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Sound Investments Inc.

2nd Quarter 2019

DJIA 26599 S&P 500 2941 Nasdaq 8006

Summary

The S&P 500 rallied by more than 17% in the first six months of the year. It's the 10th time, in the past seven decades, that it has gained more than 15% over that stretch. In those years the market pull back an average 7%in the next 6 months. It's hard to compare numbers when the fourth quarter of 2018 dropped 14% whether the numbers are comparable. It's possible that we could have some type of correction, yet rebound back up.

Throughout it all, the business expansion is likely to persevere. No doubt, there will be a few more nicks and dents than before. Such a mixed outlook is likely to push the Fed toward a more accommodative monetary stance that may involve two or more rate cuts this year. We think the business upturn will continue to 2020. Overall, investors should stay the course but consider rebalancing their portfolios

This investment letter is mailed quarterly to our clients and friends.

Great 3 Months; But Lets Look at the Last 9 Months

Normally, I write a review of the last quarter or 3 months but in order to put the recent market gains into prospective, I want to look at the last 9 months.The best way to understand it is to look on the chart at the back of this page. The dark spike down shows the results for the 4th quarter ending Dec 31st, 2018 when markets lurched 14% lower, spooked by rising interest rates, trade tensions and a slowing world wide economy. The Federal Reserve Chairman, Powell, reversed plans to raise interest rates and spurred the market ahead by 13%, in the first 3 months of 2019. It wasn't until April that the S&P 500 climbed back to its Oct 2018 highs.

For the last 3 month, ending in Mar 31st, 2019 , stocks were up 3.8% with most of the gains occurring in April as earnings for the 1st quarter were better than expected. Also, there was a belief that the U.S. and China were close to an agreement on trade.

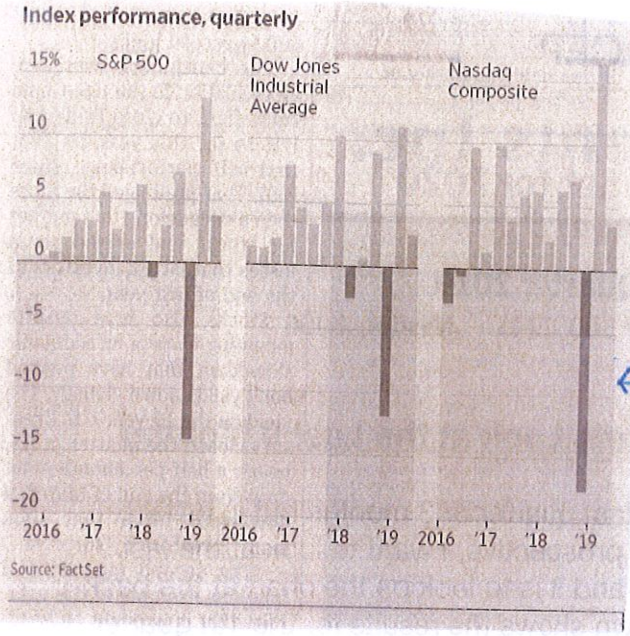
But that optimism vanished in May as the U.S. / China talks fell apart. Again, things changed when Fed Chairman, Jerome Powell, addressed fears that the trade spat could affect the economy. Powell went on to state that he would support the economy and may cut interest rates. Investors cheered, bidding stocks back up, for a month long climb to the records reach set previous in 2018. (see charts)

As I write this on July 15th, Chairman Powell, again stated that he was considering reducing interest rates, which caused markets to rally again.

Will the Run Continue?

In writing this letter, I came cross an article in Barrons magazine that quoted the author, F. Scott Fitzgerald who wrote, "The true test of intelligence is the ability to hold two opposing thoughts in one's mind at the same time, and still retain the ability to function." If this is true investors have to be the smartest folks around!

