SOUNDSIDE
WEALTH ADVISORS

Soundings

What's New – February 2018

Quote of the month:
"Good plans shape good decisions. That's why good planning helps to make elusive dreams come true. Lester R. Bittel

Financial Independence. It's a simple recipe with just two ingredients…time and discipline. Like Forrest Gump's big brother said, "Time happens," it's the discipline part that often gets in the way. We want it all and we want it now. Unfortunately, it rarely works that way. When I sit with a new client and talk about their retirement lifestyle and whether their plan "works", I tell them it always works…the numbers are the numbers. The problem is, they might not add up to the lifestyle they were hoping for. Given a sufficient time horizon, I'd argue that there's no one who can't have their desired retirement lifestyle. I've had the honor lately, of meeting with several of my clients' young adult children. There's little I enjoy more than seeing the light come on when they get it.

The year started off strong on the heels of solid earnings, economic growth and tax reform, but we got some turbulence as January came to a close. The S&P 500 and the Dow Jones Industrial average both slipped in the last few days of the month, although the equity markets remain firmly in positive territory year to date. Good news is the key components of the economy; consumer spending, business fixed investment and homebuilding, were all solid over the second half of 2017 and remain so. RJ Chief Economist, Scott Brown, expects momentum to remain strong in the near term, supported by optimism for the tax bill changes.

So it's finally happened. The markets were down triple digits, two days in a row. Is the bull run over? Is it time to run for the exits? In this month's ***Market & Economic Commentary,*** I've placed a piece from First Trust's Chief Economist Brian Wesbury who gives, in my opinion, some very good advice. First, the numbers…

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Market Update – Year to Date Returns

Major Stock Indexes	(As of 2/01/2018)*
Dow Jones Industrials	5.8%
S&P 500 Index	5.6%
NASDAQ	7.4%
DJ Global ex US	5.4%
Russell 2000 (small cap index)	2.6%
XAU (gold/silver)	2.8%
Major Bond Indexes	
Broad Market – Barclays Capital Aggregate	-1.2%
High Yield Corporate - Barclays Capital	0.7%
Municipal Bond - Barclays Capital	-1.1%
Lipper Mutual Fund Categories	
Large Cap Growth	8.4%
Large Cap Value	4.6%
Small Cap Growth	4.7%
Small Cap Value	1.6%
International	5.3%
Balanced Fund	2.8%
US Govt Bond	-1.0%
Corporate A-Rated Bond	-1.1%

*** Source: The Wall Street Journal**

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Market & Economic Commentary

The stock market is on a tear. The S&P 500 rose 19.4% in 2017 excluding dividends, and is already up over 4% in 2018. It's not a bubble or a sugar high. Our capitalized profits model, says the broad U.S. stock market, is, and was, undervalued. We never believed the "sugar high" theory that QE was driving stocks. So, slowly unwinding QE and slowly raising the federal funds rate, as the Fed did in 2017, was never a worry. But, now a truly positive fundamental has changed – the Trump Tax Cut, particularly the long-awaited cut in business tax rates. With it in place, we think our forecast for 3,100 on the S&P 500 by year-end is not only in reach, but could be eclipsed.

Before you consider us overly optimistic, we did not expect the stock market to surge like it has so early in the year. In fact, we would not have been surprised if the market experienced a correction after the tax cut. There's an old saying; "buy on rumor, sell on fact." So, with tax cuts approaching, optimism could build, but once they became law, the market would be left hanging for better news. We would never forecast a correction, because we're not traders. We're investors. Anyone lucky enough to pick the beginning of a bear market never knows exactly when to get back in. In 2016, it happened twice and we know many investors are still bandaging up their wounds from being whipsawed.

The market got off to a terrible start in 2016, one of the worst in years. The pouting pundits were talking recession and bear market, only to experience a head-snapping rebound. Then, during the Brexit vote, the stock market fell 5% in two days – which was seen as another indicator of recession. But, it turned out to be a great buying opportunity, like every sell-off since March 2009. The better strategy for most investors is don't sell. Some sort of correction is inevitable but no one knows for sure when it will happen and few have the discipline to take advantage of the situation. This is particularly true when risks to the economy remain low and the stock market is undervalued, which is exactly how we see the world today.

Earnings are strong (even with charge-offs related to tax reform), and according to Factset, since the tax law passed analysts have lifted 2018 profit estimates more rapidly than at any time in the past decade. Even the political opponents of the tax cuts are saying it will likely lift economic growth for at least the next couple of years.

