Soundings

What's New – March 2019

Quote of the month:
"Everything you've ever wanted is on the other side of fear." George Adair

What are you afraid of? Failure. Pain. Disappointment. Spiders. Other than those six-legged, miniature beasts from hell, the rest all focus on what could go wrong. What if instead, we shifted our thoughts to what could go right? Unhappy with your current career? Do some thoughtful planning, get some help if needed, and execute. Current relationship going nowhere? (not you Kathleen ;)) Ditto. Picked up an extra 30 pounds over the years? Same. The truth is, we are often our own worst enemies. The reason we are not achieving all that we could is because we listen to those voices in our head that inject doubt and fear. Maybe it's time for some new voices.

Well the fear has certainly subsided in the financial markets. In fact, the S&P 500 is now up 19% in the roughly two months since that ugly Christmas Eve low. The rally has been very impressive with only two down days of over 1%, which were quickly reversed, points out Joey Madere, RJ senior strategist, Equity Portfolio & Technical Strategy. So, what's changed? A couple key factors pointed out by Nick Lacy, chief portfolio strategist for Raymond James Asset Management Services, are the Fed's more recent dovish tone and what looks like progress on the trade front, particularly with China. So where do we go from here? Madere takes a constructive view of the markets over the next year or so, but given what he views as overbought conditions, wouldn't be surprised to see a pause in the near term. https://www.raymondjames.com/pointofview/february-takes-a-slow--yet-promising--pace?utm_source=ccemail&utm_medium=email&utm_campaign=marketupdates&utm_content=article

In this month's ***Market & Economic Commentary,*** I'm going to continue our discussion on Technical analysis. I will cover a concept called Relative Strength and how it applies to our investment process, particularly the risk management piece. It will give you some insight into when and why we make adjustments to portfolio allocation in our tactical models. I hope you'll give it a read. First, the numbers...

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Market Update – Year to Date Returns

Major Market Indexes	(As of 3/1/19)*
Dow Jones Industrials	11.1%
S&P 500 Index	11.1%
NASDAQ	13.5%
DJ Global ex US	9.3%
Russell 2000 (small cap index)	16.8%
XAU (gold/silver)	7.4%
Broad Bond Market – Barclays Capital Aggregate	0.8%
High Yield Corporate - Barclays Capital	6.4%
Municipal Bond - Barclays Capital	1.2%

*** Source: The Wall Street Journal**

D.A.L.I. Signals - 02/27/2019 [D.A.L.I. Page]

Dom. Equities	Int'l Equities	Commod	Fixed Income	Cash	Currency
281 25.9% (+0)	**246** 22.6% (+0)	**169** 15.5% (+0)	**149** 13.7% (+0)	**147** 13.5% (+0)	**95** 8.7% (+0)

Source: Dorsey, Wright & Associates, LLC

- 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. The Barclays U.S. Corporate High Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested, and is not available for purchase. The index includes both corporate and non-corporate sectors. The corporate sectors are industrial, utility and finance which includes both U.S. and non-U.S. corporations. The Barclays Capital Municipal Bond is an unmanaged index of all investment grade municipal securities with at least 1 year to maturity
- 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. Keep in mind that there is no assurance that any strategy will ultimately be successful or profitable nor protect against a loss.Re-balancing a non-retirement account could be a taxable event that may increase your tax liability.
- 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, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation.. 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. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Links are being provided for information purposes only. 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

When constructing our Tactical Models, we start with an allocation based on your goals, risk tolerance, and time horizon. This is nothing new and was discussed in last month's commentary in detail, as Strategic Asset Allocation. Last month I wrote, "A strict follower of this risk management process should have an easy time with investment management. You would first use a tool, typically a questionnaire of some sort, to gauge the amount of downside risk you can tolerate. Once determined, an algorithm would kick out a model portfolio with an appropriate mix of assets (stocks, bonds, and cash) to suit your comfort level. You could build a portfolio of individual securities, mutual funds, or ETFs, depending on your preference, rebalance at a predetermined interval and move on to other areas of your life that require more attention. You're done here."

I'm going to take some time now to discuss a concept called relative strength. Relative strength compares the price of something versus something else. For our example, let's consider the S&P 500 index (SPX) versus the Barclays Aggregate Bond index (AGG). If we divide the closing price of the S&P 500 index (SPX) versus the closing price of the Barclays Aggregate Bond index (AGG), then multiply that figure by 100, we get a relative strength reading. Plotting that reading on a point and figure chart will show us which asset class has a stronger trend. From this charting, we can make decisions on allocation based on historical patterns and the basic concept of supply and demand. From an investment perspective, relative strength can be used at the individual stock level, sector level, general asset class level, or any combination thereof.

Dorsey Wright & Associates has been a provider of research on technical analysis for over 30 years. In words taken from their website, "Dorsey Wright focuses on the "price" of a security, because it is the ultimate determinant of supply and demand in the marketplace. When you cut through all the red tape on Wall Street, what moves equity prices is supply and demand. It is nothing more than ECONOMICS 101. We know why produce rotates in and out of the market each season; we don't buy summer squash in the winter or winter squash in the summer. The same forces that move prices in the supermarket move the stock market. When all is said and done, if there are more buyers than sellers willing to sell, the price will move higher. If there are more sellers than buyers willing to buy, the price will move lower. Analyzing the price action of a security can yield important information as to what is winning the battle for that security – supply or demand.

