



Soundings

What's New - December 2019

Quote of the month:

"Operations occur at the speed of trust" General James "Mad Dog" Mattis, USMC (Ret.)

I'm reading the general's memoir, *Call Sign Chaos...Learning to Lead*. Wow. Nickname, Mad Dog, is a misnomer. The General's tenacity and charisma are matched equally by his wits and brain-power. This is one of the best books on leadership I've ever read. As the paragraphs fell, his words actually induced adrenalin. He takes the reader through his life in the Corps; his entry was one of those jail or service deals, but once inside, the service sculpted him into a leader of leaders. You may have heard life comes with no instructions. Wrong. You just need to know where to look.

November gave us a lot to be thankful for. When the calendar turned, all domestic indices put up some big numbers. According to the Wall Street Journal, the Dow, S&P 500, and Nasdaq all rose more than 3%, their best month since June. Once again, the market climbed the proverbial wall of worry...a very good sign. Turning to the DALI matrix on the following page, stocks gained signals from cash, currencies, and fixed income. Accordingly, the song remains the same and our tactical models remain firmly on offense.

It's a common theme to bemoan the decline of humanity. I'm sure, written in hieroglyphics on a cave wall somewhere are the musings of an ancient philosopher, "Krog say best days behind us. Fire, spear, mammoth pelt...what left?" In this month's *Market & Economic Commentary*, I've placed an interesting piece from *Nasdaq Dorsey Wright* titled, "Incremental Progress". Nothing from Krog, but it does channel Bill Clinton, the Gallup polls, Thomas Edison, and others to make a sound argument that our future is likely a lot brighter that some would suggest. First, the numbers...

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Market Update - Year to Date Returns

<u>Major Indexes</u>	<u>(As of 12/1/19) *</u>
Dow Jones Industrials	20.3%
S&P 500 Index	25.32%
NASDAQ	30.6%
DJ Global ex US	13.6%
Russell 2000 (small cap index)	20.5%
Barclays Capital Aggregate Index (Bonds)	10.9%
XAU (gold/silver)	35.2%

* Source: The Wall Street Journal

D.A.L.I. Signals - 12/01/2019

Domestic Equities	International Equities	Fixed Income	Commodities	Cash	Currency
319	210	189	158	134	77
29.3%	19.3%	17.4%	14.5%	12.3%	7.1%
(+0)	(+0)	(-1)	(+1)	(+0)	(+0)

Source: Nasdaq Dorsey Wright

- 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 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 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 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 Russell 2000 index is an unmanaged index of small cap which generally involve greater risks. 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 Barclays Capital Aggregate Index measures changes in the fixed rate debt issues rated investment grade or higher by Moody's Investors Service, Standard & Poor's, or Fitch Investors Service, in that order. The Aggregate Index is comprised of the Government/Corporate, the Mortgage-Backed Securities, and the Asset-Backed Securities indices.
- DALI is a proprietary matrix created by Dorsey Wright & Associates, an independent 3rd party. It presents the relative strength relationship of six broad asset classes or "teams", domestic equities, international equities, commodities, fixed income, cash, and currencies. Each are represented by an equal number of ETFs. Each team play against each member of the other teams, with net victories tallied in an effort to rank each asset class team by order of overall strength. Raymond James is not affiliated with and does not authorize or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any website or the collection or use of information regarding any website's users and/or members.
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Market & Economic Commentary

There are times like the late 1990s when optimism is so great and so broad that we become blind to future risks. In his 2000 State of the Union address, President Clinton spoke of a time never so full of opportunity and progress, along with so little internal crisis and external threats. It's easy for us to smirk with the benefit of a rearview mirror.

Despite centuries of progress and growth, these moods are an outlier. Pessimism over what lies ahead is far more common. Gallup has been asking Americans for more than four decades, "Are you satisfied with the way things are going right now?" The average American answers "no" 63% since 1969. Also interesting is the answer to the follow-up question: "Are you satisfied with the way things are going in your own life right now?" There, the average "no" response is just 15.8%. People tend to feel good about themselves but pessimistic about others. It creates a situation where most people you know are probably reasonably happy, but pessimism over the direction of the country and its future remains stubbornly high. And when people are pessimistic about others, a natural path is to discount what those other people are capable of in the future.

This was true in the early 1900s, when people asked if the age of invention was over, a lucky blip that couldn't repeat. It was true in 1950, when we wondered if the advent of the nuclear bomb would cast humanity back into the stone age. It's been true in the last decade when, as data scientist Jeff Hammerbacher put it, "The best minds of my generation are thinking about how to make people click ads." The pessimists may be right one day. Squandering a competitive advantage is a common plot after all.

