



Soundings

What's New - December 2018

Quote of the month:

“When you get hit in the face 5, 6, 7 times, you start catching.” Terry Griffin

Said the father of one-handed NFL star, Shaquem Griffin, when asked how he taught his son to catch a football. Shaquem and his identical-twin brother Shaquill, former stars at the University of Central Florida, now suit up for the Seattle Seahawks. A painful birth defect led to the amputation of the younger brother's (by 60 seconds) left hand at four years old. His parents decided against a prosthetic. Mom Tangie said he didn't need it. He taught himself to button his shirt, tie his shoes, anything he needed to do, he did. When asked how he'd finally know he'd been successful, the inspirational young man answered, “When it's not about me being one-handed, it's about me being a great player.” No hyphens, no labels, no limits, no excuses. Great lesson for us all.

November had its ups and downs but when the music stopped, the major stock indices were essentially flat for the month. The same issues were on investors' minds, trade, tech sector volatility, Brexit negotiations and Italian debt. Although economic data for the U.S. has been relatively positive, concern seems to be building that the pace of economic and earnings growth will slow in 2019, explains Nick Lacy, chief portfolio strategist for Raymond James Asset Management Services. “Slower growth doesn't mean a contraction,” Lacy clarified. “Things are actually in pretty good shape, which gives me reason to believe the markets will be fine.”

Bear or no Bear? With the big swings in the markets this year, some are wondering if there's something sinister growling in the woods. In this month's *Market & Economic Commentary*, I've placed a piece from RJ Director of Equity Portfolio & Technical Strategy, Mike Gibbs. He lays out his thoughts. Hint: you can leave the bear trap in the garage. First, the numbers...

Jon Kagan, CFP®, CDFA™, Registered Principal, Securities Offered Through Raymond James Financial Services, Inc., Member FINRA / SIPC
Soundside Wealth Advisors is not a registered broker dealer and is independent of Raymond James Financial Services. Investment advisory services
provided through Raymond James Financial Services Advisors, Inc.

7552 Navarre Parkway, Suite 35, Navarre, FL 32566
850.936.6686 866.936.8816 Fax Toll-Free 866.936.6686
www.jonkagan.com jon.kagan@raymondjames.com

Market Update - Year to Date Returns

<u>Major Stock Indexes</u>	<u>(As of 12/01/18)*</u>
Dow Jones Industrials	3.3%
S&P 500 Index	4.5%
NASDAQ	7.1%
DJ Global ex US	-12.3%
Russell 2000 (small cap index)	-0.2%
XAU (gold/silver)	-19.1%

<u>Major Bond Indexes</u>	
Broad Market - Barclays Capital Aggregate	-1.8%
High Yield Corporate - Barclays Capital	0.9%
Municipal Bond - Barclays Capital	-0.2%

<u>Lipper Mutual Fund Categories</u>	
Large Cap Growth	8.2%
Large Cap Value	1.7%
Small Cap Growth	8.8%
Small Cap Value	-4.2%
International	-10.8%
Balanced Fund	-0.1%
US Govt Bond	-1.0%
Corporate A-Rated Bond	-3.5%

*** Source: The Wall Street Journal**

Other Disclosures

- Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect investment performance. Individual investor's results will vary. The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the US stock market. The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ market. The Russell 2000 index is an unmanaged index of small cap which generally involve greater risks. The Dow Jones Industrial Average (DJIA), commonly known as the "Dow", is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. The DJ Global ex US is an unmanaged group of non U.S. securities designed to reflect the performance of the global equity securities that have readily available prices. The MSCI EAFE(Europe, Australasia, and Far East) is a free-float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. The EAFE consists of the country indices of 22 developed nations.
- Lipper Indexes are based on the largest funds within the same investment objective and do not include multiple share classes of similar funds. Barclays Bond Indexes are designed to measure the market performance of various fixed income asset classes. The Barclays US Aggregate Bond index is broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The Philadelphia Gold and Silver Index (XAU) is an index of sixteen precious metal mining companies that is traded on the Philadelphia Stock Exchange. The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation.. Any opinions are those of Jon Kagan and not necessarily those of RJFS or Raymond James Financial. Expressions of opinion are as of this date and are subject to change without notice. This information is not intended as a solicitation or an offer to buy or sell any security referred herein. There is no assurance any of the trends mentioned will continue in the future. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal. Past performance may not be indicative of future results. Asset allocation does not guarantee a profit nor protect against loss.
- All opinions are as of this date and are subject to change without notice.

Jon Kagan, CFP®, CFA™, Registered Principal, Securities Offered Through Raymond James Financial Services, Inc., Member FINRA / SIPC
Soundside Wealth Advisors is not a registered broker dealer and is independent of Raymond James Financial Services. Investment advisory services
provided through Raymond James Financial Services Advisors, Inc.

