



# *Soundings*

## What's New - June 2017

Quote of the month:

*"Successful people do what unsuccessful people are not willing to do. Don't wish it were easier; wish you were better" Jim Rohn*

Now there's some tough love from a legendary entrepreneur, author, and speaker. Life is hard by design but the good news is it's never too late to get better. Take advantage of those around you who've done it right. I've found that most are humbled and honored for the opportunity to help those who seek it.

May was another strong month for markets around the world. Headwinds remain. Geopolitical tensions abound, both at home and abroad. That said, stock prices typically rise when earnings rise and we have transitioned from an interest-rate driven secular bull market to an earnings-driven one. For the first quarter, the estimated earnings growth rate for the S&P 500 is now 13.9%, which would mark the highest year-over-year earnings growth for the index since the third quarter 2011, according to Raymond James analysts. That, ladies and gentlemen, is good news. Will we get a pullback or two along the way? You bet. It's part of the game. My job as Head Coach is to keep us laser-focused, adjusting tactics as needed, not as a reaction to the noise and headlines put out there to sell advertising.

I'm a huge believer in the power of gratitude. Of the many blessings for which I thank my creator, living in the USA is among the top 10. You only have to watch the evening news to see how lucky we are for our freedom and unlimited opportunities. This month's *Market & Economic Commentary* is a piece from the Wall Street Journal on capitalism, how it contributes to that opportunity, and the current disconnect of many of our young adults. 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 6/1/2017) *</u>
Dow Jones Industrials	6.3%
S&P 500 Index	5.7%
NASDAQ	15.2%
DJ Global ex US	12.5%
Russell 2000 (small cap index)	1.0%
XAU (gold/silver)	5.7%
 <u>Major Bond Indexes</u>	
Broad Market - Barclays Capital Aggregate	2.4%
High Yield Corporate - Barclays Capital	4.4%
Municipal Bond - Barclays Capital	3.5%
 <u>Lipper Mutual Fund Categories</u>	
Large Cap Growth	17.5%
Large Cap Value	3.9%
Small Cap Growth	8.2%
Small Cap Value	1.6%
International	15.3%
Balanced Fund	6.5%
US Govt Bond	1.6%
Corporate A-Rated Bond	3.1%

\* 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.
- Opinions expressed in the Market Commentary are those of Warren Stephens 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

When did capitalism become anathema to young people—and why? About a year ago the Institute of Politics at Harvard released survey results showing that more than half of respondents between 18 and 29 do not support capitalism, the free-market system that underpins our economy. An astonishing one-third said they support socialism. Clearly the tenets of capitalism are deeply and fundamentally misunderstood. No system has done a better job addressing the very issues that its critics think are important. Capitalism has stabilized our communities, created jobs, lifted people out of poverty, and empowered them to fulfill their dreams.

Consequently, the merits of America's free-market system are inspiring economies around the world. According to the Pew Research Center's Global Attitudes and Trends study, a global median of 66%, from developing and advanced countries, believe people are better off under capitalism. This view is particularly prevalent in emerging economies like Kenya, Nigeria and Vietnam, where growth has been ignited by expansion of the free market. Yet here at home capitalism is now condemned as an elitist system that enriches a few at the expense of the many.

At the same time that young people are rejecting capitalism and free markets, they celebrate entrepreneurs and free enterprise. This disconnect is at best confusing; at worst, it's troubling. Without access to capital, budding entrepreneurs see their ideas wither; without capital, there is nothing to fuel innovation. Capital is the lifeblood of our economy. It must flow freely to ensure the economy's vitality and health.

I recognize that young people have come of age during some troubled economic times. I suspect this contributes to their discontent and their misguided belief that government interference is the answer. In truth, government meddling is a large part of the problem. The Dodd-Frank Wall Street Reform and Consumer Protection Act, passed in 2010, has made it harder for firms to lend money and for small and mid-cap companies in particular to access the capital markets. The 2012 JOBS Act tried to make it easier for smaller companies to issue equity in the public markets, but it is not enough. My father, Jack Stephens, used to say, "A great idea never fails for lack of capital, because capital will always find it." Sadly, I'm not sure that's true today.

For proof, we need look no further than the growth of private equity, a direct result of the limitations placed on the public markets. Yes, private equity should be an option both for those seeking money and for those who wish to invest it. But we cannot ignore that private equity is a vehicle that excludes most investors. The result: Access to capital and the benefits of capitalism have been concentrated among too small a group, restricting opportunity on both sides. The very individuals and businesses the government purports to help have virtually no chance to participate in and benefit from the creation of great companies.

