Soundings

What's New – May 2017

Quote of the month:

"Things work out best for those who make the best of how things work out." John Wooden

The "Wizard of Westwood" certainly had a way of making things work out. A legend both on and off the basketball court, Wooden was most widely known as the head coach of the UCLA basketball team from 1948 – 1975. He coached future superstars from Lew Alcindor (you know him as Kareem Abdul Jabber) to Bill Walton. The first person to be inducted into Basketball Hall of Fame as both a player and a coach, in 2009, Wooden was named The Sporting News Greatest Coach of All-Time. As one of the winning-est coaches of all-time, that's not where he placed his emphasis. It was all about process and keeping a lid on emotions. Sound familiar?

So how did the financial markets react to the Trump administration's first 100 days. Our friends at Dorsey Wright compared the new administration's performance, as measured by the Dow Jones Industrial Average, with those of other presidents. It turns out the Trump bump of 5.6% was the best stretch since Bill Clinton's in 1993. Longer term, he ranks 4th of out 10 when going back to Eisenhower in 1953. Not too shabby.

Wall Street is full of adages…short sayings or observations that, over time, become accepted as truth. In Naval flight training, we called the inside scoop "the gouge". There was an old adage, "live and die by the gouge". Sometimes you got good gouge, sometimes, not so good. This month's ***Economic Commentary*** is a piece from Lowry Research which addresses the old adage, sell in May and go away**.** As market technicians since 1938, Lowry relies on data, not gouge. So do we. It's worth a read. First, to the numbers…

Jon Kagan, CFP®, CDFA™, Registered Principal

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 5/1/2017)*
Dow Jones Industrials	5.6%
S&P 500 Index	6.5%
NASDAQ	12.3%
DJ Global ex US	9.2%
Russell 2000 (small cap index)	3.2%
XAU (gold/silver)	2.4%
Major Bond Indexes	
Broad Market – Barclays Capital Aggregate	1.4%
High Yield Corporate - Barclays Capital	3.9%
Municipal Bond - Barclays Capital	2.0%
Lipper Mutual Fund Categories	
Large Cap Growth	14.3%
Large Cap Value	3.6%
Small Cap Growth	8.6%
Small Cap Value	1.5%
International	11.5%
Balanced Fund	5.4%
US Govt Bond	1.1%
Corporate A-Rated Bond	1.9%

*** 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.
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Market & Economic Commentary

There is an old adage on Wall Street: “Sell in May and go away.” While the rhythmic symmetry of this “advice” is easily understood, history has shown that there are times to begin selling, but those times are best identified by examining the forces of Supply and Demand and not by determining which month rhymes with ‘away’. A current examination of Supply and Demand shows an absence of Sellers in a market that is showing improving strength despite its advanced age. More impressive is that the strength is broad based and is spread across all market segments.

A typical sign of a bull market losing its steam is investor selectivity during periods when market indexes make new highs. Conversely, when new market highs are highlighted by broad participation from all segments of the market, this has historically been a strong sign of investors’ willingness to purchase stocks. Thus, it is important to recognize that Lowry’s Operating-Companies-Only (OCO) Small, Mid, and Large-Cap Advance-Decline Lines all hit new highs in late April, even though the S&P 500 and Dow Jones Industrial Average remained slightly below all-time new highs. Advance-Decline Lines moving ahead of price indexes is a very positive sign of health for the market. Particularly, the Small- and Mid-Cap Adv-Dec Lines showing the strongest advance, indicate investors are willing to accept more risk. This is quite unusual for a market entering its ninth year, but it should not be ignored. The improving relative strength of small caps is a very positive sign for this market.

The more skeptical investors may see the resurgence in small- and mid-cap stocks and try to draw some parallels to the boom of the late nineties when a narrow base of dot-com companies were exploding, sending the S&P 500 soaring, and eventually leading to a market collapse in 2000. However, a look back at history shows selectivity was occurring well in advance of the market decline. In fact, the Advance-Decline Lines peaked in April 1998, almost two years before the S&P 500 peaked in March 2000. In today’s market, with the Advance-Decline Lines actually leading the S&P 500, the probabilities of a significant market decline still appear low.

