



Soundings

What's New - November 2018

Quote of the month:

"It had long since come to my attention that people of accomplishment rarely sat back and let things happen to them. They went out and happened to things." Leonardo da Vinci

As I write, it's the morning of the midterm elections. I feel like I did when we moved to Kentucky back in 1996. I'd just gotten out of the Navy, had a wife and new son, and told a top-line pharmaceutical firm that I'd move anywhere for the opportunity to work for them. Be careful what you ask for. During March Madness, on days when the University of Kentucky had a basketball game, the folks could barely get through work. It will be an exciting night for this political junkie.

October was brutal for the markets. Everything got beaten up. U.S. stocks, international stocks, bonds of all stripes, even precious metals...there was no place to hide. A number of factors contributed to the volatility from fears of an over-aggressive Fed, the continued trade scuffle with China, and those pesky computer-driven selling programs. The good news is that earnings, typically the driver of stock prices over the longer term, are very strong and the economy is firing on all cylinders. Whether we've seen the lows of this correction are yet to be seen but the indicators are still positive and as such, we remain on offense.

By the time you get this, the makeup of the next Congress will likely be known. Regardless of the outcome, pundits will be spouting punditry. In my opinion, most of it will likely be wrong. In this month's *Market & Economic Commentary*, I've placed a piece from Raymond James Chief Strategist, Jeff Saut. In it, he makes the case that the election results will likely have little effect on the current bull market, which in his opinion, may have years left to run. It's an excellent read. First, the numbers...

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7552 Navarre Parkway, Suite 35, Navarre, FL 32566
850.936.6686 866.936.8816 Fax Toll-Free 866.936.6686
www.jonkagan.com jon.kagan@raymondjames.com

Market Update - Year to Date Returns

<u>Major Stock Indexes</u>	<u>(As of 11/01/ 18) *</u>
Dow Jones Industrials	1.6%
S&P 500 Index	1.4%
NASDAQ	5.8%
DJ Global ex US	-13.2%
Russell 2000 (small cap index)	- 1.6%
XAU (gold/silver)	-24.6%

<u>Major Bond Indexes</u>	
Broad Market - Barclays Capital Aggregate	-2.4%
High Yield Corporate - Barclays Capital	0.9%
Municipal Bond - Barclays Capital	-1.1%

<u>Lipper Mutual Fund Categories</u>	
Large Cap Growth	6.5%
Large Cap Value	-1.5%
Small Cap Growth	6.5%
Small Cap Value	-5.1%
International	-10.8%
Balanced Fund	-2.0%
US Govt Bond	-3.5%
Corporate A-Rated Bond	-4.1%

*** 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 Barclays US Aggregate Bond index is broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. 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 of 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.

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Market & Economic Commentary

We had a pretty good handle on the presidential election in November 2016, believing President Trump would win. However, today's mid-term elections are a tossup by our pencil. As we told CNBC yesterday: *I had a really good handle on the November 2016 presidential election believing Trump would win. I think the mid-terms are a tossup. Normally the younger crowd doesn't show up for mid-terms, but in early voting I saw a bunch of millennials. The millennials tend to vote Democratic.*

Subsequently we wrote CNBC: *If the stock market is really a forward-looking thing, the market is telling us if the Democrats win the House it is no big deal. If they win the House and try to impeach President Trump, it will be a total waste of everyone's time and a huge political mistake. If they try and take back the tax cuts, the voters and the markets will not like it.*

As our friends at Federated Investors (Linda Duessel) write: *Fiscal policy outcomes in the short run probably won't be significantly different regardless of how next week's election turns out. Cornerstone Macro is skeptical of any further tax cuts and equally skeptical that there will be an impetus to cut the deficit under any potential election outcome. Instead, spending on defense and domestic spending is likely to trend higher, with a major infrastructure package only likely under an unlikely Democratic sweep scenario.*

So yesterday went much like one would expect in front of a midterm election, in that everyone squared off positions and awaited the election results. Yet, whatever happens it should not deter the secular bull market. As market wizard Leon Tuey writes: *Reasons why investors panic are many. The major reason is that most investors do not understand the market's logic. Consequently, they react to the headlines and the talking heads, swaying every which way like a willow tree on a windy day. Another reason is they think the S&P or the Dow Jones Industrial Average is "the market." Consequently, they react to every headline and every move in the market indices and become bewildered. The blacker the headline and the sharper the move in the market indices, the more frightened they are. At the end, they panic. On the other hand, as the market rallies, the higher the market, the more excited they get.*

What about the long-term? Corrections don't change the primary trend. As shown on numerous occasions, I monitor six major factors to help me determine the market's long-term trend and they are the monetary, economic, valuation, sentiment, supply/demand, and momentum/internal/ technical. Until these factors give bearish readings, there is no need to turn bearish, just because the market corrected.

