



Soundings

What's New - August 2017

Quote of the month:

"Success is not final; failure is not fatal: It is the courage to continue that counts"
Winston Churchill

Mr. Churchill sure had a way with words. One of my favorites was "You can always count on the Americans to do the right thing after they have tried everything else." What a pithy son-of-a-gun. I sure would've liked to share a bourbon around the campfire with that bloke.

So much for a slow summer. The dog days have been anything but and July was the second strongest month of the year for the markets. Earnings overall have been a bright spot, as the majority of S&P 500 companies have reported beating their mean sales estimates. Another big positive, Jobs growth, which is slowly putting an upward bias in hourly wages. We are seeing continued strength in markets overseas as well, in both developed and emerging economies and the IMF renewed its call for 3.5% growth in 2017. It's been remarkably calm out there, which has some nervous. As for us, we use the indicators for decision making, not our nerves. Currently, the technical picture is very strong and we are invested accordingly. August and September are historically the weakest months of the year, but technically, the S&P 500 has strong support at around 2450 so, in the opinion of Raymond James Chief Strategist, Jeff Saut, corrections should be short, shallow, and for the buying.

As for what's next, in this month's *Market & Economic Commentary*, I've placed a piece from the Wall Street Journal which addresses both the health of the economy and the need for some real legislative success. Let's see if Congress can take Sir Winston's advice and "do the right thing". First, to the numbers...

Jon Kagan, CFP®, CDFA™, Registered Principal, Securities Offered Through Raymond James Financial Services, Inc., Member FINRA / SIPC
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provided through Raymond James Financial Services Advisors, Inc.

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 Stock Indexes</u>	<u>(As of 8/1/2017) *</u>
Dow Jones Industrials	10.8%
S&P 500 Index	10.3%
NASDAQ	17.9%
DJ Global ex US	16.5%
Russell 2000 (small cap index)	5.0%
XAU (gold/silver)	8.2%

Major Bond Indexes

Broad Market - Barclays Capital Aggregate	2.7%
High Yield Corporate - Barclays Capital	5.5%
Municipal Bond - Barclays Capital	3.9%

Lipper Mutual Fund Categories

Large Cap Growth	20.9%
Large Cap Value	7.2%
Small Cap Growth	12.2%
Small Cap Value	1.4%
International	18.9%
Balanced Fund	8.6%
US Govt Bond	1.7%
Corporate A-Rated Bond	4.1%

*** 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.
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www.ionkagan.com jon.kagan@raymondjames.com

Market & Economic Commentary

Washington may be gridlocked but American corporations are doing just fine, posting some of the biggest profit and revenue gains in years. The political infighting and the failure of the health-law bill have stalled the tax and infrastructure initiatives that many investors and executives expected would spur the U.S. economy. “We’ve been growing at 1.5% to 2% in spite of stupidity and political gridlock because the American business sector is powerful and strong and is going to grow regardless,” James Dimon, chief executive officer of J.P. Morgan Chase & Co. said on an investor call in mid-July amid other comments about the need for bipartisan policy revamps. Profits at S&P 500 companies are on pace to rise 11% for the second quarter, marking the fourth straight quarter of overall earnings growth, according to data from Thomson Reuters. Although first-quarter profits rose more rapidly, the second quarter is likely to reflect the second-biggest increase since mid-2011. The gains are spread across industries from Wall Street banks to Detroit’s car factories to Silicon Valley’s software labs. Profits declined only in the utilities sector. Excluding the rebounding energy sector, profits are on track to rise 8.2% in the quarter.

Sales, too, rose in the quarter, by an expected 5%, the second-biggest increase in more than five years. The figures reflect actual results for about half the S&P 500 index, and analysts’ estimates for those that had yet to report results as of Friday. “You could argue that the stock-market investor overestimated Trump but underestimated earnings,” said Christopher Probyn, chief economist for State Street Global Advisors. Even as activity inside the Beltway bogged down, the markets have been on an almost nonstop rally since the election. The S&P 500 is up 16% since early November and 10% this year. Indeed, the market has largely stopped reacting to blow-by-blow developments in Washington, despite uncertainty over the size, shape and timing of any tax and infrastructure initiatives, said Quincy Krosby, chief market strategist with Prudential Financial Inc. “When all’s said and done, companies have to focus on the top line and bottom line,” she said. “The market understands it won’t happen right away.”

Several factors are at work, analysts and economists say. A weaker dollar has made it easier to sell U.S.-made goods overseas and kept borrowing costs low. U.S. wages have improved enough to help bolster consumer spending without raising employer labor costs so much that it dents the bottom line. On Friday, the Commerce Department reported that gross domestic product rose at a 2.6% rate in the second quarter, up from 1.2% in the first quarter. Companies also continue to reap the fruits of their recent zeal for cutting costs, Mr. Probyn said. “We underestimated some of the cost-cutting and restructuring that has gone on within the various industries; that has permitted earnings to keep doing well.” As executives discuss results with investors and analysts, events in Washington have faded into the background. S&P 500 companies that mentioned President Donald Trump or his administration during their latest conference calls are down by a third compared with three months ago, according to an analysis by research firm Sentieo. Corning Inc. CEO Wendell Weeks, who was at the White House this month to announce new U.S. investment and hiring, told analysts last week that he still expects Congress to overhaul the tax code—eventually. “What I am much less confident about is how the political math works in any given year,” Mr. Weeks said. “So I think calling timing on that one is above my pay grade.”

