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Soundings

What's New – February 2019

Quote of the month:
"To succeed in life, you need three things: a wishbone, a backbone, and a funny bone." Reba McEntire

The "Queen of Country" should know. She's tapped all three in building a massively successful empire as musician, actress, and business owner. The Oklahoma native grew up in a family of champion steer ropers and spent a good amount of her childhood driving from gig to gig watching her pop tear up the rodeo circuit. On those drives, her mom encouraged the three young ins' musical ambitions. Good thing there were no iPhones. She and her two younger siblings soon formed a band. The "Singing McEntire's" tore up the rodeo circuit where Reba, solo at the time, was discovered during a rousing rendition of the National Anthem. The rest, as they say, is history.

Speaking of history, after an epically awful December, the markets regained their footing. Solid corporate earnings and stellar jobs numbers helped propel the markets to their best January in over 30 years. Additionally, the sectors that took the biggest hit in December had the strongest rebound as investors reconsidered their doubts on the strength of the economy, noted David Hodari of the WSJ. We believe, the Fed's recent softer tone played a major factor in the mood swing. The next potential market mover will be the trade talks with China.

Most investors are familiar with the concept of fundamental analysis. Applied to investment management, a practitioner would evaluate the attractiveness of a company based on things like earnings potential, a growing marketplace, and competitive advantage. In this month's ***Market & Economic Commentary,*** I'll discuss Fundamental's often overlooked cousin, Technical analysis. Fundamentals tells you what to buy. By contrast, technical analysis tells you when. I believe that adding it to our decision-making process, gives useful insight and will help provide a clearer understanding going forward. I hope you'll give it a read. First, the numbers…

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Market Update – Year to Date Returns

Major Stock Indexes	(As of 2/1/19)*
Dow Jones Industrials	7.2%
S&P 500 Index	7.9%
NASDAQ	9.7%
DJ Global ex US	7.3%
Russell 2000 (small cap index)	11.2%
XAU (gold/silver)	8.0%
Major Bond Indexes	
Broad Market – Barclays Capital Aggregate	1.0%
High Yield Corporate - Barclays Capital	4.7%
Municipal Bond - Barclays Capital	0.8%
Lipper Mutual Fund Indexes	
Large Cap Growth	7.8%
Large Cap Value	7.9%
Small Cap Growth	11.7%
Small Cap Value	11.8%
International	7.3%
Balanced Fund	5.4%
US Govt Bond	1.4%
Corporate A-Rated Bond	1.9%

*** Source: The Wall Street Journal**

- 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. The Barclays U.S. Corporate High Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested, and is not available for purchase. The index includes both corporate and non-corporate sectors. The corporate sectors are industrial, utility and finance which includes both U.S. and non-U.S. corporations. The Barclays Capital Municipal Bond is an unmanaged index of all investment grade municipal securities with at least 1 year to maturity. Lipper Indexes are unmanaged, equally-weighted performance indexes of the 30 largest qualifying mutual funds (based on net assets) within the Lipper objective and do not include multiple share classes of similar funds. The information contained in this report does not purport to be a complete description if 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. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Links are being provided for information purposes only. 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

Raymond James Chief Strategist, Jeff Saut, has an old adage. Manage the risk and returns take care of themselves. Pretty common-sensical, but there are many thoughts on managing risk. Selecting a method and sticking with it is one of the biggest challenges we'll encounter in light of the noise from pundits, media, and even the voices in our own heads. It turns out, when markets are going up, we have an unlimited capacity for risk. But flip the coin and that tolerance often melts like the early frost on a late spring morning. Let's take a look at some popular methods of risk management.

Diversification. The tenant behind this most basic concept is that by holding various asset classes which react differently to different market conditions, an individual can balance their risk tolerance with their requirement for investment returns. Harry Markowitz codified this process with a concept called Modern Portfolio Theory. He was rewarded with a Nobel Prize in economics. In 1952, he published, "Portfolio Selection", in the journal Finance. In it, he proposed an "efficient frontier" upon which portfolios could be constructed to wring out the maximal returns from a given level of risk. This theory is still widely in use and is the basis of Strategic Asset Allocation. A strict follower of this risk management process should have an easy time with investment management. You would first use a tool, typically a questionnaire of some sort, to gauge the amount of downside risk you can tolerate. Once determined, an algorithm would kick out a model portfolio with an appropriate mix of assets (stocks, bonds, and cash) to suit your comfort level. You could build a portfolio of individual securities, mutual funds, or ETFs, depending on your preference, rebalance at a predetermined interval and move on to other areas of your life that require more attention. You're done here.

After nearly 20 years of practice, two major multi-year bear market corrections, and the advent of the 24-hour news cycle, I know that this method is much easier said than done. I began my professional career in 2000, when fears of a global Y2K computer meltdown were a boom for tech companies. The dotcom boom led to the dotcom bust, throw in the 911 terrorist attacks in 2001, and we got a mess. The Dow was down 38% from peak to trough on November 9, 2002, the tech-heavy NASDAQ fared considerably worse. If you can't remember that far back, we'll never forget the Great Recession from 2007 to 2009. I'm convinced that living through these two periods over the past 20 years has given many of us financial PTSD. We're just waiting for something awful around the next corner to sneak up and rob us of our retirement dreams.

