SOUNDSIDE
WEALTH ADVISORS

Soundings

What's New – July 2020

Quote of the month:
"The best time to plant a tree was 20 years ago. The second-best time is now." Chinese proverb

My wife is quick to remind me, "*It's not all about you,*" to which I snap back, "*Yes, it is!"* So when I came across the quote above, it made me think about how it applies to me ;) (our practice). Most of the folks in our client family have been planning this retirement-thing for a while. Their kids…not so much. With the addition of Collin to the practice, it made me think how this is the perfect opportunity to bring the next generation into that enlightened place of financial awareness. And to get there under the guidance of someone in similar stage in life, with the same competing priorities. Maybe it's time to plant a tree?

In my 20+ years of doing this for a living, I cannot remember a more schizophrenic 6 months. The first quarter brought the DJIA its worst declines since the financial crisis of 2008. The following 3 months brought its best quarter since 1987 according to the WSJ. Great, but where do we go from here? "It makes logical sense for the market to slow down or pause in the short term following such enormous strength off the March 23 lows," says, Raymond James Senior Analyst, Joey Madere. "Importantly though, historical performance following similar surges out of recessionary bear markets has been very favorable over the next 12 months. This contributes to our positive bias and view that pullbacks should be used as buying opportunities."

Jon Sindreu makes an interesting point in his piece titled, "*The More Markets Change, the More They Stay the Same.*" Featured in this month's Market & Economic Commentary, he notes that the themes that were working prior to the Covid-19 crisis, continue to work, namely technology and growth. It's a great read and makes the case for either understanding the concept of relative strength, or knowing that WE do. First, the numbers…

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Market Update – Year to Date Returns

Major Indexes	(As of 07/01/20)*
Dow Jones Industrials	-9.6%
S&P 500 Index	-4.0%
NASDAQ	12.1%
DJ Global ex US	-11.8%
Russell 2000 (small cap index)	-13.6%
Barclays Capital Aggregate Index (Bonds)	5.2%
XAU (gold/silver)	20.8%

Source: The Wall Street Journal

D.A.L.I. Signals - 07/01/2020

Cash	Fixed Income	Dom. Equities	Currency	Commod	Int'l Equities
243 22.3% (-13)	**238** 21.9% (-13)	**211** 19.4% (+15)	**172** 15.8% (-10)	**117** 10.7% (+9)	**108** 9.9% (+18)

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 Covid-19 crisis has shaken politics and economics with the power of an asteroid hitting Earth. When it comes to financial markets, though, it is more of a pebble.

The S&P 500 closed the second quarter up 20%, the largest quarterly increase since the last three months of 1998. But this was essentially a rebound from a 20% selloff in the first quarter, when U.S. stocks entered their fastest bear market in history. Over the six months combined, U.S. stocks were down 4%—an unremarkable performance given the severity of the economic downturn.

Moreover, the tally of winners and losers is exactly the same as it has been over the past decade. Technology firms and other "growth" stocks have shot up at the expense of "value" companies that trade at cheap levels relative to earnings, such as banks. Big companies are beating small and medium-size ones. U.S. markets are outperforming the rest of the world. Beyond stocks, corporate debt is almost entirely driven by central-bank action.

A rush of retail-investor money in May appeared to give a push to the shares of the most downtrodden companies. But this "dash for trash" faded right after the S&P 500 hit its break-even point for the year.

So far, this makes the current crisis totally different from 2008. The collapse of the banking system reversed many trends, notably the strong performance of value stocks and smaller companies, that had elevated many active fund managers to stardom. Today's markets instead assume that Covid-19 will amplify existing forces.

Among the past decade's winners, only the aviation industry, which was previously riding a supercycle in travel demand, is now rightly seen as challenged for years to come.

The impact seems very contained given that the outbreak is upending many traditional tenets of economic policy. Officials have embraced government spending to fight the economic rout, and are souring on trade. Western firms may seek to protect their supply chains by bringing them closer to home, potentially boosting domestic employment while increasing production costs.

Many economists believe that, even though the lockdowns have depressed consumer prices in the short term, a retreat from globalization and activist fiscal policy increases inflationary risks for the future. This possibility isn't priced into inflation-hedged assets, and would be a real threat to the supremacy of "growth" stocks, which have been helped by low bond yields.