Anything can happen, of course, but available evidence continues to support my view that investors are witnessing the greatest bull market on record. The second leg of this great bull market commenced in February, 2016, and is historically the longest and strongest leg as it is driven by improving economic conditions, in this case caused by the monetary easing of the past nine years. Since the first leg lasted nearly seven years, the current leg, by definition, should last longer than seven years.

To conclude, we will repeat what we wrote yesterday, "We think the 'lows' are in, but the ideal bottoming process would be a rally into the 2800 - 2820 zone followed by a pullback to the 2600 - 2650 level." Barring news, today's trading should be quiet as traders wait for the mid-term election results.

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Jeffrey D. Saut, Raymond James Chief Market Strategist, Morning Tack: "Vote!", November 6, 2018

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On a Personal Note

The skies poured fury as I set out west, on motorbike. Destination...Seville Square in downtown Pensacola. The giant oak trees would provide little shelter to the 200 or so gathered to witness the marriage of Alex and Claire. Thanks goodness Claire opted for a tent a few days prior. Celebrants had come from far and wide, spanning both coasts and of course Tuscaloosa (Roll Tide). The rain did little to dampen the mood. Truthfully, it added a serene, New Orleans bayou vibe under the canopy of the mighty two-hundred plus year old sentries of the square. Alex, as you might expect from years of these missives, remained cool, calm, and totally unshaken. He was Alex. Pastor Scott and the parents of the bride, Daniel and Cynthia, the same. The Heavenly Spirit was in the house. It didn't hurt that the bar was opened early as we waited for what brother-in-law Boo, a professional pilot, reported as the last band of the storm to pass. On cue, the rain stopped and we got down to business. Vows complete, food in our bellies, we put on our boogie shoes and got down. Claire hired a rocking band from Mobile and I'd imagine we entertained them nearly as much as they entertained us. In my 55 orbits of the sun, I've been a best-man, groom, and father-of the groom. Arguably, the most stressful role is that of best man. The toast. Collin did not disappoint. His "Jewish entertainment gene" kicked into overdrive and he delivered, big. When all was said it done, the gig went down exactly as we'd hoped, as Alex and Claire got on my big, shiny (wet), red motorcycle and rode through the crowd and into the rest of their lives. Huge shout out to HBIC (Head Bitch in Charge), Carrie. We had no shortage of both Indians and Chiefs and Carrie skillfully utilized all in order to bring all the parts of this machine together. We love you Mama Begg.

Rewind a couple afternoons prior. The boys came into town on Thursday and that afternoon, the three of us hung out on the deck, enjoying a cold one and shooting the breeze. Collin shared the duties of his new job and his role in managing and motivating seven direct reports. I waited for Alex to fill his usual role of big brother, one upping with grand tales of his new pursuit in Manhattan. Instead, he answered with praise, support, and encouragement, working to get his younger sibling duly pumped up for his upcoming job fairs. For those out there with kids still onboard, hang in there. It is truly a beautiful thing to witness your offspring make the transition from dependent to independent. To be able to put down your guard and take in your kids as fellow adults is a one of the greatest joys in the universe. Probably a pretty cool thing from the other side as well. Like the first salute from our salty Marine Corps Gunnery Sergeant upon commissioning.

Speaking of salutes, I got to relive some glory days last week. A group of old timers put together the first ever, all Navy reunion of SH-2 helicopter pilots. I found it on Facebook by accident and what a treat. The venerable SH-2 is a unique craft, developed by Charlie Kaman, protégé of the more famous Igor Sikorsky, in the late 1950's. Retired in the late 1990's by the U.S. Navy, the newest model still performs admirably around the world for the government of New Zealand among others. The reunion was a multi-day affair but the highlight was a day-long event at Pensacola's National Museum of Naval Aviation. Besides catching up with old friends from the past, there were forums from both the helicopter industry and senior Navy commander's giving us briefs on the state of helicopter aviation and military readiness. It was inspirational and if I wasn't so old and fat, I would have re-upped on the spot! Topping off that day was the unveiling of a gorgeously restored SH-2F, now on permanent display in Hangar Bay One. Be sure to check it out on your next visit. The night prior was a reception and mixer at Seville Quarter. It was here that we reconnected with long lost squadron-mates and shared stories of "there we were..." I reexperienced long forgotten memories of cheating death, debauchery, and general (mis)adventure that got the juices flowing that I thought had long since dried up. Special thanks to my motorcycle-riding buddy, callsign Skidmark, for his part in organizing this stellar event.

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

Warmest regards, *Jon*

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