SOUNDSIDE
WEALTH ADVISORS

# Soundings

## What's New – October 2018

Quote of the month:

***"How often a man has cause to return thanks for the enthusiasms of his friends! They are the little fountains that run down from the hills to refresh the mental desert of the despondent." Henry Van Dyke***

Dilly dilly, Mr. Van Dyke. Life can be a bear. And for those who are lucky enough to have found their calling, many times the satisfaction comes from knowing that you're doing something that others are either unwilling or unable to do on their own. Deep Sea welding, Smoke-Jumping, Financial Planning ; ) The satisfaction comes from the challenge, outcomes, and differences made in the lives of real people. Thank the Lord for family and friends…friends in particular since family is expected to be there.

Domestic equities were a mixed bag toward the end of September, but did quite well over the quarter. The Dow was up 9% for the third quarter; the S&P 500 posted its best quarter in almost five years, up 7.2%; and the NASDAQ added 7.1%. Arguably, the biggest potential market-moving event was the successful negotiation of the reworked NAFTA deal with Canada and Mexico over the weekend. Dubbed the U.S. – Mexico – Canada – Agreement or USMCA, the hope is it will provide incentive for accelerating current trade discussions with the EU, Japan, and ultimately China. In other news, the palace intrigue has been at a fever pitch, and don't look now but I've heard we've got some elections coming up. Interesting times for sure.

It's been a Dickensian market…the best of times, the worst of times, largely depending on what shores you've trodden. You'll see on the following page that unlike 2017, sailing over the horizon has detracted from returns so far in 2018. And heaven forbid you added bonds for diversity. In this month's M*arket & Economic Commentary*, WSJ columnist, Jason Zweig makes the case for patience. First, the numbers…



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# Market Update – Year to Date Returns

| Major Stock Indexes | (As of 10/01/2018)* |
|---|---|
| Dow Jones Industrials | 7.0% |
| S&P 500 Index | 9.0% |
| NASDAQ | 16.7% |
| DJ Global ex US | -5.2% |
| Russell 2000 (small cap index) | 10.5% |
| XAU (gold/silver) | -23.6% |
| **Major Bond Indexes** | |
| Broad Market – Barclays Capital Aggregate | -1.7% |
| High Yield Corporate - Barclays Capital | 2.2% |
| Municipal Bond - Barclays Capital | -0.4% |
| **Lipper Mutual Fund Categories** | |
| Large Cap Growth | 17.6% |
| Large Cap Value | 5.9% |
| Small Cap Growth | 19.4% |
| Small Cap Value | 3.4% |
| International | -2.1% |
| Balanced Fund | 3.3% |
| US Govt Bond | -1.2% |
| Corporate A-Rated Bond | -2.5% |

*** Source: The Wall Street Journal**




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# Market & Economic Commentary

Does it make sense to invest anywhere but in the U.S? While the S&P 500 is within 1% of its all-time high, European markets are flat, Chinese stocks are in a deep slump and the Japanese market—after a huge recent run-up—has finally clawed its way back to where it was 27 years ago. Through Aug. 31, the S&P 500 has outperformed international stocks, as measured by the MSCI World ex USA Index, over the past one, three, five, 10, 15, 20, 25, 30, 35, 40 and 45 years, according to AJO, an institutional investment manager in Philadelphia. Had you put $10,000 in each in 1973 and reinvested all your dividends, your U.S. holdings would be worth $1.06 million; your international stocks, $356,000. All those numbers seem to indicate you'd be crazy to diversify internationally. But, in fact, all they signify is that numbers can play tricks on you. It still makes sense to add international stocks to a U.S. portfolio, probably more so than ever. Looking back in time from today, U.S. stocks seem to have dominated over the long run only because they have done so extraordinarily well over the past few years.

Lofted by a strong currency and trillions of dollars of fiscal and monetary stimulus, U.S. stocks rose so swiftly out of the financial crisis that they left the rest of the world behind. That spectacular recovery has obscured the historical record. The U.S. was among the worst-performing stock markets worldwide in the 1970s and the 2000s; it also earned lower returns than the average international market in the 1980s. Over the 10 years ended in December 1986, international stocks outperformed the U.S. by an average of 6.2 percentage points annually; even over the decade through December 2007, U.S. stocks lagged the rest of the world by an annualized average of 3.1 percentage points. No one can say when that might happen again. Chances are it will. Markets tend to lose their dominance right around the time it seems most irresistible. "There have been many historical examples of countries that have risen and then fallen, either their economies or their markets or both," says Marlena Lee, co-head of research at Dimensional Fund Advisors of Austin, Tex., which manages approximately $528 billion. That's far from saying that the U.S. will become the next Japan. "There's no reason to believe that might happen here," says Ms. Lee, "but you don't have to make that call." If U.S. growth merely slows relative to other economies, stock markets elsewhere in the world are likely to catch up to or surpass the S&P 500.