But underestimating future growth, particularly of people in general, not necessarily individual companies or countries, is also a common plot, for a few reasons. One is that viewing past progress as a one-time miracle misses how much of progress is incremental. If you think the computer, the airplane, or the internet were just "invented," of course you'll be pessimistic about our ability to do anything as meaningful in the future. But breakthroughs never occur in isolation. They're the product of countless little discoveries, often meaningless on their own, that someone eventually ties together. Thomas Edison told this to a pessimistic newspaper reporter in 1908: *You can never tell what apparently small discovery will lead to. Somebody discovers something and immediately a host of experimenters and inventors are playing all the variations upon it. A whole host of experimenters are at work today; what great things their discoveries will lead to, no one can foretell.* More recently, Safi Bahcall wrote about the origins of Polaroid film: *Sick dogs that were fed quinine to treat parasites showed an unusual type of crystal in their urine. Those microscopic crystals, called herapathite, turned out to be the highest-quality polarizers ever discovered. When it's never obvious what little discoveries of the day will eventually merge into big ones, it's easy to assume that there will be no big ones. Which is almost always wrong.*

Another reason is the assumption that the existence of big current problems will prohibit future progress. But most progress, particularly technological breakthroughs, feed off big current problems. It rises when there's a panicked necessity like a war or recession that requires immediate solutions. Comfortable lives don't incite much urgency. The back-to-back Great Depression, World War II, and Cold War are three of the worst things that happened in the 20th century. They also sparked the greatest scientific discoveries of the 20th century.

Last, in real time it almost always looks like progress over the previous decade has stalled. The 1960s brought the computer. The 1970s, the microprocessor. The 1980s, the PC. 1990s, the internet. The 2000s, mobile. The 2010s ... I don't know, viral GIFs? This same plot can be repeated at almost any point in history with different characters. The reason the near past always looks less innovative than the further past is because it often takes a decade or more for breakthroughs to be noticed. The best work of the last decade won't be recognized for years to come.
Nasdaq Dorsey Wright, "Portfolio Management Perspective. Incremental Progress", Daily Equity Report, November 15, 2019

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On a Personal Note

The Turkey Trot is an annual gathering of off-road moto-enthusiasts of all ages who come from all over the southeast to romp through the long leaf pine forest and deep white sand of the FL panhandle. In its 11th year, basecamp was once again in Black Water State Forest, Wilderness Landing campground, about 12 miles east of Baker as the crow flies. It's primitive camping - no electricity or water hookup but there is a nice restroom and access to the iconic Blackwater River. It's hosted by the Pensacola Area Riders and organized this year by yours truly since our illustrious leader of the past, retired to the mountains of TN. Riding the trails of Blackwater, I tell my wife, is my therapy. It's a beautiful and spiritual place, I call it my Church of the Woods and I spend many a Sabbath there. Riding in the woods is like motorized-hiking. You share all the sights, sounds, and smells as you do when exploring on foot, but you get to see so much more over the same time period. Turning to camping. It's a neat concept and I really "want" to like it. But when I'm totally honest with myself, sleeping on the ground leaves a lot to be desired, especially for a 55-year old for whom sleeping is more of an obligation these days than anything. Could an RV or camper be the answer? Maybe. The problem with that is it's just one more "thing" that you've got to store and maintain. What I'd really like is the ability to check into a camper set up on site, fully stocked and ready. A place I could stay for the night and when I'm ready to split, just leave it there with a tip for the chambermaid. I think they call that a hotel. Bingo. Problem solved!

What a nice evening we had last month when 50 or so of us gathered at our home for a resurrected client appreciation bbq. As the invitation read, my grill stayed covered. I was not going to risk the fire hazard. We brought in Dickie's bbq, beverages for all ages, and sister-in-law once again baked the tasty desserts. I ordered the weather a month in advance and it came with a picture-perfect winter sunset of oranges, reds, blues, and purples - thank you God. As an added bonus, the International Space Station shot across the sky, thanks astronauts. Now I've been doing this for 20 years and many of you have been around that long. It's not cliché when I call you my client family. We may not share DNA, but we've been through it all. I've seen your kids grow up, make it through college and start families of their own. I helped you transition to from the daily grind to a retirement that we'd been planning for years. I've been with you when your job took you away, and been here when it brought you back. We've been sick together, got better, and sometimes didn't. We've been together through the tragedy and heartbreak of losing someone close. I love you guys and there's no place else I'd be, nothing else I'd do. It's the ultimate honor and I am thankful every day.

To the flip side, you've seen my kids grow up, reading about their ups and downs in these pages, often to their chagrin. I've got to report another happy month with Collin in the office. I've said before that I was nervously excited to bring him aboard. I love the kid (you too Alex!) but it was impossible to know if we'd be able to tolerate so much together time. Would it end with a duel? Who knew? So far, it's been anything but. For those thinking about bringing their offspring into the business, here are some thoughts. You should be nervous, it's a big move. That said, like most big moves, its reversible and if you've got an honest relationship, it should survive in any case. The key is to always be honest and the older I get, the more I value being direct. To twist that shoe-maker's tag line, "Just Say It." As for us, we're adapting to our new, clearly defined roles. Things are more organized and less stressful as we learn to defer tasks to the individual best suited to carry them out. On retirement, I've always said it's not for me. At our Monday morning meeting a few weeks back, for the first time ever, I proposed we plan for this "calling" to outlive Collin as well. We'll see and as always, we'll keep you posted along the way.

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

Warmest regards, *Jon*

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