SOUNDSIDE
WEALTH ADVISORS

Soundings

What's New – March 2018

Quote of the month:
"Fear is a reaction. Courage is a decision." Winston Churchill

As a former pharmaceutical rep, I know that we are but the sum of our chemical reactions. Regarding fear - cortisol, adrenaline, and glucose came up in my Google search. Chemistry is pretty powerful…ask Walter White, or Einstein. To Churchill, courage is good - blind faith, not-so-much. When it comes to investment management, that's where process comes in. An objective decision making process that takes the very worst decision making tool, chemically driven emotions, out of the picture, is crucial. By the way, the second worst…politics.

After more than a year of upward price momentum, exceptionally low volatility and record highs, the market slipped in and out of correction in February. The pullback was the first real test of investors' resolve in recent memory. We knew it was coming sooner or later. Long-term investors know the story. The S&P 500 Index has experienced a pullback of 15% on average each year since 1980, according to Senior Equity Portfolio Analyst Joey Madere. Volatility is likely to return to more normal levels this year, he added. What gives? The majority opinion is concern that rising inflationary pressures could cause the Federal Reserve to tighten too quickly, and potentially upset economic conditions. What should we do? Exactly what we did. For more details, see page 3.

In this month's ***Market & Economic Commentary,*** I've placed a piece from one of my favorite commentators, Raymond James', Andrew Adams. He holds both the CFA and CMT designations which makes him quite an egghead. Along with RJ's, Jeff Saut, he's got a real gift with the pen and relates his opinions in a most understandable, readable, and entertaining fashion. Give it a gander. It's worth your time. First, the numbers…

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Market Update – Year to Date Returns

Major Stock Indexes	(As of 3/01/2018)*
Dow Jones Industrials	1.3%
S&P 500 Index	1.5%
NASDAQ	5.4%
DJ Global ex US	0.5%
Russell 2000 (small cap index)	-1.5%
XAU (gold/silver)	-8.2%

Major Bond Indexes	
Broad Market – Barclays Capital Aggregate	-2.1%
High Yield Corporate - Barclays Capital	-1.2%
Municipal Bond - Barclays Capital	-1.9%

Lipper Mutual Fund Categories	
Large Cap Growth	5.8%
Large Cap Value	-0.3%
Small Cap Growth	2.7%
Small Cap Value	-3.6%
International	0.1%
Balanced Fund	-0.1%
US Govt Bond	-1.7%
Corporate A-Rated Bond	-2.5%

*** Source: The Wall Street Journal**

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Market & Economic Commentary

The Super Bowl was played a couple of weeks ago, but the fact that television ratings were down for the game, and for the NFL in general this season, is still a hot topic of discussion. Many explanations have been proffered for why fewer viewers are tuning into the sport these days – national anthem protests, concussions, injuries to star players, the games are too long, too many televised games, the NFL's own RedZone channel, diminishing interest in television, etc. – but if you ask enough people why they didn't watch, you are likely to hear all of these reasons given… and probably a few more. In short, not just one thing has caused the ratings decline; multiple factors are combining to produce the overall effect.

Similarly, anytime the stock market falls like it has over the last couple of weeks, investors rush to find *the* reason for the decline, and usually there are no shortage of opinions as to why the market did whatever it did. This most recent correction has been no exception; depending on who was asked, the narrative seemed to switch from inflation/interest rate concerns to problems with volatility ETFs to the beginning of a bear market caused by overvaluation and excess speculation. In truth, plenty of sellers likely sold for no other reason than others were selling and the market was going down! The point is that it is often difficult to determine "the why" when it comes to stock market moves, considering the market is made up of many unique buyers and sellers who have their own motivations, time horizons, and strategies. In fact, this is what makes a market work! As Ben Carlson on his *A Wealth of Common Sense* blog wrote over the weekend:

There's rarely a good reason for a stock market downturn. I've been studying many of the historical bear markets and corrections that don't get as much publicity as the usual suspects (looking beyond the Great Depression, 1973-74, Black Monday crash, the dot-com bust, Great Financial Crisis, etc.). The theme I've found in many of the other instances where markets fell is that very few have a catalyst for the downfall, even after the fact. It always feels better to have an explanation for these things because then we can tell ourselves we'll look for similar circumstances in the future to try and avoid a market fall. But most of the time the reason stocks fall is because they can't simply rise forever.

In this recent case, what we think probably happened was simply a reversion to the mean that took place at a time when the U.S. stock market was about as extended to the upside as it ever gets. Concerns over inflation and higher interest rates may have helped trigger the initial decline, but that was just one of the factors that contributed to the ultimate fall. Keep in mind that prior to the pullback, we had enjoyed almost no downside volatility over the last two years, so many traders built strategies around taking advantage of that limited volatility, often using leverage to do so. Once volatility began to pick up, many of these strategies began to unwind, leading to even more volatility and more unwinding of positions and trades that had been working until they suddenly stopped working. And then when you tack on some of the additional profit-taking and panic selling caused by the volatility, which often involved the indiscriminate sale of baskets of stocks representing entire indices, sectors, and themes, it becomes a little easier to imagine how things could have spiraled out of control so quickly. Basically, instead of one cause for the decline, a combination of factors likely compounded into the eventual result.