Headwinds include modest GDP growth—well below the rates often seen after recessions—as well as low inflation and the overall slow pace of recovery in the U.S. economy. Companies are reporting solid cash flow, but capital spending has been weak until recently. Uncertainty over tax policy may exacerbate that reluctance to invest, Mr. Aguilar said. “Tax reform is clearly what the future may require for these numbers to continue on the same pace.”

Evan Greenberg, CEO of insurer Chubb Ltd. , told investors last week that the U.S. badly needs a tax-code overhaul and higher government infrastructure spending to remain competitive. “But an awful lot of this requires legislation, and we need an administration that is focused, that is working with Congress,” he said in a conference call. “And we need a Congress that comes together to address these issues of our country.”

Theo Francis & Thomas Gryta, As Washington Stalls, Company Profits Keep Trucking, The Wall Street Journal, July 30, 2017

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On a Personal Note

Last month, Jonny went to Utah. I did not see Frankie on his way to Hollywood but it was an excellent trip none-the-less. My excuse and ultimate destination was the 2017 BMW Motorcycle Owners of America International Rally outside of Salt Lake City. Unlike last year in Hamburg, NY, the absolute certainty of day-after-day of 100 + degree temperatures kept Kathleen at home. You all know how much I love my wife, but this was permission to really rough it and I took full advantage of the opportunity. I put in some grueling hours on the saddle, did a ton of moto-camping, and in the interest of time spent the bare minimum of effort on personal hygiene. It was an absolute blast. I've put some of the highlights on video and for those that are into that sort of thing, you can go to the following You Tube link and take a look <https://www.youtube.com/channel/UCCIVVJzWVnLJque794SnRrQ>. The last 4 videos are from this trip and the good news is you can see the sights and hear the sounds in high definition but you don't have to live the smells. Did I mention it was hot?

The weekend following my return was just as special. Of course, it was wonderful to see Kathleen (after a long, hot shower and shave!) but I got the added bonus of a reunion with my all-time hero, Bob Bell, who'd just returned from a 13 month adventure of his own. Bob is currently a Professor of Business at St John's University in Minnesota, but it was just over 25 years ago that he, then a student at St. John's, was injured. While rough-housing with a dorm mate during his freshman year, he heard 2 loud pops. On the ground, no feeling in his lower body, he uttered three brief commands, "Call 911, Don't touch me, I forgive you." Bob wrote his first book, "Un-Moving Four-Ward", in 2014. It is a must read. You will laugh, you might cry, and you will never, ever again ask the question, "Why me?" Bob just returned from his sabbatical where he and his two caregivers, Hannah and Piper, spent more than a year visiting Benedictine monasteries around the world (primarily in Africa and India) helping to inspire and minister to mostly disabled children. His next book will chronicle the experience and, if I were a betting man, offer tips on how to be a better human being. Bob is the complete package...great sense of humor, incredibly engaging manner, and of course he's easy to look at...he shares those genes of my wife's family.

One of the best parts of our reunion was the fact that both of my boys were home to chat with this international man of mystery who just happens to counsel young undergraduate business students for a living...coincidence? I just sat back and listened while Bob spoke with my boys one-on-one, gently querying them on their thoughts, goals and plans upon graduation. First up was Alex, my accounting major. It just so happened that Bob's undergraduate degree was in accounting and his first job was with, then "Big Eight" firm, Arthur Anderson. Alex will graduate next May and is already lining up interviews mostly with regional firms. He'd never really thought about working for any of the now, "Big Four" firms. The gears they are a turning.

Next up was Collin, a junior finance major. Well wouldn't you know, after Bob tired of accounting, he went to law school and landed a job on Wall Street where he spent the next five years in the finance capital of the world. A surfer, Collin had never given much thought to life in the big city but there are a lot of things he'd never given much thought to. Can you hear the gears?!

I ended last month's column with Collin about to jump on a boat to motor across the 70 mile stretch of Atlantic separating Palm Beach from the Abacos Islands of the Bahamas. Needless to say, they had a great time, made it there and back safely and my second born son found that if the finance thing doesn't work out, he's got a possible backup gig in the entertainment industry. At the local neighborhood bar, my son discovered that, fueled with a Bahama Mama (or two) he has quite a penchant for karaoke. He's strongly considering dropping out of school to pursue his true passion: covering early 2000's pop songs with in front of an audience of similarly lubricated tourists. I'm a helicopter pilot, not a helicopter parent. As long as the kid can pay off those student loans, I'm not stepping on his dreams. As always, I hope you're enjoying each day as it comes.

Warmest regards, *Jon*

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