The Point & Figure methodology has been around for over 100 years. One of the first proponents of the methodology was Charles Dow, the first editor of The Wall Street Journal. Charles Dow was a fundamentalist at heart, yet he understood the importance of the supply and demand relationship in any stock. The Point & Figure methodology is still valuable today because it as a logical, organized way of recording the forces of supply and demand. Nasdaq Dorsey Wright has taken this time-tested approach and given it new life by applying technology. Relative Strength – analyzing the performance of investment options against one another – is a valuable offshoot of Point & Figure. Dorsey Wright is recognized by Wall Street as an industry leader in Point & Figure charting and Relative Strength analysis."

The multi-colored matrix on page two is a product of Dorsey Wright called D.A.L.I. The Dynamic Asset Level Investing (DALI) tool evaluates the supply and demand forces of asset classes, and ranks them from strongest to weakest based on their relative strength score. The investible universe is divided into six broad asset classes; Cash, Fixed Income, Domestic Equities, International Equities, Commodities, and Foreign Currencies. Each of these "teams" is represented by an equal number of ETF's and on a daily basis, all of the members of each team "play" each other in the form a relative strength analysis. The wins are tallied and the asset classes or teams are ranked from strongest to weakest based on the number of "wins". This matrix can be a useful indicator of underlying strength or weakness in the market and can be a valuable tool in portfolio construction and risk management. Next month, I'll get into more detail on the practical application and how I use it to help make decisions.

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On a Personal Note

Swag / *adjective* / derivative of swag·ger / 1. Marked by elegance or showiness: POSH. **Wagon** / *noun* / wag·on / 1. a four-wheeled vehicle for transporting bulky commodities and drawn originally by animals: CART. Collin picked up his trusty chariot as a High School Junior. Nicknamed the Swag-Wagon, his 2004 Saturn LW 300 station wagon served him faithfully over the years. It provided freedom in High School, countless round-trips to school in Orlando, and very likely, shelter during an East Coast surfing trip or two. But it was tired, and just as a cowboy eventually retires his trusty steed, the lad preparing to graduate, had to look the future. Enter Old Blue. A shiny, new-to-him, 2008 Toyota Four Runner. With just over 170,000 miles on the clock, this filly is barely broken-in. Collin is looking forward to a future filled with many adventures on his new mount and we are excited for him.

The biggest question for #2 son is who's going to be signing his paycheck in a few months? May 3rd is graduation day and although he's currently gainfully employed, word is he's looking to break into the world of finance. Collin's a great kid, we get along reasonably well, and my practice has grown to the point where I could keep another planner occupied. You know where this is going. I let the idea percolate for a number of weeks before putting fingers to keyboard and tapping out a real job offer. It's good, not great. Frankly, he'd earn more by starting at a big national firm and, stepping back, I really hope he goes that route. Selfishly though, I think I'd enjoy having him around. The risk is that we're so similar that after a month or two, we'd have a blowup that leads to fifteen or so years of no communication…not unheard of in Kagan-lore. As the President says, we'll see what happens.

At one point during my time as Navy helicopter pilot, I was a Detachment Maintenance Officer. I was responsible for keeping our SH-2F flying and had about 14 outstanding maintainers of all stripes under my wing who turned the wrenches, banged the hammers, and worked the test equipment needed to keep Easyrider 58 in the air. When the work was complete, it was my job as check pilot, to certify the aircraft mission capable. I loved that job and currently get the same satisfaction with motorbikes, a story for a different time. To keep us safe and efficient, one of the many programs in place was Tool Control. It's been said that Helicopters are a collection of thousands of parts, spinning at high rates of speed, all trying to get away from each other. You can imagine an errant tool, left in the wrong place, could cause some death and destruction. Enter the Tool Control program.

Fast forward about 28 years. My wife is the Maintenance Officer of our household. Since I'd rather be on two wheels in my off-time, it's usually Kathleen who lets me know when things need to be repaired, replaced, or just banged on with a big hammer. Enter, Pad Control. Kathleen is a kick-ass manager. After folding a freshly laundered load of clothes, she realized a pad was missing from one of her female under-garments (she's gonna kill me!) When it failed to turn up after a few more days, she got on google to investigate the potential hiding places. She landed on the possibility of it sneaking into the washing machine's water pump assembly. Wouldn't you know, a few days later, our 15-year-old washing machine stopped in mid-cycle, failing to drain. This happened about 6 months ago and at that time, Dr. Google helped me diagnose and change a faulty lid switch. This time, it directed me to the water pump assembly and after about 45 minutes of bailing water, wrenching and banging, I had the pump in my hand and pulled out the culprit. Mystery solved. Thanks once again to Google and You tube. I'm thinking of starting a home-based surgery practice next. Give us a call to get on the calendar.

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

Warmest regards,

Jon

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