Soundings

What's New – January 2020

Quote of the month:
"Be resolute in your goals, but flexible in your tactics." Jonathan Lockwood Huie

If the markets taught us anything in 2019, it's that they don't care what we think, how we feel, or what we'd like. A year ago, after the worst December returns in the history of December returns, who would have thought we'd close out the year with the numbers you'll read on the following page? I certainly didn't. What I was confident in, after 20 years in the trenches, was my process. I was intimately familiar with the what, the why, and the conditions required for additional action. They didn't occur and we were rewarded. But rest assured - those tactics are in place and ready to be deployed if needed.

December 31st closed out a month, a year, and a decade. It was quite a decade that, according to Jennifer Leman of Popular Mechanics, brought us everything from the Cro-nut and smart watches, to Siri/Alexa, 3-D bio-printed organs (think *lungs* not Wurlitzers!), and the Selfie Stick. As for the year, you know from your investment statements it was one we'd like to repeat. How will this column read on January 2021? Who knows, but one of the benefits of technical analysis is it shows us what ***is***. Turning to one of the tools in our technical toolbox, the DALI matrix on the following page tells us the underlying markets are strong and as such, our tactical models remain firmly on offense.

So will *these* 20's roar like those of the past century? Here's hoping. As for upcoming year, in this month's *Market & Economic Commentary*, I've placed a piece from crowd favorite Jeff Saut who is never afraid to share his opinion. In it, he shares an old Wall Street axiom, takes us on a trip through history, and addresses the conflict in the Middle East. As always, it's an interesting read that's worth your time. First, the numbers…

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Market Update – Year to Date Returns

Major Indexes	(As of 01/01/20)*
Dow Jones Industrials	22.3%
S&P 500 Index	28.9%
NASDAQ	35.2%
DJ Global ex US	18.3%
Russell 2000 (small cap index)	23.7%
Barclays Capital Aggregate Index (Bonds)	8.7%
XAU (gold/silver)	51.3%

*** Source: The Wall Street Journal**

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

Domestic Equities	International Equities	Fixed Income	Commodities	Cash	Currency
324 29.9% (+0)	**213** 19.7% (+0)	**181** 16.7% (+0)	**172** 15.9% (+1)	**124** 11.4% (+0)	69 6.4% (+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

The January Barometer: "So goes the first week of January, so goes the month and so goes the year"

In my early years in this business I was fortunate enough to have Wall Street legend, Lucien Hooper, as one of my mentors. It was at "Harry's at the Amex Bar & Grill" over lunch Lucien first told me about the "December Low Indicator." *Lucien Hooper, a Forbes columnist and Wall Street analyst back in the 1970s, dismissed the importance of January's first week and the entire month. "Instead," said Hooper, "Pay much more attention to the December low. If that low is violated during the first quarter of the New Year, watch out!"* So, we will be watching the December closing low of 27502.81 in the first quarter to make certain it is not violated in accordance with Lucien Hooper's December Low Indicator. Our sense is it will not be violated as the secular bull market extends to the upside (we made this same statement last January).

As Andrew Adams pointed out in a post from a few years ago that is once again worth noting heading into 2020: *The bulls appear to have history on their side, too, considering that the year following the 32 other 20% total return years in the S&P 500 since 1928 saw an average gain of 10.46% (median 12.80%), with only one finishing with a loss of more than 10% (1937). Moreover, we have compared our current market to the mid-1990s for the last two years, and the closest comparison to 2017 from a drawdown perspective actually ended up being 1995, with ~3% max losses in the S&P 500 during both years. That seems to be good news since 1996 turned out to be a pretty good year.*

Further, history shows that in election years the S&P 500 (SPX/3234.85) has rallied ~9.00% on average and was positive 86% of the time. Moreover, if there was no recession the average return was 10.7% and positive 94% of the time. We think the SPX will tag somewhere between 3500 and 3600 by year-end 2020. That is not as good a return as we suggested at this time last year when our year-end price target for 2019 was 3200, which at the time just about everyone was predicting a recession (we were not) and most Wall Street pundits had a 2940 price target for the SPX.

