



Soundings

What's New - May 2020

Quote of the month:

“Every bad situation, every mishap, misfortune, and every accident is a lesson, not a punishment. Engle

I get it Engle. What doesn't kill us makes us stronger. Well the past few months have been a heck of a workout, haven't they? Do you feel stronger? I do. I've put more time, thought and energy into my research and study. I've focused on what is in my control, and done my best to avoid negativity and panic-peddling. I've kept up my exercise program, tried to eat right, fed my spiritual side, and yes, thank you John Barleycorn. Every day brings us closer to the other side of this thing. Hang tough, be well, and take in the lessons as they present themselves.

As ugly as the markets have been year to date, April brought more than Spring flowers. The markets caught some traction and had a nice bounce. Buoyed by unprecedented stimulus, signs that the virus has likely peaked in many places, positive developments on the therapeutic front, and the beginning of a global reopening, your April investment statements should bring a pleasant surprise. We are by no means out of the woods. We will see additional downs along with the ups, that's just a part of life, but those who can take a longer view (and that should be all of us) should look to the future with optimism.

In this month's *Market & Economic Commentary*, I've placed a piece from Raymond James Chief Investment Officer, Larry Adam. Published on National School Principal's Day, he begins with praise for our educators. He then goes on to present a cogent analysis of where we are, where we could be heading, and what needs to happen to really get us moving. It's a solid piece that's worth a read and I encourage you to check it out. 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 Indexes</u>	<u>(As of 05/01/20)*</u>
Dow Jones Industrials	-14.7%
S&P 500 Index	-9.9%
NASDAQ	-0.9%
DJ Global ex US	-18.4%
Russell 2000 (small cap index)	-21.5%
Barclays Capital Aggregate Index (Bonds)	4.2%
XAU (gold/silver)	6.3%

* Source: The Wall Street Journal

D.A.L.I. Signals - 05/01/2020

[D.A.L.I. Page](#)

Cash	Fixed Income	Dom. Equities	Currency	Commod	Int'l Equities
259	258	190	186	112	82
23.8%	23.7%	17.5%	17.1%	10.3%	7.5%
(+0)	(+0)	(+1)	(+0)	(-1)	(+0)

Source: Nasdaq Dorsey Wright

- 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.
- 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

Today is National School Principal's Day! We are always grateful for our nation's educators, but with more than 50 million children out of school due to COVID-19, we are especially thankful for their efforts to provide students with distance learning. The unprecedented nature of the virus has challenged the school of economic and investment thought, and the unknown magnitude and duration has posed obstacles in formulating a concrete outlook. As any teacher knows, great students ask great questions, but the same could be said of any thoughtful investor. When it comes to the equity market, investors are questioning if the recent rally is inconsistent with the economic downturn and wondering what catalysts have the potential to propel it further in the long term.

- **Knowledge Is Power: The Stock Market Is Not The Economy** | Simply put: a robust economy drives earnings growth, and earnings growth propels equity prices and vice versa. But in understanding the recent market rally, it is important to recall that the equity market is a forward-looking indicator. In fact, history suggests the market bottoms ~4 months before a recession ends. So, this rally is looking at the prospects for the economy four months hence in August—a time period that could experience steady improvement.
- **Size** | S&P 500 companies only represent 500 of the more than 28 million companies in the US economy. In addition, small businesses make up 48% of people employed and the industries where small business employment dominates—agriculture, construction, real estate and entertainment— have been hampered by the lockdown.
- **Sector Composition** | The three largest sectors of the S&P 500—Information Technology, Health Care, and Communication Services—represent 52% of the index's market capitalization and have been more resilient to the lockdown. In comparison, the US economy has only a 17% weighting to those sectors and more exposure to more sensitive areas like business services, real estate, and manufacturing that have all been hit hard by the shutdown.
- **The New Consumer** | When you hear the negative headlines about the shutdowns of department stores, leisure, home furnishings, casinos, auto manufacturers, hotels, and homebuilders, remember that they make up ~1% of the S&P 500. So, while these are a big part of our daily lives, they are a very small portion of the S&P 500. In the Consumer Discretionary sector, e-commerce and home improvement companies, which have been more resilient, make up over half (~57%) of the sector.
- **Favorable Financing** | Due to the size and quality of the average constituent in the index—~90% of the S&P 500 is rated investment grade—these companies have more favorable financing dynamics than small businesses.
- **Catalysts To Help The Market 'Make The Grade'** | When market volatility was at record highs and the S&P 500 was down ~34%, we compiled a list of four market catalysts that we believed could help the S&P 500 rally and move back toward the 3,000 level. With favorable developments in three of the four catalysts already driving the market higher, the upward ascent is likely to slow.

