SOUNDSIDE
WEALTH ADVISORS

Soundings

What's New – May 2019

Quote of the month:

"I just have a lot of experience. I'm a slow learner; but I've learned for a long time."

Roger DeCoster

There is no substitute for experience. It can't be bought. It can't be taught. It can't be inherited. It has to be lived. I remember a time, decades back when I literally thought, I've had a great run. I've seen so much, lived so much, experienced so much. If my time was up today, I'm okay with that. I was 21. How funny to look back and realize how little I knew. How little I'd seen. How little I'd experienced. I imagine that 20 years from now, I'll think back to penning this piece and realize the same.

Four months in and it's a happier tune the markets have been humming. According to Michael Wursthorn of the Wall Street Journal, the major U.S. stock indexes are off to their best start since 1999. Talk of recession has ebbed, replaced with steady growth. The Mueller report is out and the conspiracy narrative has been mostly put to bed. Trade talks with China appear to be on the right track and zeroing in to conclusion. There are still risks out there…there always are. Life's a full-contact sport, but all in all, there's more joy than sorry today in Mudville.

If you're like me and Goldilocks, you like your porridge not too hot, not too cold, but *juuust* right. In this month's ***Market & Economic Commentary,*** I've placed a piece by James Mackintosh from the Wall Street Journal. He makes a great case for a Goldilocks economy. It's an interesting read and I think you'll enjoy it. First, the numbers…

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Market Update – Year to Date Returns

Major Indexes	(As of 5/1/19)*
Dow Jones Industrials	14.0%
S&P 500 Index	17.5%
NASDAQ	22.0%
DJ Global ex US	12.0%
Russell 2000 (small cap index)	18.0%
XAU (gold/silver)	0.7%

*** Source: The Wall Street Journal**

D.A.L.I. Page

D.A.L.I. Signals - 05/01/2019

Dom. Equities	Int'l Equities	Commod	Fixed Income	Cash	Currency
288 26.5% (+0)	**253** 23.3% (+0)	**163** 15.0% (-1)	**151** 13.9% (+0)	**146** 13.4% (+0)	86 7.9% (+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. 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

The more things change, the more they stay the same. The world economy has slowed sharply, central banks are worried enough that easing is back on the agenda, yet U.S. stocks this week broke above their September high. What gives? In a word, Goldilocks. The economy is warm enough that fears of an earnings-crushing recession have gone away, but cool enough that the Federal Reserve won't raise rates any time soon. The S&P 500 has returned to its peak under very different conditions to those prevailing when the bull market broke down. As a result, the biggest threat to the stock rebound is the end of the Goldilocks economy, either through a return to fears of recession, or a resurgence of inflation that wakes the Fed's hawks from their slumber.

The major difference between now and last September is the outlook for inflation. In the autumn investors thought inflation would be at or above the Fed's target, with a risk that the tight jobs market would lead to a spiral of rising wages and higher prices. Investors now think inflation will be lower for longer, but not so low that deflation will again be a threat. The probability of inflation above 3% over the next five years has dropped from one-in-five in September to just one-in-10, according to probabilities derived from options markets by the Minneapolis Fed, after matching its post-2008 low at the start of this year. Meanwhile the implied chance of inflation being below 1%, dangerously close to deflation—briefly feared during the December in panic—has receded back to where it stood in September. As a result, Treasury yields have barely bounced, breaking their usual tight link to moves in the stock market. During the late-year swoon, when recession fears dominated and stocks briefly slipped into a bear market (counting intraday trading), bond yields fell alongside share prices, as should be expected.

In this year's rebound stocks jumped, while bond yields didn't, because the recovery was a sigh of relief that it was wrong to fear recession, not a new bet on a booming economy. As relief rallies go, this has been a big one—the best start to the year for the S&P 500 since 1987 (back then, the rally turned into an unsustainable boom, ending horribly in October's "Black Monday" crash). Recession fears faded in tandem with improved prospects of a trade deal with China and signs that Beijing's stimulus has helped the Chinese economy avoid a serious slowdown. The stock market winners since the low on Christmas Eve might suggest the market is anticipating a strong economy: The tech sector is up 37%, closely followed by economically sensitive consumer discretionary and industrial stocks.

But performance since the closing high on Sept. 20 tells a different story. Economically sensitive sectors have generally done rather poorly, with industrials, financials and energy underperforming the S&P 500, while boring utilities and real-estate stocks—often treated as proxies for bonds—beat the go-go tech stocks. The real market story is of a "meh" economy, not an assumption that a boom is on the way. But a weak economy is no barrier to strong stock-price performance, as the bull market of the past decade demonstrates. David Shulman, senior economist at UCLA Anderson Forecast, came up with the notion of the not-too-hot, not-too-cold Goldilocks economy when he was at Salomon Brothers in 1992. "The market's behaving like we're in a Goldilocks world, and I think that's justified the increase in [valuations] for stocks this year," he says.

