Soundings

What's New – March 2020

Quote of the month:
"Sometimes when fortune scowls most spitefully, she is preparing her most dazzling gifts." Sir Winston Churchill

Without this month's quote-smith, the world would be a very different place. But in his book, "*How to Think Like Churchill"*, Daniel Smith sheds light on some lesser known facts. His childhood did not portend to future greatness. Like Moses, he had a lisp; like Teddy Roosevelt, he was frail and subject to accidents; and like Albert Einstein, he didn't impress his early school-masters. But like them, and countless others who've been and are yet to be, he became that rare leader, made for his time on the planet, and we are all the benefactors.

Believe it or not, the markets hit an all-time high on February 19th. The word at the time was complacency - it seemed like nothing could derail the one-way trip we'd enjoyed since last October. Then, without warning, the train jumped the tracks, shedding an eye-watering 12% in just 7 trading days. The speed and depth of the decline was breathtaking, something not seen since the aftermath of 9-11 and the great recession of 2008-09. But what goes down, bounces back up and the first trading day of March brought the greatest point rise in the Dow's history. Was that it? As always, it's impossible to know but given the strength of the economy, the resilience of the U.S. consumer, and the historical perspective of the markets twelve months out from past pandemics, the weight of the evidence remains positive.

In this month's *Market & Economic Commentary*, I've placed a piece from Federated Investors, Chief Investment Officer, Stephen Auth. Titled, "*A Long-Needed Correction Finds Two Good Excuses*", he provides some sound reasoning on both the *why* of the current correction and the *what might come next*. It's a very well written piece that is worth a read. First, the numbers…

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Market Update – Year to Date Returns

Major Indexes	(As of 03/01/20)*
Dow Jones Industrials	-11.0%
S&P 500 Index	-8.6%
NASDAQ	-4.5%
DJ Global ex US	-10.4%
Russell 2000 (small cap index)	-11.5%
Barclays Capital Aggregate Index (Bonds)	3.4%
XAU (gold/silver)	-12.0%

*** Source: The Wall Street Journal**

D.A.L.I. Signals - 03/01/2020

D.A.L.I. Page

Dom. Equities	Fixed Income	Int'l Equities	Cash	Commod	Currency
326 30.3% (+0)	206 19.2% (+0)	201 18.7% (+0)	142 13.2% (+0)	118 11.0% (+0)	82 7.6% (-1)

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

Approximately three weeks ago, we mused that, with the market overstretched on a short-term basis following the wholesale capitulation of the bears, "a 5 to 10% pullback could be in the offing in the next few months." Wrong again. "The next few weeks" would have been more accurate. As we noted then, though intermediate and long-term fundamentals to us look remarkably good, the psychology of markets is such that when they rise so far so fast (+17% off the Oct. 2, 2019 lows without more than a 3.5%correction), the un-convicted bears, the "weak hands" if you will, are forced to capitulate and buy, driving markets still higher in the process.

But once the bears are long, watch out. Their conviction is low and they are nervous holders. This is why markets experiencing this kind of sharp advance almost always have an ensuing correction, averaging about 10% since this secular bull market began in the depths of the 2008-09 financial crisis. With no confidence in the long-term bullish picture, these weak-handed marginal buyers are apt to reverse course and sell in a panic as soon as something, anything, goes wrong. It is only by forcing the weak hands out of the market that the stage can be set for next advance. We are in that stage now. Let's first review the two "excuses for a sell off" currently in focus.

Coronavirus scare. I don't want to underestimate the human toll of this virus, or even the short-term impact on corporate revenues and earnings. On the other hand, whatever the short-term economic hit is, we do know that survival rates on this flu are reasonably high, and that the bug is historically unlikely to survive the arrival of spring, just a month away. While some consumption and spending will be permanently lost, most of it will be back-loaded to the second half, reinforcing if anything the second-half reacceleration on forces we believe already are in place. In short, while the near-term news flow on the virus is bad and likely to get worse, by summer this will be behind us and the global economy will be facing a second-half reacceleration driven in part by makeup spending and production arising out of the present slowdown.

Bernie scare. Corona is a very short-term threat likely to pass by spring. But Bernie. Bernie could represent a long-term threat to the economy and profits. A Sanders victory could turn even the secular bulls like us into bears. Like corona, we are respectful of the threat that Sanders represents to the economy and markets. This said, let me offer a little bit of common sense. Assuming we are right and the global economy is robust enough to survive the current health scare and reaccelerate by mid-summer, a Sanders candidacy seems more likely to result in a sweeping Trump Electoral College victory than a radical reversal of America's economic course after nearly 250 years of democratic capitalism. Too many voters are simply far better off today than they were just four years ago. And the voters that Trump's Republicans lost in the conservative suburbs in the midterms were presumably lost over Trump's social policies and tweets rather than his economic ones. A socialist Sanders' run at the top of the Democratic ticket is probably more likely to put those districts back in Republican hands than result in a change in the White House occupant.