1. **The Fed** | From quantitative easing to substantial lending, the Federal Reserve's accomplishments are well known. In an effort to further ease the markets this week, Chair Powell stated that current interest rate levels will be maintained until the economy is better positioned to reach the employment and inflation goals set forth by the Fed. He also signaled that the Fed will likely take more action as needed when additional concerns come to light.

2. **Congress** | Congress has passed ~\$2.7 trillion in fiscal stimulus, which has helped to mitigate the downside risk to the economy. Although the budget deficit is expected to widen to 15%+, current discussions surrounding the need for additional state aid lead us to believe that this won't prohibit our elected officials from taking further action.

3. **Biotech & Big Pharma** | A reliable therapeutic or vaccine would accelerate the return to economic and social normalcy. This week's favorable data from the Remdesivir trials helped fuel equity gains as investors were optimistic that this and other medical advancements will become a reality to help combat the virus.

4. **Nightly News** | News outlets are still captivated by the COVID-19 outbreak—still comprising ~90% of the news coverage. Further declines in the coverage would likely be a sign we are returning to normalcy with an opened economy. **Larry Adam, RJA CIO, "Weekly Investment Strategy", RJA Market & Investment Commentary, May 1, 2020**

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On a Personal Note

Everyone has settled into their own routine during these crazy times of social distancing. My wife's has been quite unique. She's become a painter. I'm not talking about easels, and there are no nude models or staged bowls of fruit in the picture. Kathleen's painting projects have been the kind that tend to get ignored in normal times. She started with all of the exterior doors, upstairs and down. Beautiful job, really gave a "pop" to the place. A week later, the garage(s) got cleaned, organized, and the walls dressed up with colors leftover from prior year's interior painting projects. This was no small feat. We're on pilings, so our garage real estate is the same square footage as the rest of the house. A week ago, she warned me, "If you sit there too long, I just might paint you." I sprinted off to the office.

I think you all know that I love my wife more than anything in the universe. I offered nothing but encouragement for her projects. Why wouldn't I? The garage is my sanctuary and now it's newly organized and "pretty" to boot. Then came a twist. There's a spot in the garage ceiling, about 4 square feet, that needs repair. Many years back, we had a leak from the kid's bathtub above. We repaired the bathtub and I removed the ceiling drywall below but have yet to complete the repair. It's purely cosmetic and until now, it's just not that important to me. It is now very much on Kathleen's radar and recently made it onto my "to do" list. Again, I love my wife more than life itself, and really want her to be happy, so I "Googled" ceiling repair. I found a pretty solid video with a fix that is within my skill level but it will be a full weekend commitment. There's the rub. My world has been a bit more stressful than usual as of late and I credit my sanity with regular weekend doses of "moto-therapy". I can say with the utmost of certainty that a weekend of ceiling drywall repair would have the exact opposite therapeutic effect and just the thought of it triggered a major bout of PTSD (Pre-Traumatic Stress Disorder). But I had an idea.

Kathleen and I have been married for over 26 years. At this point, holidays that require a gift, get a nice dinner out and maybe some flowers. If it's really special, both. Easy stuff, not much commitment in time and effort other than throwing down the plastic. While working on my motorcycle in my newly "prettified" sanctuary, I had a truly brilliant idea that I couldn't wait to share. I bolted upstairs and told my much better half that I was indeed going to fix the ceiling for her. But I wasn't going to do it that weekend. I'd do it in a couple of weeks and it would be her Mother's Day present. Just when you thought you knew your wife.

Finally, I asked Collin to share his perspective on this unprecedented time. Here are his words.

Baptism by fire (phrase); a person or employee who is learning something the hard way through a challenge or difficulty. Just a few short months ago, my Dad and I were talking about how great it was that I joined the team when I did. The markets and sentiment were at all-time highs. Client meetings were so upbeat and fun, we were coming off a really great year and there was no reason to think things would be changing anytime soon. My dad let me know that it's not always this peachy. "Just wait till you see a recession. That's when we earn our keep." I shook my head but really didn't give it much thought. We all know what happened next. As stressful as it's been, it's turned into one of the most valuable lessons I could have ever hoped for. We hunkered down with our research, dug into our process, made adjustments to portfolios as the data dictated. I learned more in two months on the job than in all four years of business school. I think I got my first gray hair, and I'm barely 23! But it was an amazing feeling. Our clients (you guys) were surprisingly, pretty calm. We even got emails, calls, and a couple letters telling US to keep the faith. It made me know, more than ever, that I made the right choice in coming to work with my dad, and for all of you. Thank you for your acceptance and your trust. Like Sandy and my dad, I do not take it lightly and every day I step into the office, I strive to be the best servant that I can to all of you. All my best, Collin.

Warmest regards,



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