The truth is, despite the severity of those recessions and the effects they had on the markets, there are reams of data that show the benefits of Modern Portfolio Theory. You've likely heard the old saw, "it's about time in the market, not timing the market." Jumping out when things get scary and back in when there's dancing in the streets is usually the worst strategy possible when it comes to long term returns. So, what are some other options?

I started using Technical analysis about ten years ago. In contrast to fundamental analysis which helps you decide WHAT to buy, technical analysis helps you decide WHEN to buy, and equally important, when to consider selling. Through fundamental analysis, you may determine a large bank stock is a good buy. Its sales are strong, it pays a nice dividend, it has competitive advantage. But, using technical analysis you could find that particular bank, when compared to others in its industry, is underperforming and has been for the past 18 months. That's an example of an industry level relative strength analysis. Further, you may find that banks in general are performing significantly worse that many other sectors in the economy and the trend does not appear to be changing. That is a sector level application of relative strength analysis. Finally, through a broad asset class application, you might find that stocks in general, are underperforming risk-off asset classes like bonds and cash, and this analysis may lead you to take a more risk-off posture than otherwise determined by your baseline Strategic Allocation. In next month's column, I'll dig deeper with specific strategies that could be used to place tactical overlays on Strategic portfolios to add an additional level of risk management. Stay tuned.

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On a Personal Note

I didn't always feel this way, but it's nice to NOT be burdened with movie-star good looks. When my new barber asked how I like my hair cut, I replied, "I really don't care. I'd just like it to last a month." Barber Ben came highly recommended. Even better, his shop was close by and he was a really cool cat. How cool, you ask? Ben is a bull whisperer. A 2011 International Bull Riding champion, his award was particularly meaningful because his role was to protect other riders when things went bad. He was selected by the very cowboys he protected. Ben himself was a true cowboy. When not in the ring, he spent his days on the range, eating lunch under the shade of a big oak tree on a few thousand acres of pasture in rural Tennessee. He's a family man, with a young daughter and wife with a more traditional job in nursing. He's also an avid motorcyclist, Harley-type, covered in tattoos; A one-time prospect in a pretty hard-core motorcycle club. Like all good barber's, he's also an amateur philosopher and asked me if I was a believer. He is. We talked about perspective and that there's never a truly bad day if you keep perspective. A whole lot of wisdom from such a young man. By far, my most interesting time in a barber's chair.

Number one son, Alex, is smack dab in the middle of his first tax season. He'll give us a call on his walk from the subway to his apartment with updates on his "life in the big city". He's completed the first of his 4 CPA modules and plans to be done by year's end. As for the 60-hour work weeks, he says he loves it. The firm is great and his boss has taken notice of Alex's work ethic and aptitude. I don't want to jinx us, but I'm beginning to think this bird is really out of the nest.

One down and one to go. Collin officially graduates in May. He's only taking one class and spends most of his time at work. We hear from him pretty regularly, usually in the middle of dinner or cocktail hour. Good thing mama loves him ;) I've told you he has about six direct reports and last month, he almost had to make his first firing. Pretty traumatic since his employees are mostly younger than him and this particular report is from his home town. It turned out the issue resolved in another way so my sensitive son was spared from that trauma. I actually made him a "sort-of" offer to come work for me when he graduates. I'll keep you in the loop.

Last month I was honored to be a celebrity chef for our local chamber of commerce, Lunch for a Cause. Funny because I'm anything but a celebrity and closer to being an NFL Superbowl winning quarterback than a chef. That said, it was a blast! The venue was not your garden-variety restaurant with us chefs tucked back in the kitchen. We were at a Japanese Hibachi house and I got to man my own grill, knives in hand, food flying, flammable liquids and all. You should have seen my onion volcano! Good news is no one lost an eye, caught on fire, or got food-poisoning (as far as I know). And, we raised some pretty good money for a local foundation to boot. In case you're wondering, I'm keeping my day job.

I've written many times of my hero, cousin-in-law Bob Bell. He's a former SEC attorney and Big 6 (in the days when there were 6) CPA, who's accomplished more from a wheelchair than 99.9% of the rest of us with no such "excuse". An accident in college put Bob in his chair back in 1989. But it didn't keep him from travelling to far off reaches in every continent but Antarctica & Australia. Since 2010, he's had a teaching gig at the College of Saint Benedict and Saint John's University, the very place he had his accident. Currently an Associate Professor of Accounting and Finance, when my favorite "nutty" professor asked if I'd consider being a guest lecturer of his finance class, I said, "try and stop me!" Technology can be a wonderful thing. www.GoToMeeting.com put me right in the classroom with about 25 motivated and fully engaged students. I shared my life's journey, took them through a day in the life of a financial planner, we talked about fundamental and technical analysis, and the unlimited potential they've got at this point in their lives. Two and a half hours went by very quickly. If these young men and women are our future (and they are), we're in damn fine shape. I've given out at least two dozen of Bob's book, Un-Moving Four-Ward, Tales and Tips for Keeping Perspective Despite Life's Challenges; You can pick up a signed copy at http://www.bobbellbooks.com/ It's an inspirational read and makes a thoughtful gift.

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

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