SOUNDSIDE
WEALTH ADVISORS

Soundings

What's New – May 2018

Quote of the month:

"A veteran is someone who at one point in his life, wrote a blank check made payable to the USA for an amount 'up to and including my life.'" author unknown

It's military appreciation month. When you add up the hours on the job it becomes pretty clear that those who serve our country aren't in it for the money. Often overlooked, the military spouse is no slouch. Taking point on the home-front can be nearly as hazardous as the front-line (one word: teenagers). If the opportunity presents, take a minute to show some love.

Volatility has obviously picked up in 2018 and with four months in the bag, the S&P 500 is currently in the red. First quarter earnings are coming in strong, with the majority of S&P 500 companies reporting better-than-expected top and bottom-line growth, according to Joey Madere, senior portfolio analyst for Raymond James. Economic data releases for the first quarter were generally softer than anticipated, but moderation in growth is not unusual following a strong quarter. Growth is widely expected to pick up for the second quarter and beyond, though the tight job market could become more of a constraint, according to Chief Economist Scott Brown.

It's been an interesting year for stocks. The more conservative companies have significantly underperformed their growthier counterparts. In this month's ***Market & Economic Commentary,*** Raymond James' Chief Market Technician, Andrew Adams, examines this phenomenon and steps out on the proverbial limb with his forecast for the remainder of the year. First, the numbers…

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Market Update – Year to Date Returns

Major Stock Indexes	(As of 5/01/2018)*
Dow Jones Industrials	-2.3%
S&P 500 Index	-1.0%
NASDAQ	2.4%
DJ Global ex US	-0.3%
Russell 2000 (small cap index)	0.4%
XAU (gold/silver)	-4.8%

Major Bond Indexes	
Broad Market – Barclays Capital Aggregate	-2.2%
High Yield Corporate - Barclays Capital	-0.5%
Municipal Bond - Barclays Capital	-1.2%

Lipper Mutual Fund Categories	
Large Cap Growth	3.9%
Large Cap Value	-1.8%
Small Cap Growth	4.6%
Small Cap Value	-1.8%
International	0.4%
Balanced Fund	-1.0%
US Govt Bond	-1.7%
Corporate A-Rated Bond	-2.9%

*** Source: The Wall Street Journal**

Other Disclosures

- 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 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 Russell 2000 index is an unmanaged index of small cap which generally involve greater risks. 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 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 MSCI EAFE(Europe, Australasia, and Far East) is a free-float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. The EAFE consists of the country indices of 22 developed nations.
- Lipper Indexes are based on the largest funds within the same investment objective and do not include multiple share classes of similar funds. Barclays Bond Indexes are designed to measure the market performance of various fixed income asset classes. 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 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. 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. The process of rebalancing may result in tax consequences.
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Market & Economic Commentary

Based on the questions we have received the last few sessions, many readers may still be wondering why some of their "safer," more defensive stocks have done so poorly recently. In short, it probably has a lot to do with interest rates, particularly the 10-Year U.S. Treasury nearing 3%. It's no secret that many investors have turned to dividend-paying stocks the last few years as a proxy for fixed income products that have yielded so little, and that strategy mostly worked as rates continued to decline and a rising tide in the stock market lifted most ships. Now, though, as rates start to climb again, the higher coupons one can get with bonds start to make the additional risk one takes with dividend-paying stocks a little less attractive (a 2-3% dividend doesn't offer much if the stock falls 20%).

Moreover, the defensive areas of the market often have their time in the sun when there is concern about a slowing economy, but we think the market's bigger worry at the moment is still that inflation will pick up and force rates higher at a faster pace. If the market were to struggle because of fear of inflation and higher rates, like it did earlier this year, these conservative sectors might not be the safe haven investors believe them to be. High inflation can also eat into the profitability of some of these defensive companies that have tighter margins, as rising input costs cannot always quickly be passed on to consumers.

And finally, to further kick the group while they're already down, Utilities, Telecom, and Consumer Staples, in particular, remain "expensive" on a price-to-earnings-to-growth basis, limiting their appeal even more (these sectors have PEG ratios of 7.43, 3.43, and 1.79, respectively, compared to 1.20 for the S&P 500 as a whole according to S&P).

It's no coincidence then that, coming into yesterday, the worst performing sectors in the S&P 500 this year were Consumer Staples (down 11.03%), Real Estate (down 7.62%), Telecom (down 7.27%), and Utilities (down 3.72%), all areas that are typically considered defensive and more sensitive to interest rates. Higher interest rates should not be much of a surprise; however, a growing economy several years into an expansion should be seeing rates rise, and the market has largely expected this for some time now. As a result, we have repeatedly steered readers toward the more growth-oriented areas of the market and warned against owning the more rate-sensitive and defensive sectors. As we wrote in the November 15, 2017 Charts of the Week, for example: If we are correct that this remains a secular bull market and interest rates are likely to go higher in the next couple of years, we still want to focus on Technology, Financials, Industrials, Materials, select Consumer Discretionary, and, more recently, Energy…The more conservative and interest rate-sensitive areas like Consumer Staples, Utilities, Real Estate, and Telecom, meanwhile, are harder to recommend.

