Soundings

What's New – September 2018

Quote of the month:

"I am looking for a lot of men who have an infinite capacity to not know what can't be done" Henry Ford

Double negatives aside, what a worthy quest. I guess you'd call that quality *drive*, kind of punny considering the quote-smith. Software developer Bud Tribble, in describing Steve Jobs' ability to get those around him to accomplish the seemingly impossible, used the term *reality distortion field*, stolen from an old episode of Star Trek. Life's all about balance. Don't get me wrong, "smarts" is a good quality, but give me someone with a good dose of common-sense, grit, and drive and there's almost nothing we can't get done.

Florida weather and the financial markets have something in common when it comes to the month of August. Both are often miserable. As for the markets, that was not the case this year, at least domestically. The same can not be said for international equities which continue to take a drubbing as trade talks grind on. Trumpian negotiation often gets ugliest just before an ultimate resolution so it would be a mistake to abandon the overseas markets at this point. Financially speaking, the only month historically worse than August is September but the underlying economy and market technical picture is so strong, I wouldn't bet on precedent this year.

He may sound a bit like a grumpy old man, but Leon's earned the right. A close friend of RJ Jeff Saut, Mr. Tuey has seen a few things in his many decades of following the markets. He's retired now but Jeff gives us a taste of Leon's insight in this month's ***Market & Economic Commentary.*** It's an educational and entertaining read. First, the numbers…

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Market Update – Year to Date Returns

Major Stock Indexes	(As of 9/01/2018)*
Dow Jones Industrials	5.0%
S&P 500 Index	8.5%
NASDAQ	17.5%
DJ Global ex US	-5.6%
Russell 2000 (small cap index)	13.4%
XAU (gold/silver)	-22.3%
Major Bond Indexes	
Broad Market – Barclays Capital Aggregate	-1.0%
High Yield Corporate - Barclays Capital	1.5%
Municipal Bond - Barclays Capital	0.2%
Lipper Mutual Fund Categories	
Large Cap Growth	16.6%
Large Cap Value	5.1%
Small Cap Growth	22.0%
Small Cap Value	7.2%
International	-2.3%
Balanced Fund	3.5%
US Govt Bond	-0.4%
Corporate A-Rated Bond	-2.2%

*** 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 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.
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Market & Economic Commentary

This morning, we are sharing this week's missive from our pal Leon Tuey. Leon writes: Investors have to be impressed by the market's ability to ignore "bad news." But, then again, the market always climbs a wall of worry. From late 2008 to date, investors have been bombarded with black headlines – Global Depression, China, Fed Tightening, Russian Collusion, Trade War, Turkey. As the market climbs, the doomsayers become more numerous and more vociferous, but all fall on deaf ears as the market kept heading in a northeasterly direction. Why? Because earnings continued to improve and thanks to the Fed, earnings will continue to improve in the months and years ahead. That is what drives stock prices, earnings momentum, not headlines or P/E.

Why the motormouths on Wall Street have so much trouble predicting the market's direction is difficult to comprehend. All they need is a clear understanding of the market's logic, the economic cause/effect relationships that drive the markets. They need to have an understanding and appreciation of the mandate of the Fed. As pointed out on numerous occasions, one of the key mandates for the Fed is to "maintain orderly economic growth and price stability." It's a dual mandate and it is statutory. The only other thing they need to remember is that the stock market is a leading economic indicator; the economy does not lead the stock market. When the economy slows and heads into a recession, investors don't need an IQ of Mensa to know what action the Fed will take; the Fed will use all means at their disposal to turn the economy around. If it doesn't work, they will keep easing until the economy responds. The market being a leading economic indicator, therefore, always bottoms six to nine months before a recovery begins, not after.

Conversely, when the economy overheats; inflation surges; and speculation is rampant, the Fed will tighten monetary policy by raising the Discount Rate multiple times in succession; by draining liquidity from the system; and invert the Classic Yield Curve. The market, being a leading economic indicator will have peaked and started to head south long before the onset of a slowdown or a recession. This is like night follows day. Yet, this simple logic escapes most on Wall Street. Anyone with an IQ slightly above room temperature would understand this.

Last week, "the market" reached another record high. "Not so!" growl the bears. No doubt, they will point out that the S&P 500 Index and the Dow Jones Industrial Average have not exceeded their respective January high. Clearly, they don't know which end is up. These are the same folks who were certain that a bear market commenced in February, 2016, right at the bottom of the correction and a powerful rally ensued. In February of this year, they all thought the world was going to end, again.

