SOUNDSIDE
WEALTH ADVISORS

Soundings

What's New – July 2018

Quote of the month:

"Growth is an erratic forward movement: two steps forward, one step back. Remember that and be very gentle with yourself." Julia Cameron

Good advice from Ms. Cameron; author, artist, film-maker, and one-time spouse of Martin Scorsese (they made it one year). Life is a bear - a full-contact sport for sure - tough by design. If you disagree, you're probably not trying hard enough. Self-actualization is the understanding and acceptance of our flaws and defects, strengths and gifts, and putting them all to use in a satisfying way that benefits the greater good.

As for the financial markets, volatility was once again the theme for June. Threats of an escalating trade skirmish and a surprising jump in the value of the dollar punished the international markets. However, Raymond James European Strategist Chris Bailey believes that any lessening of these concerns – which remains very plausible – provides investment opportunities. Despite this volatility, all of the major domestic equity indices were up for the second quarter. A longer view shows that the NASDAQ, the Standard & Poor's 500 and the Russell 2000 ended the first half of the year in healthy territory, but the Dow Jones Industrial Average didn't keep pace.

Believe it or not, the first half of the year is in the history books. Perfect time to review our logbook and make plans for the rest of the trip. In this month's ***Market & Economic Commentary,*** Raymond James' Chief Technician, Andrew Adams, leads the discussion, and does a fine job at that. I am very glad he's on the team and refer to him often for his sage analysis and prudent, objective advice. First, the numbers…

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Market Update – Year to Date Returns

Major Stock Indexes	(As of 7/01/2018)*
Dow Jones Industrials	-1.8%
S&P 500 Index	1.7%
NASDAQ	8.8%
DJ Global ex US	-4.9%
Russell 2000 (small cap index)	7.0%
XAU (gold/silver)	-4.3%

Major Bond Indexes	
Broad Market – Barclays Capital Aggregate	-1.6%
High Yield Corporate - Barclays Capital	-0.3%
Municipal Bond - Barclays Capital	-0.3%

Lipper Mutual Fund Categories	
Large Cap Growth	9.0%
Large Cap Value	-1.4%
Small Cap Growth	12.3%
Small Cap Value	3.5%
International	-2.7%
Balanced Fund	-0.2%
US Govt Bond	-0.2%
Corporate A-Rated Bond	-1.6%

*** 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.
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Market & Economic Commentary

The stock market entered 2018 on one of the greatest runs in its history. The S&P 500 had not fallen more than 3% at any point since right before the presidential election and was up almost 50% since its February 2016 “stealth bear market” bottom. The environment was “comfortably boring” and most investors were perfectly fine with that. Our feeling as January began was that a repeat of 2017’s straight-up, easy ascent was unlikely, but that the pillars of the secular bull market remained in place. We, therefore, expected stocks to push higher even if the path to get there was almost certainly going to be more volatile. Around the middle of January, we targeted February as when stocks could run into some trouble and advised becoming a bit more cautious as the month came to a close. For a couple of weeks, it still looked like a more restrained approach was unnecessary, as the S&P 500 shot off to a ~7.5% YTD gain into January 26, but the positive tone quickly changed and just ten sessions later the index was hitting levels almost 12% below the late January all-time high. The drop ended up being a tad more than the 6-10% retracement we anticipated, but perfection is not to be expected in this business and the correction was still squarely within the realm of “normal.”

While the decline was sharp, it also formed a low in an almost textbook fashion, with an initial sell-off, a rebound rally, and then a further “undercut low” that produced a selling climax. We were (and still are) confident that the February 9 low was likely it on the downside, but also stated that the recovery process this time would actually be more of a process and not an immediate return back up to new highs. That process still looks to be continuing in large-cap averages like the S&P 500 and the Dow Jones Industrial Average, but other indices such as the NASDAQ Composite and the Russell 2000 have already convalesced and made it back up above their January peaks within the last month. Like corrections, sustained periods of the stock market going sideways are perfectly normal, and we continue to believe the U.S. stock market is hanging in there relatively well despite there being more overall uncertainty than there was during the February sell-off.

Obviously, global trade has been front and center over the last few months, and it is the primary culprit behind both the increase in uncertainty about the future and the volatility that uncertainty has produced. Without the global trade headlines, we think the stock market would be set up quite nicely considering the powerful earnings growth, still low interest rates/inflation, and moderately strong GDP growth, but investors do seem to be hesitant to heavily commit one way or the other while the trade issues remain. We believe the most probable outcome on trade is not the worst-case scenario many fear, but there is no telling for sure if progress will be made or when it will come. The headlines, therefore, will likely to continue to produce volatility until the market has a better idea of how this will all shake out. The trade noise isn’t making it any easier for the Federal Reserve, either, which appears to be split on whether there will be one or two further rate increases in the second half of this year. Their ultimate decisions will still be “data-dependent,” and that means if there are noticeable signs of a slowdown in the economy it could result in a less aggressive path of tightening which might help offset the negative impact of the slowdown. And then, of course, there is one of the more important mid-term elections in recent memory coming up in November to give investors something else to keep an eye on. Interestingly, the market’s path so far this year has mirrored quite well the typical mid-term election year, which generally is back-end-loaded and does not see much progress until October, on average.

