Soundings

What's New – October 2017

Quote of the month:
"I thought, I'm only going to be on this planet once, and only for a short time. What can I do with my life that will lead to permanent benefits?' Sir John Templeton

Legendary investor, Templeton was also a world class contrarian. "Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria. The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell." As for goals, his quote of the month is a doozy. When it comes to my kids, I'd love it if they grew up and did something to make the world a better place. At a minimum, if Kathleen and I have done our job, at the very least they won't make it worse. As for ourselves, there's nothing wrong with baby steps. Pay a compliment to the grocery store checkout clerk; give a warm smile to the toll collector; pick up a piece of trash in the parking lot. Easy stuff, no cost, and with any luck it's contagious.

Somebody forgot to tell the financial markets that September is historically a downer. When the dust settled it was a solid month and great end to a strong quarter with all major indices notching gains of at least 4%. There were certainly reasons for the markets to falter, from catastrophic hurricanes, to failed legislative attempts, and even the threat of nuclear engagement. Luckily, we follow a process which we'll admit doesn't work every time (nothing does) but has proven to work over time. As it stands, our indicators still have us in offense so we will ignore the noise and follow our discipline.

Feedback has told me that most readers skip the ***Market & Economic Commentary.*** I'm flattered (and humbled) that many of you trust me to handle that part of your life and just don't worry about it. I go to bed with that knowledge and wake up the same. This month, do me a solid and give it a quick read. First, the numbers...

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Market Update – Year to Date Returns

Major Stock Indexes	(As of 10/1/2017)*
Dow Jones Industrials	13.4%
S&P 500 Index	12.5%
NASDAQ	20.7%
DJ Global ex US	18.7%
Russell 2000 (small cap index)	9.6%
XAU (gold/silver)	7.4%
Major Bond Indexes	
Broad Market – Barclays Capital Aggregate	3.1%
High Yield Corporate - Barclays Capital	6.2%
Municipal Bond - Barclays Capital	4.4%
Lipper Mutual Fund Categories	
Large Cap Growth	23.9%
Large Cap Value	9.9%
Small Cap Growth	17.2%
Small Cap Value	6.1%
International	21.8%
Balanced Fund	10.1%
US Govt Bond	1.9%
Corporate A-Rated Bond	4.9%

*** 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

Next Monday (October 9th) will be exactly ten years from the stock market peak before the Financial Panic of 2008. Imagine that Doctor Doom, the perceived "best analyst in the business," told you on that night, when markets peaked, that financial authorities would allow mark-to-market accounting rules to burn the banking system to the ground, with many well-known financial firms failing or being taken over by the government. You knew the unemployment rate was going to soar to 10% and the economy would experience the deepest recession since the 1930s. You also knew the US would soon elect a president that would socialize much more of the health care system, raise top income tax rates, and push the Medicare tax for high income earners up by an additional 3.8%. Finally, you knew that ten years later all of those new taxes and expanded health care policies would still be in place. Then imagine you knew the federal debt would be more than 100% of GDP, with massive annual deficits predicted as far as the eye could see.

Then, imagine you were allowed one investment choice, a choice you had to stick to for the next ten years, through thick and thin, no reallocation allowed. Put all your investable assets in the S&P 500, a 10-year Treasury Note, gold, oil, housing, or cash. Pick just one of these assets and let your investment ride.

Which asset would you have picked? Be honest! In that environment, with that kind of foresight, right at a stock market peak, it would have been awfully tough to pick stocks.

And yet, on the basis of total return, over the last ten years, that's the asset that did the best. Assuming no major shift in the next week, the S&P 500 has generated a total return (capital gains plus reinvested dividends) of 7.2% per year, essentially doubling in value in ten years.

Gold did well, but lagged stocks, increasing 5.7% per year. A 10-year Treasury Note purchased that night (now coming due), would have generated a yield of 4.7%. Oil was a laggard, down 4.3% per year. Home prices increased about 1% per year, on average, and "cash" averaged 0.4%, both trailing the 1.6% average gain in the consumer price index.

You might have slept better by investing in 4.7% Treasury Notes. Certainly the volatility of stocks, and the cascade of financial news headlines predicting doom and gloom over the past ten years, wouldn't have bothered you as much. But you'd have fewer total assets today than if you would have kept the faith and stayed long stocks. And if you wanted to reinvest, now, for the next ten years, your rate would be roughly 2.3%. If you knew exactly when to buy and sell each of these investments over the years, you could have done better, but no one did that and no one knew how to do that.