This thinking still largely applies, even though many of the defensive stocks are now pretty beaten down and oversold in the near term. If the 10-year struggles once again to break through 3%, we could see a bit of a rally attempt in the rate-sensitive sectors, though we continue to believe 3% likely falls sooner rather than later. However, we do NOT believe a 10-Year at 3% is enough to end this secular bull market, an opinion we continue to hear stated by others. Rates, although rising, are still very low and investors are going to have to own stocks to have any hope of meeting their long-term return goals. We think, therefore, the market will continue to seek out growth with its equity allocations and the current higher growth areas of the market like Energy, Technology, Consumer Discretionary, and Financials are where we would continue to focus. Investors don't necessarily have to avoid stocks in the defensive sectors completely, but higher rates do decrease the margin for error, so selectivity is important. It is another reason why we continue to advise a more active approach in this market to better identify the industries and companies in favor at any given time. And, as always, risk management will be crucial to limit any damage to a level a portfolio can recover from. https://raymondjames.bluematrix.com/sellside/EmailDocViewer?encrypt=1086c656-bca4-4ce4-8724-d2cc216232be&mime=pdf&co=RaymondJames&id=Jon.Kagan@RaymondJames.com&source=mail

Andrew Adams, RJ Chief Market Technician, "Defensive Stocks have been Quite Offensive", Morning Tack, 4/ 24/18

On a Personal Note

The Kagan family has given the frenetic markets a run for their money. The Alex show remains on center stage. We'll be heading north in a few days to see the lad graduate from college. At least we don't FEEL old. He and fiancé Claire will fly back to the Big Apple the following week where job #1 is to find job #1. He's got four interviews lined up so things are looking pretty good. Just to add a little spice, it looks like there's going to be a wedding on October 20th. I left you last month with news of the proposal. Well the only surprise to Claire was the day of the ask. She had been busy planning for weeks. On our way home from that visit to Tuscaloosa, we got an email from our future daughter in law with a tentative guest list. It's okay, she wears the pants well.

Collin will be meeting us up in Tuscaloosa to get a little insight into his life seven months from now. Our #2 son just wrapped up his junior year, a finance major at the University of Central Florida. It looks like the lad is going to pull off an early graduation this December. It's been a juggling act…chainsaw, meat cleaver, and bowling ball, but there's been some play mixed in with all that work. Surfing is the boy's outlet and he's found a home on the UCF surf team for the past couple of years. As luck would have it, they've got a pretty good squad. Good enough, in fact, to place in the East Coast Championships. As for Collin, it took a surf-off, but, cue the Led Zeppelin, our son is *Going to California* in June for the Nationals fully sponsored by the iconic Ron Jon Surf Shop. Needless to say, it will be a busy summer for the lad. He will be spending the month of July working as an intern with his pop. Talk about a pressure-cooker. I've told him (and all of you) that if he plays his cards right, I might find a spot for him in 5-10 years so I thought it would make sense to give him a preview of what that might entail. Stay tuned, I have a feeling it will make some entertaining reading.

Until Collin is up and ready, I decided it would be smart to take some insurance in case of an unseen bus, stray asteroid, or tainted fish-tacos. Rick Lambert is a financial planner and old friend. He's been in practice for about the same amount of time, treats his clients like an extended family, and has a very similar investment and risk-management process. In the (hopefully) unlikely event that I don't wake up one morning, Rick will make sure that you are taken care of. I will do the same for Rick's client family in the (hopefully) equally unlikely flip-case. So let me tell you a little bit about my friend. Like me, Rick married way out of his league. His wife Suki is smart, funny and beautiful and like Kathleen, her sole fault is judgement in men. Here's Rick's bio, in his words. *Rick Lambert is the President/CEO of Iron Horse Wealth Strategies in Pensacola (www.ironhorsews.com). Rick was born at a very young age. He left home numerous times before age 18, but always came back after school. At 18, Rick joined the US Air Force because his local Army Navy store was out of field jackets. He was assigned to work in Military Intelligence where his job was so secret he didn't even know what he was doing. Rick retired from the Air Force in 2002 after 21 years. Rick met his wife Suki while he was stationed in Korea and they were married 29 years ago. They have two adult children; Alex age 28 and Lindsey age 26. Rick has been a wealth strategist for 15 years and holds the Certified Financial Planner®, Chartered Retirement Plans Specialist, and Chartered Retirement Planning Counselor designations. Rick is also an adjunct online professor for Liberty University in the CFP® program where he was recently promoted to Subject Matter Expert for the Financial and Retirement Planning undergraduate college course.*

Finally, a quick shout out to the internet. It was Saturday morning and Kathleen was doing the laundry (thanks honey!). She called me over to look at the old washing machine which had stopped running in mid cycle. At 13 years, I guess the old Kenmore gave us a good run. Just for fun, I decided to try google. Two videos later, the machine is working and a $13 part is on the way which should get us decades of future loads. Russian hackers aside, I think the internet is here to stay. New problem. Who gets the Kenmore in our will?

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

Warmest regards, Jon

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