7552 Navarre Parkway, Suite 35, Navarre, FL 32566
850.936.6686 866.936.8816 Fax Toll-Free 866.936.6686
www.jonkagan.com jon.kagan@raymondjames.com

Market & Economic Commentary

Given the holiday-shortened week and market volatility, we thought it would be helpful to provide an update on our general market thoughts, which may be beneficial around the Thanksgiving table (Happy Thanksgiving!). Still feel this is a correction and not a bear market. There are two types of bear markets- Recessionary; Non-recessionary (ex. '87 crash, '98 currency crisis; '62 Cuban Missile Crisis). A recessionary scenario is not likely at the moment with the unemployment rate falling and other economic data signaling expansion. A non-recessionary scenario is possible given the trade war risk and potential for Fed policy error. But if it is a bear market, we don't expect it to reach the point of maximum pain now. A more likely path will be numerous waves of selling (such as now) followed by numerous waves of rally. The resulting pattern will be lower highs and lower lows which will signal the market is in trouble technically. (For example, during the '07-'09 bear market, we see noticeable rally waves of 8.3%, 10%, 15%, 9.4%, 20% and 27% as the lower highs and lower lows formed). Along the way, data flow regarding the issues (trade war, rising rates, wage inflation, global and US macro, etc.) will worsen and support the deteriorating technical picture. Those that are less diversified and feel the need to act will get the opportunity in time. Summary- too soon to fret over a bear market unless you are speculating.

Short-term: The technical internals are yet to reach oversold levels; therefore, we would not be surprised if the 10/29 2603 low and the lows from Feb-May (2581 closing basis; 2532-2594 intra-day lows) are under-cut. But we feel the odds are high we get a bounce from those levels instead of a water-fall sell-off from the break. Message: **DON'T SELL IF THE OBVIOUS TECHNICAL LEVELS ARE UNDER-CUT.** The market has a tendency to "shake-out" (i.e., trigger selling on very recognizable technical breaks followed by quick reversals up. Hence, it "shakes-out" the technical sellers). The upcoming G20 could be telling. Presidents Trump and Xi (China) will discuss trade war. A cease-fire at the G20 (11/30-12/1) may allow a relief rally for equities. A hardened stance on both sides may trigger selling to complete the current down leg (takes out the above-mentioned support levels) followed by a bounce. Handicapping the outcome is difficult. The market appears to be anticipating little-to-no progress. The recent down move in equities leaves an attractive short-term risk vs. reward set-up.

Valuation: In a non-recessionary, low interest rate environment, the valuation is attractive. The long-term P/E of 16.81 is below the 5-yr average (17.95x) and now just above the long-term average since 1954 (16.4x). When Trump was elected the P/E was 17.45x. Current economic and earnings growth are much stronger than at the time of the election. The near-term (consensus) P/E of 15.17x is well below 5-yr average (16.48) and below 16.1x when Trump took office. At our depressed earnings estimate of \$162.25 assuming 25% tariffs take effect in January and stick for the full year, the NTM P/E is still only 16.39x.

Potential upside: Using a conservative 17x P/E on our current 12-month forward estimate (\$169) equates to 2873 (+8.7% from yesterday's close before 2% dividend). The 17x P/E applied to the depressed 25% tariff earnings (\$162.2) results in 2757 or 4.4% before 2% dividend.

Biggest issues over the coming year and beyond: Trade War - likely to drag out for a while. The biggest sticking point relates to intellectual property. Expect numerous headlines (both good and bad) in the coming 12 months, contributing to our opinion that the market is range bound as these issues play out (S&P 500 area mid-2500s to 2800). Fed policy error - The Fed often tightens conditions too far and contributes to economic contractions. Rapidly rising interest rates especially if triggered by rapidly rising wages. Slowing global growth (especially China) and the normalization of U.S. economic growth (i.e., regress to trend with time). U.S. economy is likely at 2% structural grower. The 2018 2.9% growth is expected to moderate to 2.6% in 2019 and 1.9% in 2020 (all consensus estimates). One of the above items may contribute to the next bear market, but, for now, the current evidence does not support a bear market.

Michael Gibbs, RJ Director Equity Portfolio & Technical Strategy, Portfolio Strategy: Turkey Talk, November 22, 2018.

<https://raymondjames.bluematrix.com/sellside/EmailDocViewer?encrypt=8c259150-0006-42f4-9082-7149281fd81e&mime=pdf&co=RaymondJames&id=Jon.Kagan@RaymondJames.com&source=mail>

Jon Kagan, CFP®, CFA™, Registered Principal, Securities Offered Through Raymond James Financial Services, Inc., Member FINRA / SIPC
Soundside Wealth Advisors is not a registered broker dealer and is independent of Raymond James Financial Services. Investment advisory services provided through Raymond James Financial Services Advisors, Inc.

