



Soundings

What's New – April 2017

Quote of the month:

“You only have to do a very few things right in your life so long as you don’t do too many things wrong” Warren Buffett

True statement from the oracle of Omaha. Some corollaries: It only takes one “Oh sh#t” to wipe out 10 attaboys (my boys have heard that one a time or two!); If you manage the risks, the returns take care of themselves. When it comes to investing, all of the above can be tied to having a clearly defined process. Few areas in our lives have more emotional attachment than our money. That opens the door for all sorts of peril when it comes to its management. Enter process. Having a disciplined investment process that we can turn to when things are going well and not-so-well is the best tonic to counter our natural emotional tendencies. Call me if you need a refresher.

The first chapter of 2017 is closed and so far, it’s been a good read. The post-election rally continued with the Dow up more than 4½%. But it’s notable that sector leadership has been changing and don’t look now, but markets overseas have continued to wake up. Based on the data, we’ve made some changes to our tactical models that we hope will take advantage of the evolving trends. We’ve also seen an unusual calm, with the Volatility Index, known as Wall Street’s “fear gauge,” posting its second-lowest quarterly average on record. Don’t be surprised, or alarmed, if volatility picks up.

Many in the financial press are quick to point out that the current bull market is a little long in the tooth. Others suggest that bull markets don’t die of old age. Barry Ritholtz makes an interesting case and addresses both in this month’s ***Market and Economic Commentary***. It’s worth a read. First, to the numbers...

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Market Update – Year to Date Returns

<u>Major Stock Indexes</u>	<u>(As of 4/1/2017)*</u>
Dow Jones Industrials	4.6%
S&P 500 Index	5.5%
NASDAQ	9.8%
DJ Global ex US	7.4%
Russell 2000 (small cap index)	2.1%
XAU (gold/silver)	6.2%
 <u>Major Bond Indexes</u>	
Broad Market – Barclays Capital Aggregate	0.8%
High Yield Corporate - Barclays Capital	2.3%
Municipal Bond - Barclays Capital	1.3%
 <u>Lipper Mutual Fund Categories</u>	
Large Cap Growth	10.3%
Large Cap Value	3.4%
Small Cap Growth	6.3%
Small Cap Value	0.6%
International	8.1%
Balanced Fund	4.2%
US Govt Bond	0.6%
Corporate A-Rated Bond	1.3%

*** 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 of 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 Barry Ritholtz and not necessarily those of Raymond James. All opinions are as of this date and are subject to change without notice.

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Market & Economic Commentary

To committed readers of the financial press, it was almost impossible to miss the proclamations that a milestone had been passed: The bull market, as of last week, was eight years old. This formulation is wrong, since it misconstrues the definition of a bull market. Rather than saying that the bull market is celebrating its eighth birthday, what we really are observing is the eighth anniversary of the bear-market lows.

The age of a bull market has important ramifications. Understanding if we are in the second, third, fourth or eighth year of a market cycle is a pretty big deal. The age of a bull isn't about picayune definitions; nor is it a rationalization for a pricey stock market. Rather, this is an attempt to provide some precision, accuracy and clarity as a counterpoint to lazy market commentary.

With that insufferable preamble out of the way, let's move on to a different, but intriguing question: How long was the 1982-2000 bull market? Warning: This is a trick question. The obvious answer is 18 years — at least that's the answer I would give. But as you heard throughout your high school math classes, the answer isn't all that matters — it's how you got to it. "Show your work" was exhorted on every calculus exam you took. It applies here as well.

My position on market cycles is as follows: Secular bull markets — versus cyclical rallies and sell-offs — begin when indexes surpass earlier highs. Thus, in 1982, when the Dow Jones eclipsed 1,000 on a permanent basis, is when we mark the beginning of that epic 18-year bull market. Why is this important? Understanding how old a bull market is may very likely affect your expectations of future returns, your risk appetite, even your investment allocations. Misunderstanding when a bull market began is potentially a very expensive error to make.

Charlie Munger exhorts constantly to "Invert, always invert." Let's follow his advice and see what happens if we agree with the suggestion that the bull market is eight years old. If you do that, though, you must make similar assumptions about other bull markets of the past century. Consider what this does to the historical examples. It means that the 1982-2000 bull market actually lasted 26 years, starting with the 1974 bear-market bottom. If you speak to people who were working on Wall Street in the 1970s, none of them will tell you that period felt like bull market — because it wasn't. But that's the date you need to use to be consistent with those who say this bull market is eight years old. Now, almost everyone knows that earlier bull market didn't last that long.

