SOUNDSIDE
WEALTH ADVISORS

Soundings

What's New – June 2018

Quote of the month:

"Prior to Capitalism, the way people amassed great wealth was by looting, plundering and enslaving their fellow man. Capitalism made it possible to become wealthy by serving your fellow man." Prof. Walter E. Williams

My current workout show is Vikings, streamed on Amazon Prime. I have a TV in front of the elliptical machine and Ragnar and his clan are the perfect motivator while I'm sweating' it out for 40 minutes. If I had to choose one word to describe the series it would be plunder…a second, treachery. Thanks goodness for capitalism. I don't think I would have made a very good Northman.

The economic and fundamental backdrop remains positive for investors, despite concerns over trade and interest rates, noted Raymond James analyst Joey Madere. Additionally, the repeal of some of the Dodd-Frank regulations should allow lending flexibility among community and regional banks, according to Ed Mills, Washington policy analyst. Uncertainty around trade and the ensuing headlines could still hinder the markets, explains Mills, but he believes a deal can be made. The major indices – S&P 500, Dow Jones Industrial Average and the NASDAQ – ended May in positive territory, although the Dow slipped into the red year to date. Bonds and international stocks (as represented by the Barclays Aggregate Bond index and the MSCI EAFE, respectively) slipped, as well.

It's usually not polite to talk about age but no one has manners when it comes to the market. You may be reading about the age of the current bull market and how it's giving some analyst's pause. In this month's ***Market & Economic Commentary,*** Raymond James' Chief Strategist, Jeff Saut, takes a close look at what historically turns a market down and why at this point, he's not concerned. First, the numbers…

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Market Update – Year to Date Returns

Major Stock Indexes	(As of 6/01/2018)*
Dow Jones Industrials	-1.2%
S&P 500 Index	1.2%
NASDAQ	7.8%
DJ Global ex US	-2.9%
Russell 2000 (small cap index)	6.4%
XAU (gold/silver)	-2.3%

Major Bond Indexes	
Broad Market – Barclays Capital Aggregate	-1.5%
High Yield Corporate - Barclays Capital	-0.3%
Municipal Bond - Barclays Capital	-0.3%

Lipper Mutual Fund Categories	
Large Cap Growth	3.9%
Large Cap Value	-0.9%
Small Cap Growth	11.1%
Small Cap Value	2.6%
International	-1.2%
Balanced Fund	0.1%
US Govt Bond	-0.8%
Corporate A-Rated Bond	-2.4%

*** Source: The Wall Street Journal**

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Market & Economic Commentary

We have always liked the movie "The Big Chill" probably because it is about our generation. That would be the boomers, or the flower children of the 1960s. Yet this morning we should be talking about The Big Stall because last week we wrote, "The stock market feels like a big stall into next week." So far that has been a pretty good call given Monday, Tuesday, and Wednesday's trading action. In fact, if one would have gone on holiday after last Thursday's close (SPX ~2723) and come back after Tuesday's closing bell (~2720), one would have seen that the SPX (2733.29) had barely changed. However, it was a pretty wild few sessions between then and now. Still we think the indices are rebuilding enough internal energy to breakout and make new all-time highs. Obviously, our pal Leon Tuey agrees. Now we can't remember quite how we met Leon, but meet him we did and it was much to our good fortune. Recall that Leon was an all-star technical analyst in Canada until he retired a number of years ago. He now favors a few of us with his keen insights via email. Recently he wrote: In recent months, pundits feel that the bull is getting long on the tooth; the high for the year has been witnessed; and some predict that a bear market has begun. They point to overvaluation, inflation, Fed tightening, geo-political risks, the mid-term election, etc. Long on the tooth? In fact, of the six major market factors that I monitor, monetary, economic, valuation, sentiment, supply/demand, and technical factors, three are saying that this bull market remains much of a calf. Take a gander at these three major factors:

SENTIMENT FACTORS: Sir John Templeton accurately observed that "bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria". Despite the longevity and power of this great bull market, investors are far from euphoric. In fact, in early February, investors panicked globally as fear skyrocketed, most unusual as this is the sentiment evident at major market bottoms, not at market tops.

SUPPLY/DEMAND FACTORS: Typically, at important market tops, investors are heavily invested in equities and hold very little cash whereas at major market bottoms, investors hold little equities and sit on a mountain of cash. What is unusual about this bull market is that despite the spectacular gains already achieved and the longevity of this bull market, investors are still sitting on a mountain of cash and very little equities. In my more than 55 years of experience in this business, I have never seen such supply/demand imbalance, so much money chasing so few stocks. The supply/demand condition can't be more bullish. Note the following. For years, stock listing on the NYSE has been plunging. At one time, over 8,000 issues were traded and today, less than 4,000. [Moreover] helped by the tax cut, share buybacks have skyrocketed. The IPO market is quiet as a mouse as firms are flush with cash. Investors, big and small, have been exiting the market. In the first quarter of this year, BAML reported that "investors yanked $29.4 billion out of exchange traded funds and mutual funds, the most for a three-month stretch since 2016." While supply has contracted significantly, potential demand has surged. Individual and institutional managers are sitting on a mountain of cash. Amazing!