More important than what caused this recent correction, however, is what did not cause it. This is not a situation where deterioration has been seen in either the global synchronized economic expansion or in the strong corporate earnings data, developments that would likely cause us to be more concerned than we are currently. We maintain that what happened over the last couple of weeks was a trading event, not the kind of recessionary or systemic breakdown that has generally caused the more significant declines in market history. We also continue to believe the odds favor a bottom being reached last Friday but that the recovery will be more of a process rather than a straight up bee-line back to new highs. If we are correct in this view, it may actually do a lot of good for stocks as this process may further help to remove some of the excesses that remain and produce another base on which to build the next move higher. **http://beacon1.rjf.com/ResearchPdf/2018-02/SAUT021418_071438.pdf**

Andrew Adams, Raymond James Chief Technician, "Charts of the Week", Investment Strategy, February 14, 2018

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On a Personal Note

Alex came home a couple weeks back and made a special trip to a certain local hardware store. More on that next month. His accounting internship in Tuscaloosa is going well and he really digs working out tax returns - I know, I don't get it either ;). It's a very busy firm so he's getting great exposure on some really interesting cases, both business and personal. It's a puzzle to him and he truly enjoys being a part of his client's lives…hmmm, familiar echo. I'm excited to see him excited about what he's going to be doing come graduation in May. I will admit that I creeped his checking account and was shocked to see a four-digit balance beginning with a number bigger than one. The kid's making some real "folding" money. Of course it's going out at about the same rate it's coming in so we'll have *that* talk in the very near future.

I finally got my eldest son to chase me out in the woods on a dirt bike. It was a blast for us both and it was nice to catch up on the hour ride to and from our unload spot way up in the north country. It had been more than a year since Alex had done any off-road riding. For the non-initiated, it is a heck of a workout and we were really ripping. A father and his first-born son have a special relationship and, weird Freudian stuff aside, it involves competition. I vividly remember playing a game of catch with my pop (our special bonding activity) on the hottest summer day. We'd take it way past the point of fun where we'd both want to quit, but neither would admit they were hot and tired and ready to hit the couch. I would invariably have to throw in the towel and give my pop the satisfaction of outlasting his offspring. Fast forward to 2018, after several hours in the woods with my boy, when Alex told me he was really starting to get a little tuckered. The needle dropped on everyone's favorite Cat Stevens single.

It's not getting any press and my evidence is admittedly anecdotal but I will predict the career with the biggest growth potential in the next decade or two…auto mechanic. My millennials do not have a clue how a car works. They couldn't tell an engine from a transmission from a chicken wing. Collin called me one afternoon in full freak-out mode. He had gone to watch the launch of the latest Space-X rocket (pretty cool) and on his drive back to Orlando, in a massive line of traffic, his car quit while he was in the middle of a busy intersection. Okay, it didn't actually quit. He executed an emergency shut down after a split-second diagnosis of "smoke" in the cockpit. He was in a complete panic, nearly hyperventilating and babbling incoherently. The sympathetic father I am, I gently counselled him, "SLAP YOURSELF…STOP TALKING…BREATHE…" Through further counsel and deliberate trouble-shooting, *we* figured out his trusty steed had a busted radiator hose and the "smoke" was the steam from the hot coolant seeking lower pressure. Good new is the trusty Saturn Wagon remains on duty.

If my kids had to write the epitaph on my tombstone it would read, *the crusty old bastard favorite saying was, "Life ain't Fair"*. Note to self. Write your own damn epitaph. That said, when we gave Alex, as a Christmas present, an airline ticket to visit his girlfriend in Colorado, we decided to offer Collin the same. For the past couple years, my adventure-junky has taken a self-funded surfing trip to Nicaragua for Spring Break. Naturally he at the opportunity for some daddy welfare. All good…fair is fair : (. Well damn if the kid didn't throw us a curveball. Collin told us he wanted to take the money we would have spent on his ticket and donate it to a charity he'd been researching. Project Chacocente, www.outofthedump.org, began in 2003 after a group of High School learned about the plight of 175 of the poorest of the poor living in a dump in Managua. Amongst the smoldering garbage, they lived in shacks of corrugated tin, cardboard and black plastic, and spent their days sifting for food to eat and recyclables to sell, with no hope of a better future. After exhausting all the reasons they couldn't, they decided to act, and worked to establish an agricultural community about an hour from Managua. Families signed a 5-year contract promising to work and learn skills to be independent. Each family now owns a house that they built, along with two acres of arable land. Two years later a Christian school was founded which now serves more than 150 students. Aren't these kids of ours are full of surprises?

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

Warmest regards, Jon

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