Continuing unemployment claims are the lowest since 1973, payrolls are still growing at a robust pace, and wages are growing faster for workers at the lower end of the income spectrum than the top. Auto sales are trending down, but home building has much further to grow to keep up with population growth and the inevitable need to scrap older homes. Consumer debts remain very low relative to assets, while financial obligations are less than average relative to incomes.

In addition, monetary policy isn't remotely tight and there is evidence that the velocity of money is picking up. Banks are in solid financial shape, and deregulation is going to increase their willingness to take more lending risk. The fiscal policy pendulum has swung and the U.S. is not about to embark on a series of new Great Society-style social programs. In fact, some fiscal discipline on the entitlement side of the fiscal ledger may finally be imposed.

Bottom line: This is not a recipe for recession. It's true, rising protectionism remains a possibility, but we think there's going to be much more smoke than fire on this issue, and that deals will be cut to keep the good parts of NAFTA in place.

Put it all together, and we think the stock market, is set for much higher highs in 2018. If you're brave enough to attempt trading the inevitable ups and downs of markets, more power to you, but as hedge fund performance shows, even the so-called pros have a hard time doing this. Stay bullish!

Brian Wesbury, Chief Economist, First Trust, "Don't Time a Correction", Monday Morning Outlook, 1/16/17

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On a Personal Note

In this hyper-frenetic news cycle, it seems like forever since the University of Alabama football team beat Georgia in overtime to win the national championship. We watched the game at home with Alex and his girlfriend Claire on their last night home before heading back to Tuscaloosa for their final semester. As if that wasn't enough excitement, within minutes of the game's wild finish, Claire got an email letting her know she'd been accepted to NYU's Master's program for Social Work. It was one of four to which she'd applied and her number one choice. The next challenge, a job for Alex up in the big apple. If everything goes according to the couple's wishes, Alex would get picked up by an accounting firm in the city and the two lovebirds would move north to begin their new life together. My boy is currently working an internship at a big regional accounting firm in Tuscaloosa and absolutely loving it (thank goodness someone loves accounting?!) As for the job search in New York, he's enlisted the help of some heavy hitters in the industry with contacts in Gotham so stay tuned.

Son number two reports a hectic but uneventful 2018 so far. Still hoping to graduate early, Collin is sporting 18 credit hours while rocking the #1 ranking of all the leasing ambassadors at his apartment complex. Fame and fortune. The goal that has remained elusive is nailing down a summer internship. The lad has a tendency to fight the fire burning hottest and nearest (hello darkness my old friend) but he's hoping to have something to report next month. The recent cold snap brought some tasty waves to Florida's east coast and my surfing enthusiast decided to take advantage one chilly morning. It was 27 degrees when he hit the road to Neptune Beach at 6 AM but that didn't deter my intrepid wave-seeker. No girlfriend presently and I'm wondering if the culprit isn't "shrinkage."

Collin an obvious exception, winter in the south is a lot different than I remember in the northeast. Kids these days (or is it the parents) are so soft. I remember walking to school on any given frigid winter morning (probably had to share a pair of shoes with my little brother) stopping to warm our freezing hands in the carbon-dioxide filled exhaust of cars warming up on the side of the street. A couple weeks back, schools were closed and Kathleen even got the day off as all of the major bridges were closed. So what did my neat-freak do with her cherished bonus day? Who guessed clean out the cupboards? She made a game out of finding the most expired food product. Now there's an idea for a reality show. The winner - a box of corn starch. Expiration date - July 5, 2007. Not a whole lot of baking at the Kagan house.

On a recent date night, I took Kathleen to dinner and a movie at the local motorcycle shop. It's a function they hold about quarterly to get folks into the joint. Great time, excellent food and fellowship. For this event, it was home-made chili on a very cold night, made even better with the addition of some hearty German beer. Note to self…in the future, don't bring wife (and newly excited riding partner) to a motorcycle flick where the main theme is how dangerous they are and highlights numerous nice young family-men who made the ultimate sacrifice. Question. Is there a good Disney movie about a husband and wife riding the world together, visiting shoe stores and coffee houses every 45 minutes or so? I need it quick.

My friend Daren called a few weeks back seeking some advice on one of my favorite subjects. It had been over 20 years, but he wanted to get back into riding as his coaching responsibilities were starting to wane. I did one better and took him out to the trails, letting him ride my son's bike to make sure he was really still into it. As if. One week later, with motorcycle safety school under their belts, both he and his wife are the proud owners of a pair of shiny new Yamaha's and rumor has it, a third will soon join the garage for the kids. Who says you can't go home again?

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

Warmest regards,

Jon

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