So, what's our point? You would have been better off by ignoring all those pessimists who became famous in 2008-09. Investing in companies, and allowing world class business managers to use your money to build wealth, was once again the best investment strategy. Ten years on, we still think that's true.
Brain Wesbury, Chief Economist, First Trust, "Stocks Won", First Trust Monday Morning Outlook, October 2, 2017

I don't normaly editorialize in this section but I had some room. Nearly twenty years ago, when I made the decision to quit my job to walk the path that brought me here, I printed out a quote and posted it above my computer monitor. It read, "the Greatest Risk is Not Taking One." Truer words were never spoken and Wesbury's article above is a powerful illustration. Now I'm not purporting to throw caution to the wind and blindly follow a path just because in the past, it led to a spectacular vista. But there no such thing as risk-free. Most of us can't maintain our retirement lifestyle with a portfolio of 90 day Treasury bonds. That's called longevity risk or spoken another way, having more life than money. I advocate being relentlessly purposeful, having a process in place that helps us keep our heads when the weather gets ugly. JK

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On a Personal Note

When it comes to communications, my son Alex is a classic millennial. Short text-like bursts. Just the facts, ma'am. "My computer isn't working" typed my son. To be fair, it was a text, but am I wrong to want a little meat with those potatoes? I almost typed back, "My butt itches" but checked myself and instead shot back a staccato reply of my own. "Troubleshoot". The point being, you're a month away from turning 22, figure it out. A couple more volleys of text and my son got the message that I wanted him to own "his" problem. He did. The next morning, he let me know (via a text of course) that he'd got'r done and it didn't cost him, or more importantly, me, any money.

Twenty or so years ago, my folks made the pilgrimage from the east coast to Sarasota to banish the winter from all but their memories. Weather wise, it had all been smooth sailing until last month. My mom was rightfully worried as the media sure loves to hype up a weather event and it looked like Hurricane Irma was headed right for their subdivision. I told her that she and my pop would be fine…do NOT buy tickets for the Ark, and if they lose power, I will be down with a generator and everything else they needed. Thankfully, they were fine. For them, it was mostly a wind event with the yard a mess but no other damage. They did lose power for several days but when we talked the day after the storm, I quickly sensed that they were more disturbed by the thought of me coming down to babysit than of going without the comfort of conditioned air. I should have known…it's one of the most common concerns my clients share during our initial interview, "I don't want to be a burden on my kids." Either that, or they don't want the payback.

Kathleen recently said those 6 words every man wants to hear. "I'm really enjoying our motorcycle rides." It took about 23 years, but anything worth anything takes some effort. We've had a great time taking short rides through the country or to a nice lunch or dinner spot. We recently took a trip to Vernon, FL for a few hours on the river. At Holmes Creek Canoe Livery, we rented a two-man kayak and had a blast at the spring-fed cool spring upriver. For some interesting trivia, google Nub City Florida. Can you imagine?

I'm convinced the iPhone 12 will be impossible to lose because it will be implanted somewhere in our bodies. Until then, the current technology is astounding. Last weekend, I took part in the Perry Mountain Motorcycle Club 2 Day Enduro. It was my third trip up to this iconic locale, about 20 miles north of Selma, AL where they've organized dirt bike rides in the woods and hills for more than 50 years. Folks come from all over the southeast and this year, 104 souls participated in a weekend of camping, riding, and fellowship. I don't know about you, but anything I enjoy doing, I enjoy more with music. My helmet is rigged with speakers and I beam music from the iPhone clamped in a mount attached to my handlebars. The course is quite technical and my bike will take an occasional dirt nap. During one of them, my phone inadvertently popped out of its cradle. I noticed when the music died as I rode out of range of the iPhone signal. A search ensued to no avail. Kids are good for something…they know their gadgets. I called Collin and asked him about the "find my iPhone" app. Armed with that knowledge, I went back to the scene of the crime the next morning with a borrowed iPhone, commanded my lost phone to start "pinging" and doggone if I didn't find it at the crash site, buried in loose dirt, leaves and pine straw.

Collin is dating a movie star. You've probably seen her on the silver screen. Heck, she's so talented, she's even done cartoons. We'll have to wait for his memoirs for the scoop but in the meantime, my youngest son is living the dream. His new girlfriend pays her rent with Disney bucks, strutting around the park in a rodent suit. Yes, Collin is dating Minnie Mouse. But it's not all red carport and celebrity parties for my second born. He's busting a move in school as well and let us know that he may graduate a semester early. I guess he's eager to get out in the world and bring home the bacon…make that cheese.

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

Warmest regards, Jon

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