But such fears may be overdone. Without a big rebound in unionization rates, rampant inflation is unlikely even if governments spend more. Recent research also suggests that the power of multinational companies in itself safeguards the resilience of global trade, even if there is some reshoring of supply chains. At any rate, Wells Fargo analysts estimate that reshoring will reduce U.S. imports by less than 1% of gross domestic product.

Unlike the 2008 crash, the Covid-19 crisis wasn't triggered by forces within the economy. Back then, the financial sector led the S&P 500, only to face severe doubts about its potential to generate returns. This isn't the case for tech companies, the current leaders. The power of their business models has only found confirmation in the pandemic, which seems likely to permanently increase demand for online shopping and remote working. The world is undergoing big structural changes this year. At this point, though, they mostly seem to be ones the market has been betting on since 2008.

Jon Sindreu, "The More Markets Change, the More They Stay the Same", Markets, Heard on the Street, Wall Street Journal, July 1, 2020

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On a Personal Note

We've got a 25-year-old boat that's been on its last legs for the past 15. I've always done my own maintenance. At first, out of necessity. You've probably heard that *B.O.A.T.* stands for, *bring on another thousand.* Now, it's more for therapy and the fact that like most boats, mine tends to break down in prime season when the shops don't return your call for a week and only then, to tell you they've got a 2-month waiting list. This year, our un-named vessel (maybe that's the problem?) had been running like a top. The problem was the outdrive, the assembly of gears and shafts that connects the engine to the propeller. Enter the internet. I am so glad that Al Gore invented that thing…it's so doggone helpful. For the uninitiated, it works like this. Start with *Google* and type in your problem. For example, "*Why does it hurt when I cough?*" Within seconds, depending of course on the age of your computer, up pops a list of possible issues. The best solutions are usually from *YouTube* because they include a "fix-it" video. To my example above, I had a hernia and found a video that showed me how to operate. I've never felt better. I won't bore you with the details on the boat repair but after two days of twisting bolts, pounding hammers, and lubricating gears, the *S.S. Minnow* is back in business. Next project, my hammer-toe.

The boat is fixed, but I skipped the part about Collin coming over on Sunday to help with the last-mile of the project. It was Father's Day and he was tapped to be our chef that night, working his magic on the grill. Kathleen had picked up 3 pounds of fresh Red-Snapper and mother and brother-in-law were joining the festivities that evening. I needed some help re-attaching the bulky outdrive so I had my "junior partner" come over a couple hours early. As usual, the final steps of any project are usually the boogers. We sweated, grunted, muscled, and monkeyed the thing at every different angle before finally getting it in place. All good. Until the next morning when Collin called and said he felt like he'd been run over by a truck. COVID. Once again, all good. He had 3 rough days but he's now part of *the Herd.* All of us at dinner have been symptom-free and social-distancing. Kathleen and I are awaiting the results of our test. We're hoping to be the lucky asymptomatic members of *the Herd.* I'll let you know.

***from Collin*:** My dad and I recently took part in an eye-opening coaching program put on by a company called *The Campfire Effect.* It was an intensive two-day workshop centered around finding your "*why*". I thought I had a pretty good grasp on mine, and how I have ended up where I am. My dad is a financial planner. I went to school wanting to become a financial planner. Pretty straightforward path, right? Not so fast. As it turns out, that is the "*what*", important in its own right, but very different from the "*why*". After a week of prework introspection and two-days of intense workshop, the coach helped us get down to the roots of it all. I discovered where I could have the largest impact on others and how I could use my own story to help those navigate through similar times. I know exactly what it is like to struggle with the uncertainty of diving head first into "*adulting*". For me, it was stressful, scary, and made me feel like I was just plowing through life with no real plan to ensure my financial freedom. Having a plan was always something I figured I could just put off until I was older. But by planting my tree now instead of procrastinating, I found how liberating it is to have clarity about my financial future. It allows me to feel comfortable with my current lifestyle while at the same time, setting up my future to be even more free. The program helped me realize that my "*why*" is about my desire to help younger people navigate from uncertainty to clarity in their finances so that they can build and live a life of impact.

***Back to dad*:** I hope you all had a wonderful *Independence Day* weekend. The country's been taking it on the chin a bit these days, but if you look at the facts and the data, there's no place in the world with more freedom and opportunity for everyone. Not even close. God bless you all and God bless America.

Warmest regards,

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