Stocks in the U.S. may be more vulnerable than usual to such a reversal, given how expensive they are. Compared with the rest of the world, U.S. stocks are at their highest valuations on record, according to Bank of America Merrill Lynch—trading for twice as much, as measured by price to net worth, as international shares.
The rest of the world's markets are less dominated, on average, by technology stocks than the U.S. and more focused on cheaper industrial and financial stocks, says Toby Thompson, a multi-asset portfolio manager at T. Rowe Price Group Inc. in Baltimore, which runs $1.1 trillion. The prices of such stocks outside the U.S. are "a lot more compelling," he says. What about the common objection that you can globalize your portfolio simply by holding such multinational U.S. companies as Coca-Cola Co. or Intel Corp. ? Because such firms tend to hedge their exposures to foreign currencies, "what the U.S. economy and stock market are doing tend to overwhelm whatever benefits the companies get from being global," says Mr. Thompson. Although they are multinational businesses, they still behave like U.S. stocks.

The biggest surprise is that individual investors have not abandoned global diversification during this recent period of disappointment. Over the past 10 years, even as U.S. stocks hugely outperformed, mutual-fund and exchange-traded-fund investors took $34 billion out of U.S. funds and added $1.02 trillion to international, according to Fran Kinniry, an investment strategist at Vanguard Group. Historically, investors have chased good returns and run away from bad performance, so "these numbers are kind of crazy," says Mr. Kinniry. "This is incredibly contrarian compared to what we have seen in the past." Individual investors and their financial advisers, say Mr. Kinniry and other fund executives, seem to be adding money to international stocks as a systematic way of taking some money off the table as U.S. shares keep rising. Sooner or later, that's likely to make the so-called dumb money look smart.

**Jason Zweig, The Intelligent Investor, The 'Dumb' Money Is Bailing on U.S. Stocks. That's Smart, WSJ, Sept 29, 2018**



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# On a Personal Note

I left you last month with Alex and Claire arriving in the Big Apple. As you'd expect, they had a busy first month exploring the city, their upper east side neighborhood, and generally adjusting to their new normal. I'd imagine Claire took the lead in transforming their 400 sq. ft. flat into a home suitable for the adventurous young couple they've become. She's loving grad school and her professors who've walked in some pretty exclusive circles from presidential cabinets, to corporate boardrooms. Claire had several options for her year-long Master's program and both she and her future husband couldn't be more pleased with the choice of NYU. As for said future husband, Alex had about six weeks before starting his gig with KPMG and has filled that time with some interesting temp work. The Environmental Defense Fund, Tori Burch, and L'Oréal are now listed on his resume. I wouldn't know a Tori Burch from a Blue Spruce but apparently, they're some fancy fashion company. Alex got to work in their corporate headquarters, helping the handbag team clear out inventory. Dream job for some of you out there, right? He even got to handle some of Tori's "personal" bags … okay, stop screaming, I'll move on. Aside from work and school, the couple have found a new home church and jumped in big. Claire has taken on the role of high school girls youth leader and, not to be outdone, Alex will be leading the middle school boys. Not surprisingly, their involvement has led to many new friendships and will be the impetus for countless future blessings which I will certainly share.

Collin got a big promotion and with it, his first corporate retreat. The company flew him up to Atlanta for a two-day indoc and company update. The kid was beside himself with excitement, "Dad, they're paying for my airplane ticket, hotel room and everything!" My only advice was not to do anything stupid or use alcohol as an anxiolytic. It was an excellent experience for the lad and the first time in his young professional life that he was treated like an adult. After the first day's sessions, he found himself having cocktails with the CFO and CIO. Since he's still employed, I guess it went okay. Of course, we're excited for him but at the same time, I suggested he keep his options open for other post-graduation opportunities, particularly in the area of finance since there just might be a place for him in a Wealth Advisory group I'm pretty familiar with. Just when I'd thought I might have lost him to the real estate sector, the week he returned to his new job, he was tasked with tending to a potential rumble between a group of tenants. On the way to the scene, he was informed that one of the tenants had a firearm. I think I've still got a shot.

I'm going to shift gears and sneak an investment paragraph in with the fluff. Many of you are in our discretionary advisory program. In this capacity, I act as a fiduciary, managing your accounts as if they are my own, making changes as needed. That's what you've hired me for. When building portfolios in this program, I start with a strategic allocation based on your goals, risk-tolerance, and time-horizon. I then use technical analysis to decide whether it makes sense to tilt to the offense or defense. The purpose of this technical overlay is to try and make hay while the sun shines while, giving us to flexibility to get very defensive when market indicators suggest it prudent. Like anything, there are no guarantees but by having a defined process, the goal is to keep us from making decisions based on emotions and headlines. I have recently tweaked my process and models in a manner that I believe will make them nimbler in good times, and have some additional safety valves when things get rough. Those currently in the program don't need to do anything and will see a rebalance on Friday, October 5th. Those of you not in the program can expect a call over the next few weeks. I believe this is the best I've got and as such, I want you aware of the option. For those interested in the nuts and bolts, I will be holding a webinar in the next couple of months to go through the process more thoroughly. Stay tuned for more details.

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

Warmest regards,

Jon

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