The breadth of Buyers is clearly identified by the movement of the Adv-Dec Lines; however, strong market moves not only require broad participation, but also dynamic Demand to really push stock prices higher. Thus far, Demand, measured by Lowry’s Buying Power Index has been relatively stagnant staying in a tight range since Dec. 2016. But, beginning in late April, Demand has shown some signs of strengthening. First, Lowry’s Short Term Index, a shorter term measure of Buying Power, reversed a steady decline that began in Dec. 2016, advancing in a positive strengthening pattern. Second, the Buying Power Index began to show some improvement, breaking out of a range dating back to early March 2017. While this Demand is far from robust, given the strength in the Adv-Dec lines, it is strong enough to support new highs in the months ahead. Sellers Still on the Sidelines A unique aspect of the Lowry Analysis is the bifurcation of Buyers and Sellers to identify how each group is behaving. History has shown that even in periods of strong Demand, there can be Sellers lurking in the background weakening a market internally. In this market though, Sellers have largely remained on the sidelines. Starting in November 2016, the Selling Pressure Index began slowly declining. That decline has continued with the Selling Pressure Index recently hitting its lowest level since Aug. 2015. This removal of Sellers from the market should give investors some comfort that purchases made near new all time highs are not on the heels of Sellers anxious to dump their holdings. The market is not immune to bouts of intermittent selling, but as of now, those periods of selling appear to be opportunities for adding exposure to portfolios.

Fortunately, the market topping process begins to occur many months in advance of the market making its final high, allowing investors to prepare when the first signs of selectivity and selling begin to emerge and to adjust portfolios accordingly. There are times when the market can be affected by seasonal tendencies of investors, but those times are when selling is active and buying is selective. However, when buying is broad based and selling is muted, the potential for sustained market gains is high. The current situation favors higher prices in the months ahead. ***Paul Desmond, President, Lowry Research Corporation, Lowry Monthly Reports, May 2017***

On a Personal Note

Ever feel like pulling a Green Acres. I do. Kathleen and I spent Easter eve down by the manger. Kathleen's workmate, Donna, has been enjoying a little country living for a couple of years now. She moved from Pensacola to a 3 acre plot and has been adding animals along the way. We met Pedro, a male donkey and his pregnant wife Consuela; goats, Dixie and Pixie; roosters, Colonel, Gerald, and Kevin and their hens; and various and sundry canines and felines. Not to worry, Donna's training as a Physician's Assistant helps keep vet bills in check. Donna hosted a company barbeque and we enjoyed great fellowship amongst our new four legged friends. We had a wonderful time, I behaved, and hope we're invited back.

I hope you had a Nice Easter/Passover. We made it to our house of worship and enjoyed a wonderful service. I really hope, as a nation, we get a little more spiritual. We don't go as often as we could, but every time we do, I come away energized with a renewed understanding not only of what is important in our short-time on this spinning orb, but also with the peace and comfort of knowing that I have a heavenly father on my side that loves me despite my many flaws. Following the service, Kathleen and I took advantage of the beautiful spring weather and jumped on the motorcycle. We caught brunch at Alphy's Catfish House, a local joint known not only for its title dish, but also its fabulous breakfast offerings. Next up was a ride to the country (see a theme forming). We ended the day with what might have to become a new tradition. Mom-in-law, Annie, came over for some of the Colonel's best takeout. Finger lickin' good. But before our meal, we got down to some serious Bocce Ball, which I believe should replace Lawn Darts in the next Summer Olympics…less injuries.

Last week was the Raymond James National Conference for Professional Development in Orlando. I loaded up the motorcycle and headed east. It's always an outstanding event with speakers from all around the country and about 4,000 financial planners. We get schooled up on the latest and greatest and pick up a good chunk of required continuing education along the way. This year, with Collin right next door, I had him join me on Tuesday to see first-hand what life could be like when he graduates with a finance degree in a couple of years. He had a great time and looked especially handsome all dressed up and grownup-like. One of my main goals of the event was to introduce Collin to the southeast regional director to plant the seeds for a hopeful internship next summer. Mission accomplished. This was entirely unexpected. The day before Collin's arrival, I struck up conversation with a fellow advisor at a general session. When I told her about my son, the woman directly in front of us turned around and asked if he might be interested in working with her after he graduates. Long story short, we all met briefly the next day, Collin sent a follow up email a couple days later, and he has a meeting at her office in Orlando next Thursday. I'll keep you in the loop.

I'll end with a quick update on Raymond James and the state of the financial services industry. RJ has been my custodian for more than 12 years now. When I bring new folks into our client family, I make sure they understand that I don't work for Raymond James. It's quite the opposite. I work for you, my client family, and you alone. Raymond James works for me and I can "fire" them anytime for any reason. The most likely would be if another custodian were to offer a more robust platform for me to serve you. Currently, it doesn't exist and the future looks bright for this to continue. Raymond James has been bringing advisors over to its platform at a fever pitch at the expense of big brokerage houses. The appeal to serve clients versus the corporate mothership continues to grow, made more visible in the wake of legislation which has uncovered some of the conflicts of interest inherent in the older business models. To that, if you have friends or family like you, that would like to be treated more like family than "customers", send them our way. We will not embarrass you and this is our favorite way to grow.
As always, I hope you're enjoying each day as it comes.

Warmest regards, *Jon*

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