TECHNICAL FACTORS: Typically, at important market tops, the various Advance-Decline Lines would peak three or more months before the major market indices. Dragged up by the late-cycle sectors, the major indices would keep posting new highs. Meanwhile, led by the early leaders, the broad list of stocks would head south. This week, however, the Advance-Decline Line for the NYSE Common Stock Only, the S&P Mid-Caps, and the S&P Small-Cap reached new record highs. Also, the NYSE Advancing Volume-Declining Volume Cumulative also reached a new record high. The bullish action of these internal measures is telling investors that the bull is still full of vim and vigor. In conclusion, three of the six major market factors, sentiment, supply/demand, and technical strongly suggest that the bull market is far from long on the tooth. In fact, they suggest that this is no old bull and it's a calf. Clearly, the most unloved bull market will continue to surprise investors on the upside. Hence, stay invested. So, as of yet, the anticipated "stall" has only led to a pullback to roughly the 2700 level, and not what we thought would be major support in the 2670 – 2685 level so often mentioned in these missives. There is still another week of potential downside attempts that we think will not gather much downside energy, but time will tell if that is the case. https://www.raymondjames.com/pdfs/share/morning_tack.pdf

Jeffrey Saut, Raymond James Chief Market Strategist, "The Big Chill", Morning Tack, May 24, 2018

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On a Personal Note

It seems like only yesterday that the 3 of us (me, Kathleen, and Collin) drove tearfully away from the parking lot at Publix, with Alex in the rearview mirror (his eyes as moist as ours). We'd dropped off our boy for the first time, at the University of Alabama, our first step in shoving him from the nest. Four years later, we found ourselves sitting together with his fiancé and her extended family, graduating with honors and a degree in accounting, awaiting word from a score of interviews that would set the stage for the next act in his adventure. It was a wonderful weekend, cut a bit short by Kathleen and my departure on Sunday for an adventure of our own…more to come on that. To Alex and his pursuit of employment, great news. He got an offer from his #1 pick and will begin his career with big four accounting firm KPMG this fall working in their Park Avenue complex in the heart of NYC. With that and a wedding on the horizon between now and October, the boy's got some planning to do. I'm not concerned.

We got to see Collin, briefly, at Alex's graduation, but then he was back to Orlando. You know he's a finance major at the University of Central Florida, but he's also spent the past few years working in real estate, at the complex he calls home. The pay is solid and the benefits even better which include a significant discount on his lease. But he learned the fickle nature of corporate America after the complex was sold to a new management company. With an anxious heart, he steeled himself for a meeting with the new management team. As is often the case, his fear was misplaced. The lad walked away from the meeting with a new title, responsibilities, a pay raise, and a suggestion that he give some consideration to a career in real estate management upon graduation. As my boy so adroitly put it, "You have to roll with the punches you are given, and thankfully this punch was more like a fist-bump!"

You all know my obsession with two-wheeled exploration. I've also shared the gradual and gentle entry of Kathleen into this pursuit over the past couple of years. Well my bride and soul-mate recently stepped up her game in a huge way when she stepped of the plane in Quito, Ecuador for a 10-day moto-tour of the enchanting South American nation. Though still widely undiscovered, Ecuador is becoming a destination for adventure travel for a number of reasons. Most notably, it is one of the most geographically and ecologically diverse places on the planet with four distinct regions; the Pacific coast, Galapagos Islands, Andes mountains, and finally, the Amazon rainforest. Each of these regions is a gem on its own with a distinct culture and people, tasty cuisine, and gorgeous land features. It is South America and still very "third world" but the government is keenly aware of the importance of tourism to the national economy and does everything it can to make it a destination nation. We felt 100% safe, 100% of the time. The official currency is the U.S. dollar and as you'd expect, it goes a VERY long way there. The roads are amazing…I don't think the civil engineers in Ecuador have a yard-stick between them. Everything twisty, perfectly designed for moto-travel, and remarkably well-maintained providing us with smooth pavement on 95% of the trip. Finally, the weather is nearly perfect. Straddling the equator, you'd expect it to be hot and humid. You'd be wrong. The climate of Ecuador depends, of course, on which region you've parked, but the average temperature is in the mid 70's. Sitting on the equator, you have 12 hours of sun and 12 hours of dark. You don't get the four season's that most of us know, but there is a rainy and a dry time of the year. May is the transition month. We got wet on many occasions but that just added to the adventure.

Some of the highlights of the trip: A soccer match in Quito in a stadium built in 1951…it wasn't the game but experiencing the fans that made the night. Mitad del Mundo…literally "middle-of-the-world", a site built on the equator with all sorts of exhibits highlighting the unique phenomenon associated. Ceviche at a beach shack in Canoa…they put tomato paste in their tasty seafood dish giving it a unique flair. Presenting soccer balls to a small school in the Amazon region…the kids, aged 3 -13 were priceless! The mountain town of Banos…in a valley of an active volcano, great shopping, hiking, hot springs. For more, see www.youtube.com and search Jon Kagan to view the 9 short videos I made, or go to www.maximaltours.com. As always, I hope you're enjoying each day as it comes.

Warmest regards, Jon

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