If they take their eyeballs off the major market averages; look at "the market;" try to understand the market's logic; and stop reacting to the headlines, they will see the world differently. Take a gander at the various internal measures. Last week, the following Advance-Decline Lines closed at record highs - SPX, DOW, NYSE, NYSE Common Stock Only, S&P Mid-Cap, and S&P Small-Cap. These A-D Lines tell investors more about "the market" than any market index. Given their bullish action, investors can absolutely be certain that the S&P and the Dow, too, will see record highs.

Make no mistake, Ladies and Gentlemen. You are witnessing the greatest bull market on record and the best is yet to come. Despite its longevity, this bull remains a calf. Stay invested. One of the biggest mistake investors make is selling too soon in a bull market, particularly in a market such as this. Earlier this year, many talking heads felt that the market has seen its high for the year and some even declared that a bear market had commenced. What bear market? Given their lousy track record, one wonders how they even have a job. Thankfully, they are not in the medical profession. As mentioned before, if these talking heads expend some effort trying to understand the market's logic instead of flapping their gums incessantly, they would improve their performance. Ignorance is bliss, I suppose. What about the Dow Jones Industrial Average and the S&P? Rest assured, they, too, will reach record highs. Thanks Leon. **Jeff Saut, Chief Market Strategist, "Leon Tuey Speaks", Morning Tack, Aug 24, 2018**

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On a Personal Note

Labor Day has come and gone and with its passing, my white jeans have been locked away for the season…thank goodness for my plaid corduroys. We've got a big Autumn in store. In just over 46 days, our son Alex will make an honest woman out of Claire Carpenter. She really doesn't need any help and I posit that she's getting the short end of the stick but details aside, we're very excited.

The couple has made their big move to Gotham City and have pretty much settled into their new digs. A few weeks back, they hopped on a plane in Denver with 5 loaded duffel bags representing all of their worldly possessions, arriving in the big apple after midnight. An Uber ride to the Air BnB and five flights of stairs later, they'd arrived. Alex had been set up with a real estate agent, vetted by his new employer, and after a good night's rest, they got busy hunting some permanent digs. You might've heard that real estate in NYC can be a bit pricey. It also moves at lightning speed. The two had been scouring the internet for months, getting a feel for flats they could afford so they had a good idea of where and what they'd like to call home. They also learned that pictures on the internet can be deceiving and what they saw up close and personal was a bit of a letdown until they walked into what would end up being "the one". Their little slice of paradise is a second story unit, just under 400 square feet, in the upper east side on 78th and York. A rarity for a pad that size, they have 3 windows and an abundance of natural light, new appliances, and a clean bathroom. And perched above a Chinese restaurant, they've got built-in dinner for those nights they're too tired to throw some chicken on the George Foreman grill.

Kathleen and I haven't been sitting around waiting for our kid to get married. We've enjoyed the heck out of this empty nest thing and took advantage of our freedom (we don't even own a fish) with a trip to the wild west. I loaded up the motorcycle and set off early on the morning of Kathleen's birthday…double nickels if you're wondering. I went wide open for two days and picked up my bride in Albuquerque on a Saturday morning. It was Kathleen's first self-contained motorbike trip (all of the stuff we'd need for a week of travel, packed onto the bike (including Kathleen's shoes!) I've got to say it was wildly successful. Colorado is breathtaking, and not like the baby in the Seinfeld episode. The spectacular beauty and grandeur of the Rocky Mountains actually releases endorphins. We saw our first bear, up close and fairly personal, as it ran across the road in front of us on the morning we rode to Black Canyon of the Gunnison National Park in Montrose. The weather cooperated in a big way. In fact it was about perfect with morning lows in the upper 50's and afternoon highs in the low 80's, no humidity…I think God is from Colorado (Western because I hear he doesn't like traffic). We spent our time along the highway 550 corridor, from Durango to Montrose and it was wonderful. I took Kathleen off-road, across the Ophir Pass (elevation 11,789 feet) which links Hwy 550 just north of Silverton, to the historic mining community of Ophir, just south of Telluride. It was pretty epic and you can check out a video overview on YouTube at https://www.youtube.com/watch?v=TSc8c1yiMak.

So I don't get accused of playing favorites, Collin had a busy month as well. I was hoping the lad would come home for a couple weeks and spend some time with me at the office. He's a finance major and will be graduating a semester early, just a couple months after his brother gets hitched. I wanted to get him excited about what a future career could look like. Alas, it wasn't meant to be. Turned out, he became a victim of his own success. As you know, he's been working as a Leasing Ambassador at the apartment complex where he resides. Apparently, his problem-solving and customer relations skills have been noticed by the higher ups. He was called into the big boss's office a few weeks back and as his father's son, expected the worst. He walked out with a new job, Sales Manager, which included a sporty raise. All those beatings seem to have paid off.

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

Warmest regards, *Jon*

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