Soundings

What's New – January 2018

Quote of the month:

"The bad news is time flies. The good news is you're the pilot." Michael Altshuler

I think we need an investigation. Call me crazy but I'm pretty sure that someone has highjacked the controls of the time-space continuum. It seems like every year is going by more quickly. I'm almost afraid to sneeze too hard lest we jump right to November. If the old saying is true, we must be having a ton of fun.

Speaking of fun, how nice was it to open your monthly investment statements in 2017? The S&P 500 set repeated records and gained a whopping 19.42% for the year, only to be outperformed slightly by international developed markets and emerging markets. But what really stood out was the lack of volatility. According to Ned Davis Research, on average, the S&P 500 will have about one 10% correction per year. Last year, the biggest drawdown we got was about 3% and even with that, the index was positive every single month of the year and is now on a positive run of 14 months. The last time that happened was, ah, NEVER. Will volatility pick up in 2018? I can't imagine how it wouldn't. Is this something we should worry about? Absolutely not…it's expected. That's why we are rewarded for being in stocks.

Given the market's strong performance last year, many are questioning whether there's anything left for 2018. In this month's ***Market & Economic Commentary,*** I've placed a piece written by Raymond James' Chief Market Strategist, Jeff Saut. In it, he addresses that very question and gives a lesson in market history. I think you'll find it an interesting read and definitely worth the time. First, the numbers…

Jon Kagan, CFP®, CDFA™, Registered Principal, Securities Offered Through Raymond James Financial Services, Inc., Member FINRA / SIPC
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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

Major Stock Indexes	(As of 12/31/2017)*
Dow Jones Industrials	25.1%
S&P 500 Index	19.4%
NASDAQ	28.2%
DJ Global ex US	24.6%
Russell 2000 (small cap index)	13.1%
XAU (gold/silver)	8.1%
Major Bond Indexes	
Broad Market – Barclays Capital Aggregate	3.5%
High Yield Corporate - Barclays Capital	6.9%
Municipal Bond - Barclays Capital	4.7%
Lipper Mutual Fund Categories	
Large Cap Growth	31.6%
Large Cap Value	16.1%
Small Cap Growth	25.1%
Small Cap Value	9.5%
International	26.7%
Balanced Fund	14.1%
US Govt Bond	1.9%
Corporate A-Rated Bond	6.3%

*** 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 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 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. 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. The process of rebalancing may result in tax consequences.
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Market & Economic Commentary

Last week, we read an article on CNBC's web site with the title, "Strategist Doug Ramsey: The bull market needs a pediatrician, not a mortician," which is a fabulous quote! The byline read, "Leuthold Group's Doug Ramsey says the bull market is getting older, but that doesn't mean it doesn't have room to run." Ladies and gentlemen, secular bull markets last 15+ years and tend to compound at around 16% per year. For example, the 1949–1966 secular bull market lasted 17 years and took the D-J Industrial Average from its June 1949 low of ~161 to the bull market high of ~995 in February 1966. Were there pullbacks? You bet. The President Kennedy steel crisis of 1962 lopped 26% off of the Dow in about three months, but the bull market persisted. From the 1966 peak, the Industrials were range–bound for 16 years (until 1982). Now, if your definition of bull and bear markets is a 20% rally, or a 20% decline, in that 16-year rangy stock market there were 13 tactical bull and bear markets. However, that is NOT our definition of a secular bull market.

In 1982, the Dow broke out of that 16–year range–bound market and commenced the 1982–2000 secular bull market. Hereto, there were pullbacks, the biggest being the 1987 Crash, but that did not end the secular bull market. In fact, most of the indices were marginally higher in 1987, and the secular bull market extended for another 13 years. In the spring of 2000, the 1982–2000 secular bull market ended and the senior index was again range-bound for 13 years, until April of 2013. The problem many pundits have is they cut off the 1949–1966 secular bull market in 1956 when Egypt tried to take over the Suez Canal and the Industrials lost some 26%, but that did not stop the secular bull market. Again, said gurus cut off the 1982–2000 secular bull in 1987 because of the Crash, yet that too did not end the bull market!

We revisit what a secular bull market is this morning because there is so much misinformation bouncing around the Street of Dreams causing consternations for many investors. Secular bull markets have "three legs." We think the first leg began on October 10, 2008, when 92.6% of all stock traded on the NYSE made new annual lows, and ended in May 2015. From there, the Dow went into an upside consolidation for almost a year as the negative nabobs screamed that we were building a giant top that was going to be followed by a stock market crash. The "second leg" began in February of 2016 when Royal Bank of Scotland told us to sell everything except high–quality bonds. The second leg is always the longest and strongest and is driven by the accommodative Fed monetary policy that drove the first leg. However, in the second leg, the economy starts to improve and earnings tend to come in stronger than expected. When the second leg ends is unknowable, but when it does there will be another upside consolidation followed by another upside breakout leading to the third, or speculative, leg of the secular bull market. In the 1982–2000 affair, the third leg began in early 1995 and lasted until the spring of 2000.

