



# *Soundings*

## What's New - February 2020

Quote of the month:

*"I don't regret that the ride has to be over, but rather feel grateful for the miles travelled, for the sights along the way, and to be exactly where I am." Neil Peart*

Neil Peart was a remarkable human. Author and avid adventure-motorcyclist, Peart was the drummer and songwriter for Canadian rock band, Rush, big stuff back in my formative years. He died last month at the age of 67. Glioblastoma, an aggressive type of brain cancer, took his earthly body but that quote shows his soul will live forever. What a loss, but what a legacy, and an example of a life well-lived.

Coming off the heels of a strong year, the markets took us on a wild ride in January. Things started well enough, but ran into headwinds from geopolitical risks in Iran, to the coronavirus and its potential impact on people and economies around the world. Turbulence aside, January continued some of the momentum from 2019. Gross domestic product grew at an estimated 2.1% annual rate in the fourth quarter, and we saw better-than-expected earnings growth. GDP growth is expected to remain mixed, but generally moderate in 2020, according to Chief Economist Scott Brown. While most indices finished in the red, the tech heavy Nasdaq was up 2%. And the DALI matrix on the following page remains firmly on offense.

It's been sadly "trendy" to proclaim the evils of capitalism. Surveys have reported that young millennials are particularly receptive to the narrative of doom and gloom. In this month's *Market & Economic Commentary*, I've placed a piece from Wall Street Journal columnist, Jason Zweig. In it, he interviews Laurence B. Siegel, author of "Fewer, Richer, Greener," who takes a decidedly different tack. He predicts, "We are on the verge of the greatest democratization of wealth and well-being that the world has ever known" *because* of capitalism. Give it a read, its' worth your time. First, the numbers...

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# Market Update - Year to Date Returns

## Major Indexes

(As of 02/01/20) \*

Dow Jones Industrials	-1.0%
S&P 500 Index	-0.2%
NASDAQ	2.0%
DJ Global ex US	-2.7%
Russell 2000 (small cap index)	-3.3%
Barclays Capital Aggregate Index (Bonds)	2.0%
XAU (gold/silver)	-2.8%

\* Source: The Wall Street Journal

## D.A.L.I. Signals - 02/01/2020

Domestic Equities	International Equities	Fixed Income	Commodities	Cash	Currency
<b>331</b>	<b>227</b>	<b>179</b>	<b>155</b>	<b>120</b>	<b>72</b>
30.5%	20.9%	16.5%	14.3%	11.1%	6.6%
(+0)	(+0)	(+2)	(-2)	(+0)	(+1)

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 3<sup>rd</sup> 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

A few days ago, a smart 22-year-old asked me how to invest some savings from her first job. I advised her to open an individual retirement account. When she found out she couldn't withdraw it without penalty until she turns 59 1/2, she shot back: "By then the planet will be a rotating cinder!" The many young people who seem to share her gloomy view of the future should read the new book by Laurence B. Siegel, "Fewer, Richer, Greener" In it, he proclaims, "*We are on the verge of the greatest democratization of wealth and well-being that the world has ever known.*" If Mr. Siegel is right, by 2056, billions of people will be wealthier, healthier and happier than ever before. New technologies in energy, food, education and medicine will heal the planet and enrich human life. Frontier markets, including nations in Africa and Latin America, will boom. Mr. Siegel is an intellectual heavyweight who writes with a light touch. My young interlocutor, who is skeptical that capitalism even works, gave me some questions that I passed along to Mr. Siegel. Here's what he had to say.

***Q: Isn't capitalism destroying the planet and causing massively unfair inequality of wealth?***

**A:** For most of the history of the world, almost everyone was poor beyond imagining. Only over the last 250 years, the period over which capitalism has flourished, have a large number of people—in the billions— overcome poverty. Remarkably, just in the last year, researchers determined that half the population of the world already is middle class or wealthier. Historically, the environment has become dirtier as people begin to move up from poverty worldwide. But as they continue to become wealthier, people start to be willing and able to sacrifice some of those gains to get a cleaner environment. As the world gets richer it will continue to get greener. Switzerland is probably the most environmentally clean country in the world, and it is one of the very richest. As time passes, Greece will act more like Switzerland, Colombia more like Greece, and so on until the whole world is much greener than it is now.

***Q: Given the history of tobacco companies lying about cancer risk and energy companies denying climate change, why should young people believe that big corporations will take action to improve the environment?***

**A:** They already are. Companies are reacting to price signals to become more energy-efficient which will compound pretty quickly to a large decline in energy use over time. And, also over time, the market is a powerful mechanism for driving bad and dishonest providers out of business.

