Soundings

What's New – December 2017

Quote of the month:

"The winner's edge is not in a gifted birth, a high IQ, or in talent. The winner's edge is all in the attitude, not aptitude. Attitude is the criterion for success." Denis Waitley

Great news for all of us of talent-challenged, non-gifted, not born into the lucky-sperm-club folks out there. Another Waitley gem, "Happiness cannot be traveled to, owned, earned, worn or consumed. Happiness is the spiritual experience of living every minute with love, grace and gratitude." Here's one I thought up. Practice the Platinum Rule, a step up from its golden cousin. Treat others better than you'd expect to be treated yourself, then watch the heck out. Now that we've got life all figured out, let's take a look at the financial markets.

One year after the U.S. presidential election, we've seen record market highs, low unemployment, and strengthening consumer confidence. With that, November has historically ushered in the best six-month period for stocks and this year, so far, it's lived up to expectations. For the month, the Dow climbed 3.8%; the NASDAQ gained 2.2%; the Russell 2000 was up almost 2.8%; and the S&P 500 gained 2.8%. The international EAFE was positive, but basically flat for the month. We are beginning to see a sector rotation as investor's attempt to position themselves for what's ahead, particularly given the brightening prospect of tax reform.

As the economy continues to strengthen, and the path for normalization of interest rates becomes more clear, retirees face challenges when crafting investment strategy. In this month's ***Market & Economic Commentary,*** I've placed a piece that addresses those issues. Titled, "Do Retirement & Risk Mix," the authors make suggestions that might throw a curveball to traditional asset allocation and even give pause to proponents of robo-advisors. First, the numbers…

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

Major Stock Indexes	(As of 12/1/2017)*
Dow Jones Industrials	12.8%
S&P 500 Index	18.3%
NASDAQ	27.8%
DJ Global ex US	22.0%
Russell 2000 (small cap index)	13.8%
XAU (gold/silver)	0.7%
Major Bond Indexes	
Broad Market – Barclays Capital Aggregate	3.1%
High Yield Corporate - Barclays Capital	6.5%
Municipal Bond - Barclays Capital	4.1%
Lipper Mutual Fund Categories	
Large Cap Growth	31.3%
Large Cap Value	14.3%
Small Cap Growth	24.0%
Small Cap Value	9.9%
International	24.7%
Balanced Fund	13.1%
US Govt Bond	1.8%
Corporate A-Rated Bond	5.3%

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

Market & Economic Commentary

We live in unusual times, with interest rates at historical lows but likely to rise in the not-too-distant future, stocks trading at what some consider elevated levels driven by a years-long bull market, and investors scouring the pronouncements of central banks for clues to what may happen next. However, one thing remains unchanged – those in or near retirement still have to map out a prudent strategy for generating income in the years ahead.

While a traditional approach relying primarily on bonds and other fixed income securities served those who retired during much of the past 30 years fairly well, different times call for different thinking. Some researchers and investment professionals now recommend that retirees maintain a significant allocation to equities throughout retirement, perhaps even increasing that allocation as they age.

The Case for Stocking Up on Equities

The foremost worry of many retirees is that they might outlive their money, so any retirement income plan must squarely address that risk. Holding a higher proportion of equities, which offer the possibility of capital appreciation, may help offset the steady drain on retirement portfolios caused by withdrawals and inflation. In addition, be aware that bonds as a whole may decline in price if interest rates trend upward over the course of a long retirement.

Think Ahead About Volatility

Equities historically have been more volatile than bonds, so if you allocate more of your retirement portfolio to stocks, you have to be prepared to weather periods of volatility. It's critical that you work closely with your advisor to invest in a portfolio that fits your risk tolerance so you are able to stay the course when the inevitable gyrations arrive. Also, keep in mind that bonds can be volatile too, especially when interest rates rise. For balance, consider maintaining a cash reserve equal to several years' worth of living expenses – you and your advisor can decide how much.

Consider All Your Income Sources

Comparing income to your overall expenses will provide you with a framework for determining how your retirement portfolio should be allocated. You and your advisor may be able to estimate how your portfolio will react in certain hypothetical circumstances and make adjustments as needed.

Time to Take a U-turn?

While gradually reducing exposure to equities over time to create a "glide path" has been a traditional approach where bond allocations reach their maximum when you retire, some experts now advocate for a "U-turn glide path." This can help avoid a tough recovery from several years of negative returns at the outset of retirement.
The U-turn glide path: Dial back your allocation to stocks as you approach retirement. Leave the allocation at that level for a few years. Raise the allocation as time goes by.