The point of today's diatribe is that there is an old stock market "saw" that goes: "A person will experience three bull markets in their lifetime. In the first one you do not have enough money to do much with it. In the third one you are too old to take the risk of investing in stocks. So, you had better use the second bull market to accumulate wealth."

For the investor born in 1929, at the start of the 1949-1966 bull market, they would not have had much money to take advantage of that secular bull market. In the current 2009 – ? bull market, our investor would be 80+ years old and consequently probably unwilling to be very aggressive with stocks. Indeed, our hypothetical investor would have had to take full advantage of the 1982-2000 secular bull market for wealth accumulation. Accordingly, an investor born in 1965 would not have had much money to play the 1982-2000 bull market. But, at the 2009 generational stock market bottom, that investor would have been 44 years old and, therefore, should have the means to aggressively invest in the current secular bull market, which would be the second one of their lifetime. We urge investors to invest accordingly.

Jeffrey Saut, Raymond James Chief Market Strategist, "A History Lesson", Weekly Investment Strategy, December 18, 2017

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On a Personal Note

Go Army! Funny thing for a former Navy Helo-Bubba to say but as I sat in the stands of ATT Stadium on a cold and snowy afternoon in Philadelphia, I found myself on the Army side of things. It was the 118th showdown between the Army Black Knights and the Navy Midshipmen. My nephew Noah is a plebe at West Point and his pop, my brother Jay, invited me to the iconic game when his wife's ticket became available. Big game aside, there was no way I was going to turn down an opportunity to see my nephews. Noah was accepted to West Point after just completing his enlisted basic training and follow-on jump school at Fort Benning. Of course, he's killing it and loving every minute, with just the right amount of confidence and military bearing. He was so busy and was with his girlfriend Kathleen, also a plebe, so our visit was a very limited, "Cats in the Cradle" type affair. Peter is my brother's youngest and I hadn't seen that little fella in about 6 years. Nothing little about Petey anymore. A gene on mom's side has broken him from the Kagan mold and it was comforting to have the lad along on the subway ride... just in case. He's large in stature but has the most gentle soul, and it was a blast to mess with him for a couple days and get his perspective on life in general. To the game. Wow... If you didn't see it, it all came down to the last play. With Army up by one, Navy missed what would have been the game winning field goal. Helm Yeah? https://www.youtube.com/watch?v=FlR2JM4U2QY Maybe next year.

Another year, another Christmas party at my favorite mother-in-law's. Annie's Christmas party is a tradition involving dinner and the exchange of gag gifts. She draws a crowd of about 20 or so of the extended family spread over four generations. The youngest was newborn, Smith Nelson, and the senior, the matriarch herself. It's a Christmas party so watching the great-grandkids open presents is a highlight. But here's my one beef with the holiday in general...the "over-toying" of our youth. I know I'm a grumpy old bastard but doggone it, kids get a lot of gifts. So many, that none are really special. And God forbid they get a book, the veritable underwear of the toys-are-us generation. In my opinion, that's where the Hanukkah of my youth had a leg up. One night, one gift. Okay, sorry bout that...soap box is stowed. The final act of the night is a take-your-eye-out-be-damned contest that always involves a flying projectile of some sort. This year, Annie bought two big bags of giant cotton snowballs. Can you guess how we worked off dinner? I never knew Annie had such a brutal fastball.

The boys were home for Christmas. I love those kids but I'm happy to say I love the empty nest as well. At least when they're home now, they don't use all our hot water and eat us out of house and home anymore. Collin spends most days surfing and hanging out with friends and most nights out at a buddy's place. We get him for an occasional dinner when Kathleen guilts him into coming home for a few hours. Alex sleeps in till at least 11:00 so Kathleen and I don't have to worry about hot water for our morning showers. As far as eating goes, both of them spend more money per week on fast food than I used to earn in a week at their age. I guess when it comes down to it, if it wasn't for having to pick up after them, they'd almost be tolerable ;) Collin's visit was relatively short. He had to leave a couple days after Christmas to go back to work in Orlando. Little did he know, that would become an adventure. Collin's car has been on life support for years. At the beginning of his vacation, when he pulled in from Orlando, he'd mentioned that his front end had a bit of a shake over a certain speed. At this point in our relationship, I'm trying to wean him off of me so I told him to take the initiative. Auto maintenance versus hanging out with friends, which do you think won out? Well about 90 miles into his 463 miles journey home, the lad pulled off I-10 in the big city of Bonifay, Florida. Houston, we have a problem. To his credit, he took charge. By the time he called me, he was already back on his way after having consulted with Gil, longtime owner of Gil's Auto Medic. Gil didn't have the needed part but let my boy know that if he took it slow, he'd likely make it to Orlando in one piece so he could get to work in the morning. His seven-hour trip took thirteen but I've always said pain is the best teacher.

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

Warmest regards, *Jon*

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