SOUNDSIDE
WEALTH ADVISORS

Soundings

What's New – July 2017

Quote of the month:
"Life is like riding a bicycle. To keep your balance, you must keep moving."
Albert Einstein

Great advice from a fellow certainly qualified to dole it out. And he's right on target. Is it me or do you also notice that just when you think you've got it licked, the forces of the universe let you know, "not so fast, big fella". I've come to the conclusion that we are designed to always be working towards something more, both for our own development and for the greater community. The best case is when those paths intersect. If you haven't figured your place, keep moving, it's out there looking for you.

As crazy as it seems, we're halfway through the year. Most of you have probably noticed from your monthly investment statements, it's been a nice one so far. For those living "off the grid" in a shack in the woods, we've got a new administration. The initial market "bump" bore his name. That said, the real reason for the market gains has less to do with potential policy changes and more to do with a real live earnings recovery, both here and abroad, chronicled in our weekly updates. As such, what's "worked" this year is quite different from what worked in 2016. Large, "growthy" companies have been in, defensive plays out. And markets overseas have taken leadership for the first time in nearly a decade. As for the economy, according to the Bureau of Labor Statistics, unemployment is down to 4.3%, and inflation inching towards the Fed's goal of 2%, giving the FOMC the ability to start to normalize interest rates, and wind down their balance sheet.

So where do we go from here? It's a question always on the mind of Raymond James Chief Economist, Dr. Scott Brown. You can read his thoughts in this month's ***Market & Economic Commentary.*** First, to the numbers…

Market Update – Year to Date Returns

Major Stock Indexes	(As of 7/1/2017)*
Dow Jones Industrials	8.0%
S&P 500 Index	8.2%
NASDAQ	14.1%
DJ Global ex US	12.6%
Russell 2000 (small cap index)	4.3%
XAU (gold/silver)	2.4%
Major Bond Indexes	
Broad Market – Barclays Capital Aggregate	2.3%
High Yield Corporate - Barclays Capital	4.4%
Municipal Bond - Barclays Capital	3.2%
Lipper Mutual Fund Categories	
Large Cap Growth	17.4%
Large Cap Value	5.6%
Small Cap Growth	10.4%
Small Cap Value	0.7%
International	15.2%
Balanced Fund	6.9%
US Govt Bond	1.5%
Corporate A-Rated Bond	3.7%

*** 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.
- 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 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. The process of rebalancing may result in tax consequences.
- Opinions expressed in the Market Commentary are those of Dr. Scott Brown and should be considered a part of your overall decision-making process. For more information about this report – to discuss how this outlook may affect your personal situation and/or to learn how this insight may be incorporated into your investment strategy – please contact your financial advisor. All opinions are as of this date and are subject to change without notice.

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Market & Economic Commentary

Recent economic data reports have helped to fill in the picture of the economy in the first half of the year. However, investors should be more concerned with the prospects for the second half of the year. No surprise, economic expectations remain sharply divided along political lines. Optimists and pessimists should both be wrong, as the economy muddles along in the second half.

Real GDP growth rose at a 1.4% annual rate in the 3rd estimate for 1Q17, up from 1.2% in the 2nd estimate and +0.7% in the advance estimate. Most of the upward revision to growth was in consumer spending (which accounts for nearly 70% of GDP), and most of that was in healthcare (detailed figures on services are reported with a lag). Higher gasoline prices also had a dampening effect on spending in 1Q17, but lower prices at the pump should provide some support in the near term. Business fixed investment, at a 10.4% annual rate, was not quite as strong as estimated earlier, but 41% of that surge was due to a partial rebound in oil and gas well drilling. Lower oil prices are likely to dampen the recovery in energy exploration. Monthly data on capital goods orders and shipments point to a more moderate pace of business investment in the second quarter. Inventory growth slowed sharply in the first quarter, subtracting 1.1 percentage points from headline GDP growth, and a rebound was expected to add significantly to second quarter GDP growth. However, while we have an incomplete picture, the pace of inventory growth does not appear to have picked up much in 2Q17. Imports and exports both rose in the first quarter, but improvement appears to have stalled somewhat more recently. Putting it all together, GDP growth for the first half of the year is likely to have been about 2%, roughly in line with the trend of the last few years and consistent with the labor market dynamics (a reduction of slack, but also reflecting slower labor force growth). Note that this view is based on current information. Monthly figures are subject to revision and annual benchmark revisions to the National Income and Product Accounts will arrive on July 28.

While stock market participants remain optimistic, the Trump agenda is facing some pressures. Large-scale infrastructure spending would be supportive, if we were in a recession and it were financed by deficit spending, but what we have so far (privatization of air-traffic control) isn't much. The repeal and replacement of the Affordable Care Act has been a precursor to tax reform, but tax reform is inherently difficult (as nobody wants to give up their tax breaks). Congress should still be able to cut tax rates later this year, but on a much smaller scale than was hoped for earlier. The budget and the debt ceiling should be easily surmountable hurdles, but you never know.