As we have seen from the stifling effects of increased regulation around capital markets, bigger and more powerful government is not the answer. The appropriate role of government is to provide the framework that allows capital to flow freely, in accord with the law of supply and demand. That is how jobs, businesses and wealth are created. The government would have no money to distribute or spend without the tax revenue generated from the jobs and businesses that are the fruit of our capitalist system.

By virtue of living in the United States, we are all capitalists. Everyday transactions—putting gas in our cars, buying groceries—are just as much a part of capitalism as financing growing companies and investing in ideas. I hope for a day when young people no longer reject that concept but revel in it. As a country, we need to reclaim our pride in capitalism and remember that the markets have the greatest power when they are free, and that free markets empower one and all, not just the few and the select.

*Warren A. Stephens, CEO Stephens, Inc., Why Do the Young Reject Capitalism? Wall Street Journal, May 31, 2017*

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## On a Personal Note

Kathleen and I took a trip to the mountains last month. I love living by the beach and water, but growing up where we had to walk to school up-hill, both ways, I really dig some elevation change. Add a motorcycle to the mix and there's nothing like the mountains to wring the most happiness out a day outside the office. Kathleen is new to the two-wheeled scene so she drove her car, while I rode the bike to our destination just north of Robbinsville, NC. The car turned out to be a nice touch as we caught some rain on the second day of our 4-day getaway. I've written of the infamous "Tail of the Dragon", also known as US 129. With a famed 318 turns in 11 miles, this stretch of twisty mountain road is sought out by motorcyclists from around the world. Not only did Kathleen slay the Dragon, she also took on the Cherohala Skyway, Moonshiner 28, and a number of lesser known stretches as we rode, hiked, and explored the area which includes the famous damn where Harrison Ford made his desperate leap in *the Fugitive*.

At this time next year, if everything goes according to plan, my eldest son will have graduated from college and begun his career in accounting. Wow. That's the first time I've seen those words on paper. Alex and girlfriend Claire spent a few days with us last month before heading to Colorado to visit Claire's family. Claire was an excellent tour guide and her family were spectacular hosts. They hiked the Rockies, caught a Rockies baseball game, took in the sights of Denver, Boulder and Claire's hometown of Broomfield. While there, Claire's younger sister graduated from high school and Alex got to party with a couple hundred friends and family. A great opportunity to pick up some dirt on his girlfriend. So far, he hasn't shared any and given the fact that Claire is headed to Ghana in August for 6 weeks of social work, the worst he'll likely find is that she once drank milk that was set to expire the next day. The last thing they did the night before heading home was a concert at the iconic Red Rocks amphitheater. For me, what made it even more cool was the headliner, a blast back in time to my youth...Jethro Tull.

Last month, Collin joined me for a day at the Raymond James National Conference for Professional Development in Orlando. We had a serendipitous encounter with local financial planner who told Collin to give her a shout after the conference. Not one to pass on an opportunity, my boy sent her an email a couple days later. This led to a meeting at the planner's office where Collin expected to chat casually about his future plans and get some advice and opinions from someone other than his dad. About halfway through their meeting, he realized it was an interview. Doggone if my son didn't leave with an internship...a paid one at that! It's funny how life works for those who put themselves in the position for things to work out. (and thanks, God!)

Before you feel too sorry for the kid, it's certainly not all work and no play for my second-born. After a stressful but successful semester as a finance major, Collin (who'd saved his pennies all year) left on an 8-day surfing trip to Nicaragua with a few old friends. It started out a bit rocky. Discounter, Spirit Airlines, was having a little trouble with the pilot's union and their pilots were on strike. Their connecting flight was cancelled and they had to drive four hours to Fort Lauderdale to catch the international flight to Managua. Luck finally caught up with them as they checked bagged and made it through TSA just five minutes before all hell broke loose at the terminal (google Spirit Airlines riot Ft. Lauderdale). All's well that ends well as the lads made it to Popoyo, Nicaragua where they enjoyed amazing food (more than a few cervezas!), waves, and only a few corrupt police attempts to extort money from the young gringos. That's why they call it an adventure. Wonder where he got that gene?

As always, I hope you're enjoying each day as it comes.

Warmest regards,

*Jon*

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