The potential benefit? It helps reduce the chances of incurring major losses at the beginning of retirement while also allowing for the possibility of capital gains later.

Next Steps

- Carefully monitor and manage your portfolio, including the amount you allocate to stocks, bonds and cash.
- Ask your advisor to review your portfolio to help determine if holding a higher proportion of equities may help offset withdrawals and inflation.
- Your advisor can guide you in structuring a prudent investment strategy that can carry you through retirement.

Raymond James Financial Services, Do Risk & Retirement Mix?, Investment View, October 31, 2017

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On a Personal Note

I might have to take up hunting. If for nothing else, just to get even. I love the woods. Being out there in God's creation, away from all of life's craziness, and of course…on the back of a motorcycle. At this point in time, there is nothing that doesn't include my wife, that I enjoy more than a romp with nature. We are so blessed out here in the Florida panhandle to have such an abundance of accessible wilderness to explore on two-wheels and I try to get a weekly dose of woods therapy if at all possible. As such, I was leading 2 other "brothers" in our version of church on a crisp Sunday morning. My GPS track took us out of the woods and onto a dirt trail bordered by a cotton field to the right, and the ubiquitous long-leaf pines to the left. The temporary respite encouraged a healthy twist of throttle to air things out just a bit. I never saw it coming. Out of the cotton field to my right, jumped a suicidal deer. She T-Boned my rear tire but physics being what they are, only slightly slowed my forward movement. The bike bounced left, came back right and I held on like a cowboy on an angry bull. The second bounce pointed my front wheel to the left and the impact caused a massive case of "whiskey throttle" (google it) which propelled the bike and me up and over the berm on the left-hand shoulder and into those pine trees. As it was all unravelling, I just thought, please let it be over quickly and not hurt too much. It turns out my protective gear did its job and I broke my fall with some of the skinnier trees. For the record, the dazed deer, after tumbling like a drunken gymnast, brushed herself off and continued on her way. Deer one, Jonny zero.

Thanksgiving is a special time for us. Besides the obvious, it's also our wedding anniversary and this year marked number 24. Our celebration was low key. I gave Kathleen a pair of earrings that she bought for me to give to her for the occasion…God, I love that woman! Myself, I bought a fitness band and called it an anniversary present. What's more romantic than, "honey, you're starting to overfill those t-shirts, get off your ass and do your steps." As for turkey day, we typically have the extended family over for a nice, laid-back celebration. Time marches on and most of the nieces and nephews have grown up and started families of their own, so our head count was down considerably this year. Our boys were both home from school and Alex brought his girlfriend Claire who had just returned from an internship in Africa. I know we're not supposed to have favorites but we're all tight here right? Without a doubt, my favorite guest was our newest grand-niece, Elle. Elle is not quite nine months old and the daughter of my niece Sarah. Sarah is a wonderful person and a fantastic single-mother. The father of little Elle, not so much. When we first learned that Sarah would be having a baby, I have to be honest, I was a little sad knowing that this little human would grow up without the benefit of a traditional two-parent household. My opinion could not be any different now. Elle is the sweetest, happiest, most outwardly aware baby I've ever seen. I know it's early but I'm a pretty good judge of character…this kid's going do something big. And I know she could not be any more loved by her mom and the rest of her extended family. Isn't it something when a 53-year-old (fart) can learn a lesson from a toddler?

In pilot terms, Collin pretty much did a touch and go this Thanksgiving. He hadn't even digested the meal before hitting the road back to Orlando. But it was for good reason. You might've read about the War on I-4; the big football game between his undefeated UCF Knights and the USF Bulls. In Collin's freshman year, UCF finished the season with an 0-12 record. Talk about rebuilding; they were going into this big game 10 and 0. Given the stakes, it was even televised. Well, not only were we treated to an incredible game (UCF ran a kickoff return for a touchdown with a minute left in the game), our boy also got his TV cameo during a shot of the crowd. Thank goodness he wasn't picking his nose. The next week, UCF hosted Memphis for the conference championship. The two highest scoring offenses in the country had an all-out slugfest, before UCF took the title in dramatic fashion, intercepting Memphis at the goal line in double overtime to seal the game and the championship, 62 - 55. And it's not over yet. That win gave UCF the opportunity to play Auburn in the Peach bowl on New Year's Day. If they win that one, by the transient rule, they come out on top of Alabama (who lost badly to Auburn a couple weeks back.) How's that for brotherly rivalry?

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

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