***Q: The people who control many major corporations seem to take a very short-term view, maybe a few months at a time. Can they promote the long-term interest?***

**A:** Many companies do seem to take a short-term view, just trying to make Wall Street's earnings estimates for the next quarter. But if they were actually wasting resources and sacrificing the long-term value of the company to the goal of maximizing short-term stock price, Wall Street would figure it out and the stock would go down. There are some travesties relating to executive compensation, product safety and disobedience of laws. But overall, companies are much better managed today, with a longer-term view, than they were in the past. Believe me, you don't want to go back to the way they were run in, say, the 1970s.

***Q: At the end of your book, you write: "Apocalyptic thinking is a neural mistake based on our need to survive in a cruelly hostile environment that doesn't exist anymore." What do you mean?***

**A:** We evolved under conditions in which not only the individual but the whole species were often in danger of extinction. Our neural network says to us all the time: That could be a tiger, or it could be a rabbit, so let's assume it's a tiger. In the modern world, though, that often leads us to worry more about some dangers than we need to, because they rarely or never occur anymore.

As Mr. Siegel writes, apocalyptic thinking "has always been wrong as a forecast, and it will continue to be wrong." Here's hoping young people will take his message to heart, realize that capitalism can be a force for good and stop fearing the future.

**Jason Zweig, The Intelligent Investor, "Why Invest? A 22-Year-Old's Tough Questions About Capitalism" WSJ 1/25/20**

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## On a Personal Note

Claire and Alex came to town over the Christmas holiday. It was wonderful to see the young couple, just past their one-year wedding anniversary, and making a great go of it in New York City. They were in Florida for nearly two weeks, split between us and Claire's annual Christmas family get together 2 hours to the east in Seagrove Beach. We know how fortunate we are to have a daughter-in-law that we adore. She and Alex complement each other so well, and together, I believe they'll accomplish so much more than either would alone. Serious stuff aside, Claire has made an indelible mark in Kagan family history. Ah, the Christmas Eve movie. Kathleen is the baby of her family and as such, our kids were the youngest of Annie's grandchildren. Since nothing is more fun than Christmas morning with the youngin's, Annie has spent Christmas eve and morning with us since, forever. And, since forever, it's been a Kagan family tradition to watch a movie on Christmas Eve.

I picked the very first. *Bound* got great reviews, I can't remember where, it was WAY before the internet. My role as movie-picker was short-lived when the opening act featured a raucous lesbian love scene, a bold move in the 1990's. A "tired" Annie quickly called it a night. Kathleen and I enjoyed a really good movie ;) Collin was blacklisted in 2018, when his pick, *The Florida Project*, critically acclaimed by his college friends majoring in film-making and the artsy folks at Cannes, was roundly panned by the Kagan clan. (It was actually very good, just not very "Christmas-y") This year, we went with a Claire pick. She watched *Good Boys* on her airplane flight from New York and thought it would nicely fit the bill. A Seth Rogan production about three sixth-grade buddies coming of age in the 1980's, 2 thumbs up from Claire ended the discussion. Well as you'd have it, the airline flick was the censored version. The film that made it to the big screen in our living room was so racy that the young actors who made it, weren't allowed to watch the finished product. All good, it was very, very funny. Annie watched the whole thing, and Claire has earned a place in Kagan family lore.

I grew up the eldest of three brothers. My brothers Jay and Joshua have three and two sons respectively. Kathleen and I have two sons. I'm painting a picture of rampant male-ness for a reason. We have a new daughter-in-law whom we love. We also hit the jackpot in her family and were lucky enough to have her folks and younger sister over for dinner during the holiday. It was a little intimidating even if it was only because Daniel is a professional chef, sommelier, and restaurant consultant. Kathleen and I, to be kind, don't have a lot of confidence in the kitchen. Don't feel sorry for us. We're totally at peace with our reality and have no plans to change. It just makes for a little anxiety during the 1 or 2 dinner events we host per decade. For the record, the meal went great. We put the boys in charge of the main course, grilled fish from Joe Patti's. Dinner was perfect, but it was after the meal where I had my "moment". As we said goodnight to our guests and new family, Claire hugged her dad. It was one of my most beautiful things I've ever seen. If the love that emanated from that father-daughter relationship could somehow be stored in batteries in my attic, I could disconnect from Gulf Power. It was a magnificent sight to behold and something the father of smelly boys just doesn't experience in the same way. Later that night it got me thinking even deeper. Claire's folks and their folks' folks, *really, really* like Alex. Try to follow me here. If a father who loves a daughter as much as I witnessed that father loving that daughter, loves my son and trusts him to take care of and love that daughter, for all of eternity as they know it, that son must be a pretty good fellow. Good work kid; keep it up.

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

Warmest regards,



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