



Soundings

What's New - October 2019

Quote of the month:

"Life is not that hard. It's Dale Carnegie. Be honest. Accept your faults. Protect your troops." Jay Leno

I miss the days when you could tune into the Tonight Show to decompress before turning in. You could always count on Johnny Carson and his successor, Jay Leno, to just be funny and keep politics out of their shtick. In fact, you never really knew what side of the aisle they sat. Johnny Carson once said, "I got hate-mail from both sides!" The September 21st edition of the Wall Street Journal had a great story on Leno in its *Gears & Gadgets* column. On relaxing, Leno shares, "It's not that I can't. I don't want to. I'll relax when I have my stroke. I've got a pool that I've never been in. Well, I went in 28 years ago to fix the light." Now that's funny.

With three quarters in the bag, it's been a solid year for stocks. In fact, the S&P 500 has logged its best performance since 1997, just under 19%, according to the Wall Street Journal. There has certainly been no lack of scary headlines but as they say, the markets will often climb the "wall of worry." Just as often, the biggest impediment to our own returns is that we get stuck on that wall. Where we go from here, as always, is unknowable. What I want you to know is that after 20 years of ups and downs, I've got a process in place that effectively takes my considerable emotions out of play.

It's a safe bet that 4 out of 5 financial advisors will recommend the average citizen work with a financial advisor. Numerous studies have documented the benefits and a recent one, conducted by Vanguard, suggests its more than just a numbers thing. In this month's *Market & Economic Commentary*, I've placed a piece from *Financial Advisor* titled, "Nearly Half the Value of Financial Advice is Emotional". It's an interesting read and from my admittedly self-interested experience, rings pretty true. First, the numbers...

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Market Update - Year to Date Returns

Major Indexes

(As of 10/1/19)*

Dow Jones Industrials	15.4%
S&P 500 Index	18.7%
NASDAQ	20.6%
DJ Global ex US	8.9%
Russell 2000 (small cap index)	13.0%
XAU (gold/silver)	25.1%

* Source: The Wall Street Journal

D.A.L.I. Signals - 10/01/2019

Domestic Equities	International Equities	Fixed Income	Commodities	Cash	Currency
300	207	192	158	144	88
27.5%	19.0%	17.6%	14.5%	13.2%	8.1%
(+0)	(+0)	(+0)	(+0)	(+0)	(+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

Nearly half of the value delivered by advisor's is emotional, according to new research. Advisors have long maintained that much of their value is delivered outside a client's investment portfolio, but have lacked clear ways to quantify those impacts they have on client's lives, according to "Assessing the Value of Advice," a new paper published today by Vanguard. "Our results highlight the need for a broader advisory industry investment in value metrics," wrote the report's authors. "These metrics will have to extend beyond traditional portfolio outcomes to encompass broader financial goal attainment and emotional well-being."

Vanguard analyzed the impact of financial advice among more than 100,000 participants in its \$140 billion AUM Vanguard Personal Advisor Services, a hybrid robo-advisor that offers live financial planners to clients engaging in digital advice. Vanguard defined the value of advice along three dimensions: portfolio, financial and emotional. Vanguard measured the impact of advice on portfolio outcomes by studying changes in portfolio diversification among 45,000 clients who had switched from self-directed investing to using an advisor. This research revealed that financial advice usually alters the amount of equity risk for two-thirds of investors: 32% of the study participants had their equity allocation increased by 10% or more, while 34% had equity allocations decreased.

Engaging with an advisor changed the allocation to international investments for 90% of the account holders and reduced cash holdings for 28%. In fact, among the study participants, the average percentage of portfolio holdings in cash dropped from 16% to 1% in the year between six months before the adoption of face-to-face financial advice and six months afterwards. Single-stock risk was "effectively eliminated" for the 10% of investors who had significant positions in single stocks, and about 80% of investors saw an increased allocation to portfolios based on index funds, substantially reducing their investment costs.

For financial outcomes, Vanguard examined whether 105,000 investors who had established a retirement goal were on track using a probabilistic model. Most clients engaging with Vanguard's Personal Advisor Services had a good chance of achieving their stated retirement goals. According to the paper, 80% of the clients with a defined retirement goal had an 80% chance of reaching that goal, while 20% had goals incongruent with their projected levels of retirement resources. Vanguard noticed that these results were highly skewed. The average investor had an 86% chance of achieving their retirement goals. Vanguard translated these results as a possible indication that many clients over-prepare for retirement and have made unnecessary sacrifices in their pre-retirement lifestyles—"living more modestly than they actually need to," as the report put it.