As for the here and now, we said on TV last Friday that the stock market was/is short-term overbought and thus Friday's selling should have come as no surprise. We also stated that participants should wait until this week to see how the various markets settle-out. Obviously, the *causa proxima* for Friday's Fade was the airport airstrike that killed Iran's general Qasem Soleimani as the media trumpeted the U.S. is marching towards a war with Iran. In reality, we have been at war with Iran since the 1980's, so we think such statements are inappropriate. Despite Friday's Dow Dive (-233 points) the stock market's "internals" were not that bad. Buying Power and Selling Pressure remain constructive, as did the Advance/Decline Line. The astute Lowry's organization notes: *Whether it's expanding market breadth, a positive balance of Supply and Demand, or even the percentage of NYSE stocks above their 30-WMAs now close to a 2-year high, this bull market continues to display multiple signs of health and few signs of age. Thus, the probabilities favor further gains to new all-time highs in the weeks and months ahead. The extent of those gains remains to be seen.*

The Call for This Week:

The pros return from their holiday jaunts making this week directionally important. Our long-term and intermediate-term proprietary models are constructively configured. However, our short-term models is not. Given the current short-term overbought condition of the equity markets, we are not adding to our positions right now. And this morning that looks to be the correct stance as Turkey sends troops to Libya implying something big is about to happen, which has the preopening S&P 500 futures off some 18-points.

Jeffrey Saut, "The January Barometer" January 6, 2020, Saut Strategy LLC

On a Personal Note

I'd like to start off with an apology. To those of you who have been reading ***Soundings*** since its inception in 2008, you probably thought to yourself, "This Collin kid better not come anywhere near my retirement plan!" When my dad tasked me to pen this month's back page, I took a trip down memory lane, and read every ***On a Personal Note*** from the past 12 years. MUST. GET. THERAPY. Lines like, "I've been doing my best to create an environment where my kids would rather hop on a freight train across the country than come back home after graduating", and "The kid may actually end up in prison", brought back some long-repressed memories. Okay, I may have paraphrased the last one but you get the point.

When my folks dropped me off for my first semester of college at the University of Central Florida, my first thought, stolen from Mel Gibson's Willian Wallace, was F-R-E-E-D-O-M! What I quickly learned was this newfound independence, came with personal and more importantly, financial responsibility. I blew through my meager savings within a month and found myself applying for work at the nearest dining hall on campus. To my parent's credit, I was not lacking in work ethic and my past job experience in food service brought me immediate recognition with the boss-man. I found myself quickly rising in the ranks, ahead of folk's years my senior. I can do this. It's not that hard at all to live on my own. Luckily, I quickly realized that "Pizza Chef" was not my life's calling.

Rolling into my sophomore year, I move to an apartment off campus. Over the years, you've read about my less-than-reliable "wheels." Work was a necessity. I'd grown accustomed to at least 2 meals a day, but limited mobility complicated my employment options. Fate would have it that my apartment complex was hiring leasing ambassadors. I cleaned up, put on a generous slathering of Kagan charm, and filled out an application. I got the job and with it, a significant discount on my own lease. Win-win. I didn't realize at the time what a great stepping stone this would be. Turns out the best way to pull a quiet, awkward 19-year-old out of his shell is by paying him to talk to complete strangers all day long. And dang if that work ethic, and Kagan-charm ;) didn't get me promoted to Sales and Marketing Manager. It was a big move financially but more importantly, professionally. Now, I not only had to talk with people all day, I had to create and implement policies, and supervise a team of seven. It was a pretty nice gig for a college student. The money was solid and I had post-graduation opportunities, which took a bit of the edge off.

After graduation, it was decision time. I had been working full time during my senior year. The job was going well. I'd been wined and dined at the national conference in Atlanta and learned about different opportunities in the company, a fairly big regional player in campus real estate. After a lot of thought, I decided that I really wanted to work in a field more focused around my finance degree. You've read that my dad made me an offer, but I'd carved a pretty nice life in Orlando and I wanted to give it a go on my own. After a few interviews, I accepted an offer from an old-line life insurance company. I laced up my big boy shoes and was ready to make a difference! On my first day of training, a fellow employee told me to get ready as they "throw you out to the wolves with little knowledge or training." They didn't cover that in my interview. I found myself constantly calling my mentor for tips and advice on how to make it. He was always available for me to bounce ideas off, or just provide a little pep talk when things felt *off.* I think you've heard of him, Jon Kagan. After a few weeks of these "coaching" calls, he reiterated his job offer. A few days later, I accepted, and here we are.

I know how lucky I am to be a part of this client family. Like Sandy and my dad, I promise to always be here for you. I hope you are able to look past the image of my middle school days from the Ghost of ***Soundings*** Past. As my dad has signed off since 2008, I hope you're enjoying each day as it comes. Warmest regards, **Collin**

Full Disclosure: Collin provided the rough draft for the above missive. The final product is my cut. Yes, I'm a control enthusiast ;) JK

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