7552 Navarre Parkway, Suite 35, Navarre, FL 32566
850.936.6686 866.936.8816 Fax Toll-Free 866.936.6686
www.jonkagan.com jon.kagan@raymondjames.com

On a Personal Note

Florida is known for its beaches but we have a real gem of a natural resource in the “high” country. The Blackwater State Forest, a 211,000-acre Longleaf pine ecosystem of rolling hills and myriad of rivers and creeks, was the site of the 10th annual Turkey Trot. It was a weekend of camping, off-road motorcycle riding, and fellowship. Folks converged from hundreds of miles away to ride trails winding through the native longleaf pines and scrub oaks. We’re not known for our elevation change. Our challenge comes from the deep white sand, slick red clay, and countless creek-crossings. We had quite a melting pot of participants. Ages spanned from 20-something millennials to the older cohort of baby-boomers, and a great time was had by all. It was deer season and the hunters were out in force but we coexisted and respected each other’s pastimes. No riders were accidentally shot, no hunters accidentally run over. Successful weekend in my book.

Collin has long cried foul over our obvious display of favoritism. We’d joined Alex for a half dozen Alabama football games but in his four-year stint in Orlando, we’d never done the same with our #2 son. We assured him it was all about the seven-hour drive (and the fact that we loved Alex more) but that, surprisingly, did little to comfort the lad. So, it was that we found ourselves in the land of the Knights to catch our first and last UCF football game before Collin joins the ranks of alumnus. It was also my first visit to the kid’s apartment. Lovely from the outside, we stepped through the front door and were immediately smacked in the face by the swirling aroma of spilt beer, spoiled milk, and feet. On the spot I made the decision to never, ever own a rental property in a college town. Kickoff was 8:00 pm so we had the day to play around town and explore the sprawling campus of Florida’s fastest growing university. The contrast with Alabama was striking. Both are beautiful and obviously very well capitalized. UCF is significantly more laid back. Nowhere was this more evident than the pregame tailgate party. Alabama’s pregame party at the quad is legendary. A wall-to-wall celebration across the expansive turf, filled with equal part sharp-dressed students and dedicated alumnus, dressed out in khaki’s, crimson and pretty party dresses. Flash to Florida and this madhouse was mostly a student affair, geezers like us were in the minority. There was a lot of skin, tights, and tats (tattoos, NOT what some of you are thinking!). The big screen TV’s in the tents at Alabama were replaced with beer pong and beer bong. I’ve got to say that we had a lot of fun playing college 2.0 with Collin’s friends. I think I lost 30 years that afternoon. And what a game! The Knight’s football team is on a nearly 2-year win streak. Usually under-appreciated for an arguably light schedule, this game against 9-1 Cincinnati was host to ESPN’s College Game Day and we were buckled in for a good show. We were not disappointed. Cincinnati was physically huge. I would not want to have to plan the Thanksgiving meal for those boys. They grabbed the early momentum with a sack of UCF quarterback McKenzie Milton in the end zone. Six nothing. But then it got fun. UCF was surgical. Their defense completely shut down Cincinnati’s passing game. On offense, Hawaiian born quarterback, McKenzie Milton had a brilliant arm and connected all night with his deft receivers. When all was done, it was 38-13, UCF.

Our wedding odometer clocked another year. Twenty-five and counting. As a planner, I did some research and found that 25 is the year of cardboard so a quick trip to Walmart satisfied the quest for an appropriate gift (thank you Hallmark!) We have plenty of stuff and Kathleen tells me she doesn’t need any more jewelry so our gifts have evolved to making memories through travel and grabbing a nice dinner out somewhere. Travel is out until next year but we did have a great meal at a new steakhouse in Pensacola. I even broke my Keto-lifestyle and shared a piece of dessert with my best friend and soul mate...at this age, there’s not much better than a raspberry chocolate torte with the woman you love (that doesn’t involve a commode or a motorcycle ;))

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

Warmest regards, *Jon*

Jon Kagan, CFP®, CDFA™, Registered Principal, Securities Offered Through Raymond James Financial Services, Inc., Member FINRA / SIPC
Soundside Wealth Advisors is not a registered broker dealer and is independent of Raymond James Financial Services. Investment advisory services
provided through Raymond James Financial Services Advisors, Inc.

7552 Navarre Parkway, Suite 35, Navarre, FL 32566
850.936.6686 866.936.8816 Fax Toll-Free 866.936.6686
www.jonkagan.com jon.kagan@raymondjames.com