The funny thing is that while valuation multiples have risen, there's been no turnaround in earnings expectations. Earnings expectations for 2019 have tumbled, taking the year-on-year growth forecast by analysts from 10% down to 3%, according to Refinitiv's IBES data. While earnings estimates for the S&P 500 have stabilized recently, they have not gone back up, unlike stock prices. This fits the Goldilocks model, where stock prices benefit from rising valuations linked to easy money, even as there is little in the way of profits growth because of the weak economy. And here lies the danger. Goldilocks can vanish in one gulp if inflation expectations pick up again and investors start to prepare for the return of Fed rate increases. Equally, investors delighted by low and steady inflation will quickly turn and run if it starts to get so low that deflation is once again a risk—especially as the world's central banks have far less scope to cut rates than they usually do when recession looms. Still, there's a good case to be made that after its startling reverse at the beginning of this year, the Fed won't want to change course again in a hurry. That should help slow any increase in bond yields if inflation does pick up, and give Goldilocks investors time to adjust.

James Mackintosh, Another Stock Market Record, but It's a Different Kind of Boom, Wall Street Journal, April 27, 2019.

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On a Personal Note

Lessons from the Madness. March Moto Madness celebrates the end of moto-hibernation with camping, riding, and general fellowship with similarly afflicted practitioners. The original "Mother Rally", held in Tellico Plains, TN, dates back to 2006 and is now joined by dozens around the world. I loaded my truck with a street bike, a dirt bike, and camping gear and joined over 800 folks from around the country for my second visit to this mecca of moto-exploring. The riding was epic. Off-road "single-track" trails twisting up, down, and around the Smoky mountain. Legendary pavement like the Cherohala Skyway and Tail of the Dragon. Those out there with images of Hell's Angels might be surprised to learn that we began the first day of riding with a prayer. Ryan, our ride leader, was a long-time member of the Christian Motorcyclists Association, and his words set the tone perfectly as the nine of us set out on our trailbikes to explores God's beautiful creation. **Lesson one**: Everything is better if you begin with gratitude. About 5 miles in, Ryan had a minor spill that degraded the performance of his machine and as a result, I took the lead. **Lesson two**…always be prepared to serve. Minor mishap behind us, the remaining 80 miles were tremendous. Challenging terrain. Spectacular scenery. Great workout. With plenty of daylight left, I grabbed a quick bite and jumped on my street-bike for a few hours of heavenly asphalt. Made it home for barbecue, live music, and great fellowship. The night was perfect sleeping bag weather and it was a duly-earned slumber. **Lesson 3**: Camping shows you just how little you really need.

After a good night's rest, hearty breakfast, and a marginal bowel movement, the highlight of day two was a riding class that I'll admit, had given me a bit of pause since enrolling online. Tom Asher is the stuff of legend. In 2016, his skills earned him a spot on Team U.S. to compete for the BMW GS Trophy in Thailand. Now, on top of his day job, he holds clinics at these rally's, teaching us mortals how to ride our big, heavy, adventure motorcycles in places that few dare to tread. There was a beginner, Intermediate, and Advanced class and I planned on the intermediate option. Turns out the only available spot was at the grown-up table in the advanced class. No Guts, no Glory…I signed up. My only fear was I'd be THAT GUY…the one that held up the group and prevented us from doing everything on the syllabus. Like most of our anxieties, it was misplaced. Great class. We learned how to pilot our 600 lb. bikes down a steep embankment and cross a rocky stream, to climb steep mountain trails, not just on the trailhead but what to do when we slide into the nasty rut on the trail's edge. How to jump a fallen log across a trail when there is no way around it. He taught us to slow down, be deliberate with every movement, every line, always purposeful and in control. It was a transformational riding experience. **Lesson's 4 & 5**: Most of our fears are between our ears & sometimes, in order to grow, you should take the rocky path.

Later that afternoon, I decided to break camp as a nasty storm was forecast to arrive that evening and last through the next day. The load-up was uneventful, but as I turned out of the rally site onto the country road, I clipped a broken metal guardrail with my right rear truck tire, tearing it instantly. I pulled aside and as I surveyed the situation, a young man came by and told me what I'd done. As I instinctively went to full-blown self-degradation mode, my new friend advised I slow down, relax, and chill. "Don't be so hard on yourself. It'll be okay. Hell, I'm getting divorced." Perspective. I thanked him for the slap in the face, gave him my card and told him to call me Monday. I'm a financial planner and I've specialized in divorce for years. I told him I'd help him make smart decisions and wouldn't charge him a thing. **Lesson 6**: It's funny how God (karma for the Buddhists, fate for the atheists) puts us exactly where we need to be.

What just happened? As you'd imagine, it was a busy tax season for Alex. Assigned to the real estate division, he's on a team that works with some very big players in the NYC market. How about these apples? In the middle of crunch time, the senior associate assigned to one of their biggest clients, up and left the firm. To his surprise, Alex's boss called him in and let him know that he was not going to replace the associate. He was so impressed with Alex's work product and people skills that he was moving my boy up to head that account. Dr. Spock (Benjamin, not the Vulcan ;))be damned, those spankings produced!

As always, I hope you're enjoying every day as it comes. Warmest regards, *Jon*

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