Let's look at another historical example: the secular bull market that tracked the postwar period from 1946 to 1966. How long was that bull market? Obviously, the answer is 20 years. But if you apply the same reasoning that leads someone to say today's bull market is eight years old, then that rally would have lasted 34 years, perversely beginning in 1932. Again, I don't think anyone who lived through the Great Depression would say that it coincided with a bull market.

So let's be consistent. As I wrote in February 2013, a breakout to new highs would mark the end of the bear market, and the beginning of a new bull market. That seems to have occurred and that is the more appropriate start date for this bull market. In other words, this bull market looks like it's four years old.

Definitions matter. There is a big difference between cyclical bull markets, bear market rallies and corrections within a secular bull market. Understanding this can make all the difference in the world.

Barry Ritholtz, Why this bull market's real age matters, Financial Planning, March 14, 2017

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On a Personal Note

With the arrival of spring comes the eponymous college break and we got to see the boys for a week or so. Collin and I got in a little motorcycle time - no campout, but the hour drive in the truck to the ride site gave us plenty of time to catch up on his latest tales and exploits. The lad is certainly keeping busy. Between his classwork, job, and the occasional surf excursion, his dance card is jam-packed. He did manage to sneak in an early spring break camping trip down south to Florida's biggest lake. And it was not just your ordinary campout. Collin and some pals took in the 2nd annual Okeechobee Music and Arts Festival. They caught their own mini Woodstock, without the rain, mud, and LSD. A procrastinator, there were no tents to be found, so my boy slept in his version of a VW minibus, a 2004 Saturn Station wagon. The music was solid, the people watching entertaining, but Collin says he will likely not return next year. The lowlight occurred in the middle of a show, when a completely naked man commenced a streaking run through the crowd. Unfortunately, some things cannot be "un" seen.

Alex brought his girlfriend home for the break so he was busy. We do love Claire and hope he can hang onto her. To that note, a week later, Alex and Claire flew out to Colorado to celebrate Claire's grandfather's 80th birthday with the extended family (Grandma provided Alex's ticket so they could all meet the lad they'd been hearing so much about.) Understandably, the kid was more than a little nervous. This was a big deal. "Grampy" was the family patriarch; a Navy veteran with strong political views and a deep love for his family. He played a huge part in Claire's life, was a tough judge of character, and to date, had never approved of Claire's previous boyfriends. The celebration was at the Four Season and everyone dressed for the part. With everything on the line, awash in emotions, Alex's fears were washed away as Grampy opened their conversation with joke after joke about the Navy. Years of my tall tales put Alex in perfect position and he did great. After dinner, he overheard Grampy tell Claire, "Alex is a dude, not a dud", a clear sign he passed muster.

Backup about a week. We were honored to attend the wedding of nephew-in-law, Nick to his long-time fiancé Frances. Nick is a great kid who works for Habitat for Humanity in Pensacola. Frances, equally wonderful, is a teacher in Escambia County. It was a grand affair with a beautiful and lavish reception at the Pensacola Yacht Club. The highlight, for the Kagan family anyway, was on the dance floor. A band was brought in from Mobile and these guys and gals absolutely rocked! Combine good bourbon, great music, and an all-around joyous atmosphere and there's only one possible outcome... I'm on the dancefloor. Now I'm known for such legendary moves that I can hardly get Kathleen, or anyone for that matter, to join me. Sort of a cross between the dancing gophers in Caddy Shack and Elaine of Seinfeld...intimidating no matter how you look at it. Not only did Kathleen join me but my boys decided to do a dad dancing imitation contest. It was an evening that will not be forgotten.

With all the motorcycle stuff, I know you all probably think I'm nothing but testosterone and machismo. I need to put that misunderstanding to rest. Last weekend, Kathleen and I were invited to join some friends at their table for a fundraiser. Fancy but far from stuffy, it involved, blue jeans, BBQ, bourbon and believe it or not, ballet. It was the second annual Blue Jeans and Ballet event to raise money for the Pensacola Ballet. You know I'm a dancer, but tutus were never part of the picture and I wouldn't have even thought of an evening like that on my own but doggone it, we had a great time. The friends, food (catered by Voodoo BBQ of Pensacola), bourbon (provided by the Old Hickory Whiskey Bar on Palafox Street) made for a wonderful evening which was made even better by the performances, sprinkled in between courses of the meal. The Pensacola Ballet breaks the traditional mold and adds music and their special interpretation to the mix to create some pretty cool and entertaining stuff...even to a guy as macho as me. I particularly enjoyed the creepy interpretation of Alice in Wonderland, which was a prelude to their full show next weekend.

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

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