To conclude, 2018 has so far been much more difficult than 2017, but it has actually been more in keeping with what the stock market does during a normal year. Investor expectations were probably too high at the beginning of January, but one positive outcome from the increase in uncertainty is that now the market appears to be much more ambivalent about the future. That may sound like a bad thing, but we believe it has helped lower the bar some and makes it easier for surprises to come on the upside should things not deteriorate the way many fear they will. We are not yet seeing major red flags that make us believe the secular bull market is nearing an end, and, therefore, think equity investors should continue to defer to the long-term up-trend and not get too bearish.

Andrew Adams, Raymond James Investment Strategy: "Charts of the Week", July 5, 2018

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On a Personal Note

For Alex, June was a case of the "relative" calm before the storm. He and fiancé Claire are busily preparing for a move to New York City and an upcoming wedding. The search is on for a place to live, researching different neighborhoods, preparing a budget, and connecting with temp agencies to pull a paycheck until the job with KPMG begins. Add in prepping for the CPA this fall and you've got an "everything bagel" right there! Word is the wedding planning is ahead of schedule. I'm sure Alex had as much to do with that as I had with mine and Kathleen's. The date will be October 20th, the venue will be underneath the Live Oaks of Pensacola's Seville Square. They've got a rocking band booked so I've been polishing my dancing shoes…be scared ladies, be VERY scared. But it hasn't been all business for the young love-birds. They've taken a trip out to Colorado to spend some time with Claire's folks; they've hung out with us for a little pre-real-world sleep-in till I won't say what time, time; and even taken some time to visit friends (fellow Alabama graduates) who've moved up to Chattanooga and begun their life as independent adults.

As for Collin, there's never a dull moment for our #2 son. After learning he'd won a spot on the UCF Surf Team's trip to California, he decided to take on a new project. Like his pop, Collin's hobbies expose him to an eclectic group of friends. One of them happens to be a surfboard shaper. This is pure speculation on my part, but I would imagine your typical board-shaper's inspiration is fueled in large part by cannabis. Collin's creativity, according to my son himself, was fueled mostly by PBR. His two-week project was complete just in time for the big trip. It was the lad's first time out to the left coast and as I predicted, he got hooked. They stayed in the small beach town of San Clemente, lodged between the Pacific Ocean and the rugged mountain terrain of Camp Pendleton. It was nine days of surfing, exploring, and eating burritos. Needless to say, they had an amazing time, despite finishing second-to-last in the surf contest. I had hoped he dropped his business card off with a few local financial planning firms but that wasn't the case.

Kathleen and I took it easy in June. Worked in the yard, took some short motorcycle rides here and there. Generally, we enjoyed our time together as empty-nesters. I love that woman and for some reason, she seems to tolerate me. I think the key to our relationship is our insecurity. We both have such low self-esteem we can't understand why the other sticks around and because of it, we are supremely grateful! I did sneak away for about four days on my own. Headed up to Arkansas for an off-road motorcycle event outside of a small town called New Blaine. The Ozark mountains and forest offer some beautiful terrain, similar to the Smokies but far fewer people. The DOT does a wonderful job maintaining the miles of twisty asphalt racetrack…err roads. It was a nice trip and I re-charged my mental batteries. For those interested, here's a short G-Rated video https://www.youtube.com/watch?v=7iVT2omP1tg .

We lost a truly great one last month. Pulitzer Prize winning columnist, Charles Krauthammer, was a once in a generational human being. Known for his imposing and superhuman intellect and insight, he was celebrated for his humility, wonderful sense of humor, and genuine, genuine-ness. My mother-in-law gave me his book, "Things That Matter", about a month before he passed, and I've been savoring it ever since. It's a collection of his essays over the past thirty years on pretty much everything and should be required reading for pretty much everyone looking for some instructions on how to live a meaningful life. Krauthammer died of cancer. He was 68. In a final column published just weeks before he passed, he wrote, "I leave this life with no regrets. It was a wonderful life — full and complete with the great loves and great endeavors that make it worth living. I am sad to leave, but I leave with the knowledge that I lived the life that I intended." May we all be able to say the same.

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

Warmest regards, *Jon*

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