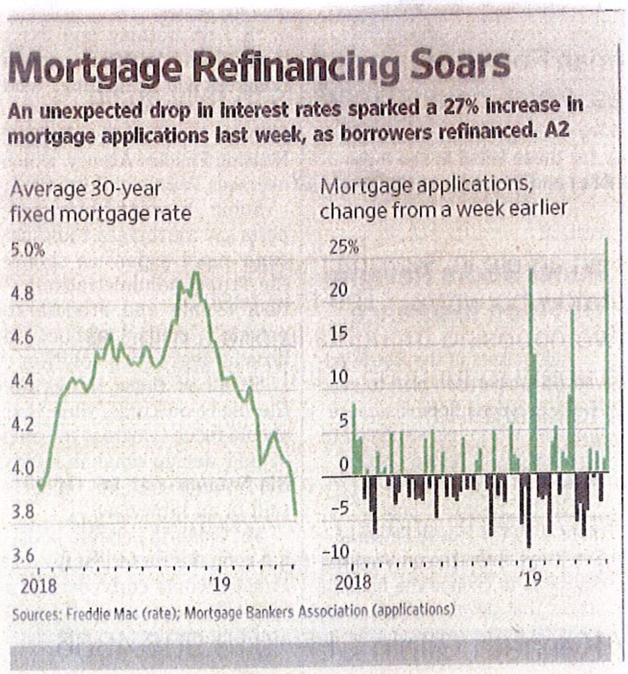
The Barron's Article reviews how stocks could melt up with lower rates. It estimates operating earnings of $167 in 2019 and $175 for 2020 for S&P 500. With a price /earning ratio of 17 to 18, times puts (ie 18 x 175=3150)



After a 14% decline for the 3 months ended. Dec 31st 2018, The markets have rebounded sharply.

14% Decline

Shows the percentage decline in trade with China over the past year. The decline seems significant.



30 year mortgage rates are now as low as 4%. This reversal in interest rates trends has pushed stocks up.

the index at the 3100 range. This valuation measure supports a higher market.

The article also talks about how the economy is giving mixed signals by showing increases in retail sales, choppiness in housing (with homebuilding flattening out, existing home sales edging higher, and new home sales easing), little change in the leading indicators, and a decline in consumer confidence, reflects a less favorable assessment of the business and labor market. China shows clear signs of slowing.

So, there you have F. Scott Fitzgerald's two opposing ideas in our minds. A slowing economy and a market that may be heading higher anyway. We think a **note of caution is in order.** In a number of accounts, we started off with a 60% equities and 40% bonds. Due to increases in stocks, the ratio is now 75 to 25: so we plan to trim the equity position back.

What the Historical Data Says

Baseball and the Stock Market have one thing in common .... Lots of statistics. To get a better glimpse of the S&P 500's next move, let's look at the historical data. The last 20 times stocks have rallied by more than 10% in the first six months of the year, the S&P 500 had an average return of 7.5% in the final six months. However, the greater the gains from January to June, the higher the chances of a pullback in the second half. Where it gets a little worrisome is when you're up 15% for the year or more, with the market stretched like we are now; that's when ... the average correction maybe a downward adjustment by an average of 8%.

