been living the life of leisure since graduation in May. Of course, I was going to help but there was no way I was going to reward his three-month vacation, so with buy-in from mom, I presented my plan. I would gladly "lend" him the cash if he worked up a 12-month repayment schedule which included a 5% surcharge. I had a similar arrangement with my dad about 30 years earlier, although I tacked on 10% - it was the 80's. Lesson learned.

I pen this monthly missive from my new digs. Alex and Claire left on a Monday morning and by Wednesday, my new home office was coming together nicely in what was Alex's bedroom. As they say on HGTV, it's a wonderful "space" - I should have kicked him out a long time ago. Funny thing. I saw one of Alex's old high school buddy's mom while roaming the aisles of Walmart for office supplies. After sharing my happy story, she told me about her husband's new model train room…where do you suppose he put it? I think things just might work out…

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

Warmest regards, Jon

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