One of the main worries has been a possible misstep on foreign trade. The White House is reported to be close to stepping up trade conflicts. Economists on the left and right are horrified about the possibility of a trade war and rightly so. The focus on trade deficits with specific countries is misguided and dangerous. Already, some firms are reportedly looking to secure alternative supply chains (at added expense).

Federal Reserve policy is also prone to errors. While the Fed has made progress on normalization, the current policy stance is still accommodative. That's harder to justify given the tightness in job market conditions -- hence, a consensus to continue raising short-term interest rates in the months and quarters ahead. Balance sheet reduction is expected to begin by the end of the year, most likely in October, and the Fed has indicated that this will start slowly. Inflation figures were heating up at the start of the year, but have since rolled back. It's well known that monetary policy affects the economy with a long and variable lag. Mistakes are always possible, but the balance of information (credit still expanding, tighter job market) suggests that the Fed is on the right track.

In the end, the optimists may be disappointed with the pace of growth, which will be limited by a tighter job market. At the same time, the pessimistic view appears to be overdone, at least in the near term. With the little amount of remaining labor market slack being taken up, there's room for a bit better GDP growth in the second half, but not much beyond 2%.

Scott Brown, Raymond James Chief Economist, The second half outlook: more of the same?, RJ Weekly Economic Commentary, July 3, 2017

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On a Personal Note

Life is all about math. It's obvious from a financial planning standpoint, but you can carry it out to so many other areas. A few weeks back I became frustrated by the fact that my "winter-weight" didn't quite understand that we'd transitioned to pre-summer. When the extra 5-8 pounds that I carry to make it through the frigid couple months in northwest Florida where we actually set the furnace to heat, decided to stick around, I contemplated two options. Throw in the towel and chock it up to old age, or, go full-tilt Atkins diet for a month or so and get back to fighting shape. The more I thought about it, the less appealing both options. I'm not a quitter so the first choice was out, and sadly, I like my evening toddy too much to go carb-less. I landed on "math". Several years back, I'd read about the app, My Fitness Pal. It's basically an accountability buddy, like a Weight Watchers meeting on your phone. You start by telling it your story. How much do you weigh? How much do you want to weigh? How much weight would you like to lose per week? (recommended amount is 1 lb.) What kind of lifestyle do you have? (sitting at a desk all day, mine is "sedentary") When you're done with the questions, hitting enter will give you your maximum calories per day. From there on out, it's just a matter of math. You enter everything that goes into your pie-hole as well as all your exercise and boom, if you're honest, and stay within your limit, you experience the math of weight loss – it's magic! So far, so good. It's made me exercise even when I didn't want to. Out of calories before my evening toddy, time for a walk. The good news is there's an app for the exercise piece as well. Check out Fitstar…and they even talk to each other.

There are Hallmark holidays, the kind manufactured to sell seven dollar cards and neckties, and then there's Father's Day. Both having one and being one, it might be a bit self-serving, but I think Father's Day (and Mother's Day!) are the real deal. This past Father's Day really hit home. My son Alex came home for a couple days, once again with his girlfriend Claire. Great time as always and I even got some excellent one-on-one time with the lad. My first-born has always been the strong silent type. As a dad in search of clues of his son's larger plan, in the absence of extraneous conversation, I admit I will sometimes assume it's not very detailed. Well wouldn't you know it, the kid's got all sorts of stuff swirling around in that grape of his. The conversion of his bedroom will continue. I also called my own pop. I've written of our history. At times, it's been a cross between the trenches of World War I, Little Big Horn, and Gettysburg. We're at a really great place right now. We had an excellent chat, stayed safe, update on the kids and their exploits. I got thinking after hanging up, as good as it was to talk with the old man, ***what*** we said was unimportant. The importance was that we spoke. I know that I will look back in a week and not have a clue what we talked about. (Have you seen my car keys?) That said, I will remember how great I felt afterwards for months to come and I think I can say the same for my pop. You know where I'm going with this. I will once again suggest, if there is someone in your life who was important to you with whom you've lost touch, particularly if you share a strand or two of DNA, why not reach out. One day, it won't be possible.

There was no June home-coming for Collin. It's all summer classes and working for my #2 son. He's got the starving student thing down pat and began the month staring into a low two-figure balance in his checking account. I respect the fact that he'd rather bob for wormy apples than call his crusty old dad for cash. No worries. It was a good lesson in Budgeting 101; ramen noodles, cheap beer, and shopping at ALDI. Nice thing is, Florida provides the opportunity for lots of low-budget outdoor adventure as my kid shares his old man's need to regularly exercise his adrenalin pumps. Collin and a buddy took a trip out to Itchetucknee Springs State Park, about thirty minutes north of Gainesville. They floated in the natural springs and drifted down a spring fed river for a few relaxing miles. Before you feel too sorry for my deprived son, he's getting ready to take a trip to the Abacos Islands in the Bahamas. He was invited by a buddy to join in on their summer family trip. They're pushing off from the pier tomorrow morning to make the 90 mile cruise on their 29 foot motorboat. The weather forecast is a bit sketchy so the excitement will start early. Tune in next month for another episode of the Adventures of a Broke College Kid. I'll let you know if it included anyone named Gilligan.

As always, I hope you're enjoying each day as it comes. Warmest regards, *Jon*

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