Likely Second-Half Accelerants. While considering the risks above, it might also be helpful to just make a short list of the forces that we see driving an economic reacceleration in the back half of the year: 1. Trade dispute resolution. 2. Manufacturing reacceleration and catch-up. 3. Boeing and GM shutdowns reverse. 4. Lagged impact of global monetary easing. 5. Presidential election outcome grows more certain. 6. The coronavirus make-up effect.

Final Thoughts. While we are respectful as always to the risks out there, the present correction feels to us as more of an overdue consolidation within a very positive long-term picture. With an economy likely to be reaccelerating in the back half of this year, and looking forward to S&P 500 earnings in 2021 in the $200 range, by summer investors should be in a much better frame of mind. And when they consider the alternative, the now very-low yielding 10-year Treasury bond, a P/E multiple of 20 times forward earnings may seem relatively fair. That would put the market at 4,000 perhaps as early as late 2021, more than 20% above present levels.

Stephen Auth, CIO, Federated Hermes "A Long-Needed Correction Finds Two Good Excuses" FederatedInvestors.Com 2/26/20

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On a Personal Note

When I think back to the years B.C. – before Collin - bringing the kid onboard has worked out in ways that I never expected. Those of you out there who own (or have owned) your own business know the story. There's no satisfaction quite like the one that comes from growing a meaningful enterprise from scratch. It's blood, toil, tears, and sweat all the way. But it's also lonely. Having the kid onboard has added a new depth to the experience for me. This career is so rewarding and when I do my "Thank you God for XYZ's…finding my calling lands in the top four. Having Collin around to share the experience has made them so much deeper. I've always loved being a teacher and my son is proving to be a remarkable student. He left school with a degree in finance but when I take the time for some really "deep" thinking, what I'm really teaching him is how to serve. It goes without saying that he's learning how to serve our client family. On top of that, from day one, I've dragged the kid to all of the civic groups that have been important to me over the years so he can see the importance of serving in the community and being a part of something that benefits a cause other than himself and his new extended client family. And he's jumped into the role in a big way. What follows below are some words from "the kid" on some of that service.

One of the challenges I have had so far in my time back in the Panhandle is getting out from under my dad's shadow. Now I am not saying this is a bad place to be, for some reason everyone seems to like him (probably because my Mom is by his side), and I have been given opportunities that I would never have had if not for my genes. My goal is to capitalize on these opportunities and do my best to make sure that the name "Kagan" still makes people think of someone who's out there putting others needs above their own, and maybe even make them laugh with a few corny jokes! Our local chamber of commerce was looking for volunteers to serve on the board and my dad suggested I throw my name in the ring. At the next membership meeting, they passed the microphone to each of us to give a quick elevator pitch. I'd thought one out and sat rehearsing it in my head while I waited for my turn in the spotlight. I pretty much had it down, I was just deciding whether to take my dad's advice and go for some laughs in the closing. It was my turn and as my pop says, "no guts, no glory." I ended with his punchline, "I truly have no idea what I am doing, but I'm excited to learn and give my all to this Chamber", and sat down, happy that I had not made a fool out of myself to that point. Before I could finish that thought, someone spoke out and said "That was great, but it sounded an awful like your dad's pitch a few years ago!" I guess he was so proud of his own speech he wanted to hear it one more time before it left everyone's memories!

My earliest experience with the Rotary organization was back in the 10th grade, when I was selected to participate in the annual Rotary Youth Leadership Award experience. I had no choice, my dad made me go, but I can say with no hesitation that this leadership camp changed my life for the better, and was instrumental in helping me find my voice as a future leader. Now, as a full-blown Rotarian myself, I am so excited to be an actual part of the program that will help this year's class of 10th graders. Not only will I have the opportunity to teach these high school sophomores the skills that I took away from the camp eight short years ago, but I know that I will learn valuable lessons and grow as a leader and human being. Talk about a win-win!

Okay, I'm back, enough from the kid. The back page of this newsletter has always been a place where I open my heart to you all. I know it can be scary…imagine how Kathleen must feel?! But as vital as it is for me to know what's important to you and your family, I think it's just as important for you to know "how I tick". Collin will be a regular contributor here as well with the same purpose. Take care, be well, and talk soon.

Warmest regards,

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