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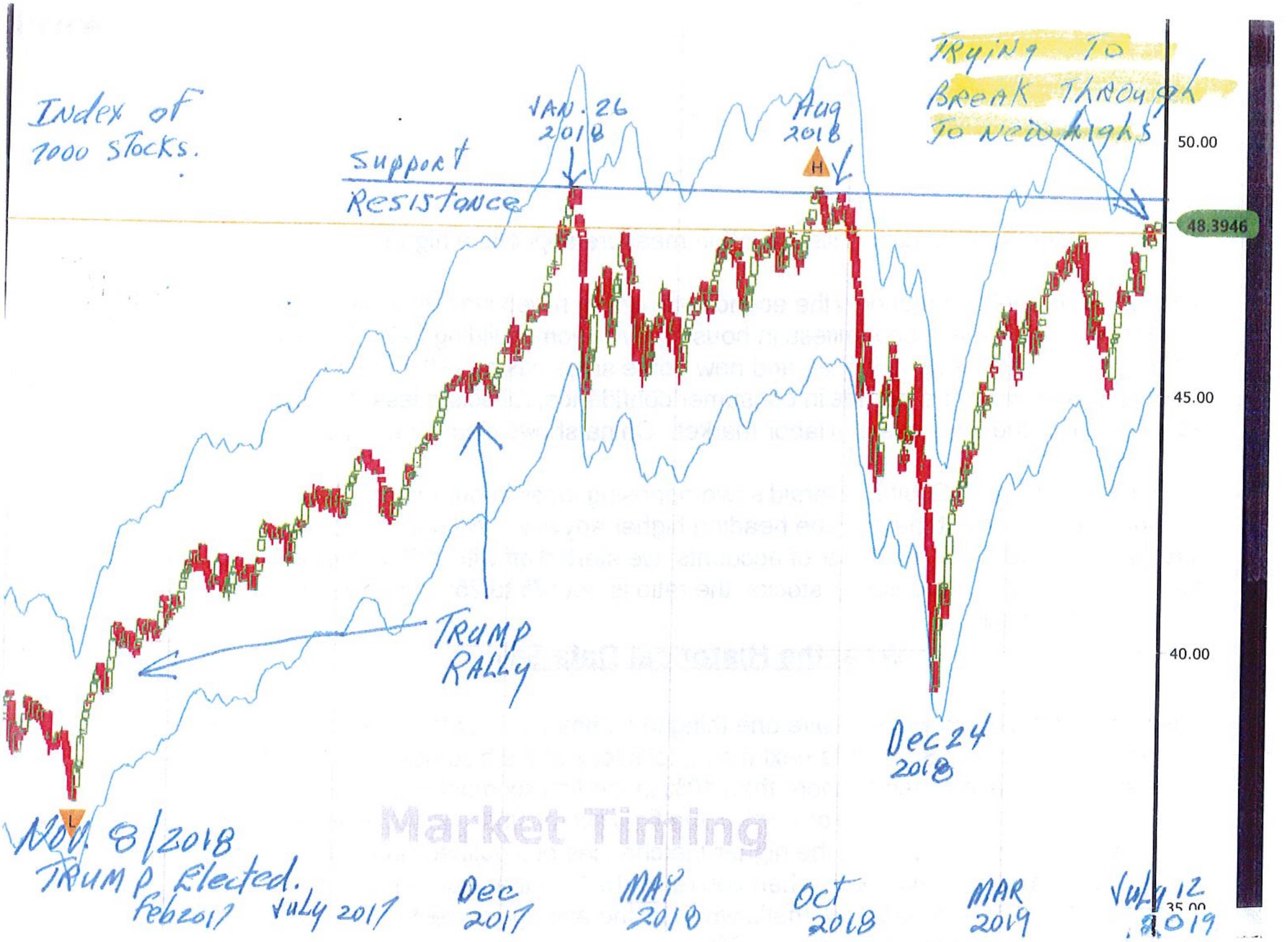
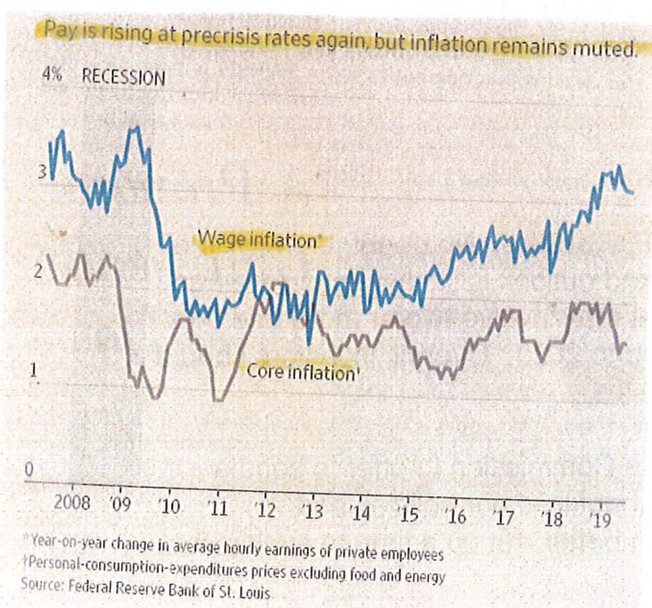
Conclusion

Throughout it all, the business expansion is likely to persevere. No doubt, there will be a few more nicks and dents than before. Such a mixed outlook is likely to push the Fed toward a more accommodative monetary stance that may involve two or more rate cuts this year. We think the business upturn will continue to 2020. Overall, investors should stay the course but consider rebalancing their portfolios.

Once a year, I am required by the Security Exchange Commission to offer to send a copy of my ADV part 2 to our clients. This document outlines our policies and procedures. I would be happy to send it out, or even better, set up a time to explain it. Also see attached my privacy notice.





→ Good News
This chart shows wages are growing Faster than inflation!