In emotional outcomes, Vanguard attempted to estimate the fraction of an advisor's value that came from emotional elements like trust, connection to the advisor, peace of mind and behavioral coaching. According to a survey of 504 Personal Advisor Services clients, as much as 45% of the total value of an advisory relationship perceived by investors is derived from emotional elements, while the remaining 55% is derived from functional aspects of the relationship like portfolio management and financial planning.

Looking more deeply at the emotional implications of financial advice, clients are deriving the most value from having a relationship with a trusted expert - approximately 55% of the emotional value comes from the mere presence of the advisor-client relationship. Another 28% of the value stems from the protection and assurance that advisors offer, and 7% from planning-related concepts.

When asked about the relative importance of certain expressions of emotional value, the Personal Advisor Services clients ranked trust in their advisor, the monitoring and updating of their financial plan, and the feeling that they are on track to meet their goals as the most important.

Christopher Robbins, "Vanguard: Nearly Half of the Value of Financial Advice is Emotional", Financial Advisor Magazine, Sept 16, 2019

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On a Personal Note

The year was 1995. I was 9 years into the Navy, 2 years into my marriage. Flying helicopters was a kick. Throw in the travel and you've got an unbeatable lifestyle for a young single man. Add a wife and new son and it's a whole new ballgame. I was at what a pilot calls a "go/no-go" point and I chose go. Next came the scary part...job search. A Marine Corps friend had done the same a year earlier and landed a job in pharmaceutical sales. After conferring with my old pal, I was all-in. I worked several angles and managed to score an interview with a regional manager for major player in the industry. In the interview, I let it be known that I'd go anywhere for the opportunity to work for this firm. Helloooooo western Kentucky. My toughest sales pitch was convincing Kathleen to stay with me long enough to get us back to Florida. As you know, it all worked out, and last month, I made my first return visit to the birth state of Abraham Lincoln and our son Collin. Had a great time at the Land between the Lakes Dual Sport motorcycle event outside of Cadiz, KY. No injuries or break downs and great weather for camping made for an excellent outing. Kathleen stayed home. In the case of the Bluegrass sate, absence did not make the heart grow fonder. Okay, maybe it was the camping. ;)

Our niece Sarah found that sometimes, the best way to get ahead is to marry one. We were honored to host Mr. & Mrs. Derek Head's wedding reception in our backyard last month. Believe it or not, the couple initially met through Facebook. Seeing they had a mutual friend (Sarah's step-brother, Wesley) he took the site's suggestion to send our pretty niece a friend request. Was it love at first click? Not quite. Sarah's not just a pretty face. She did her research before accepting. Clicked on his profile, she couldn't help but notice picture after picture of his two beautiful daughters, Gracie (7) and Nora (2 ½). Upon further investigation, she learned that he was a solid, principled, hard-working, family-man, a USAF veteran crew chief, currently serving in the reserves. Due diligence complete, next came the scary part...sending a message. I always say, "no guts, no glory" and Sarah, never short on guts, hit "send". One week, hours of Facetime, talking on the phone, and countless texts later, Derek was on the road from his digs in Thomasville, Georgia for their first date. You could say it went pretty well. Exactly six months later, he popped the question at a family event that I wrote about at the time. As Sarah said, "Derek fit right into our family like the missing piece I never thought I'd find. He's simply my person." We couldn't agree more and are absolutely thrilled to have him join the chaos. As an added bonus to an already blessed occasion, our very own newlyweds made the trip from New York city to share in the festivities. Alex and Claire are doing great! Working hard, playing occasionally, and taking in all that life in the city that never sleeps has to offer. As for them, they didn't emerge from their room till after 10:00 so I guess they were catching up on some lost zzzzz's. No judgement, it was wonderful to see them. We got them for just under a week. Claire just landed a new job that hadn't yet started and Alex was able to work remotely so he burned almost no vacation time. Great stuff.

If you are really, really observant, you might have noticed another Kagan in the footer of this letterhead. It's official, Collin is a financial advisor. He passed his 4th and final exam and is now a fully-licensed part of the team. Sandy and I couldn't be more excited (Collin's pretty tickled himself). He's already fit in like one of the better fingers of a glove. It is true. There is no substitute for experience. After 20 years and two once-in-a-lifetime market corrections, there's not a lot that surprises me. That said, technology is changing so quickly these days and the lubrication between my neural synapses is not as fresh as it used to be. There's a lot to be said for new blood and millennials who've grown up in the digital-age. Collin will be both my Chief Technology Officer and Chief Marketing Officer. I've always said that I am never retiring and bringing my son onboard has made me even less likely to fade into the sunset. I'm more energized than ever and have shifted into growth mode now that I have an extra teammate and added capacity. For those interested, we're working on a series of educational webinars where you'll be able to participate from the comfort of your lazy boy and fuzzy pants. Stay tuned.

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

Warmest regards, *Jon*

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