

J.K. Financial, Inc.



REGISTERED INVESTMENT ADVISOR

8222 Douglas Ave Suite 590

Dallas, TX 75225



2nd QUARTER 2023

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Don't miss our blog
www.street-cents.com

Reach back tax savings for 2022

IRS reminders, possible new rules for 529's to Roths



John A. Kvale,
CFA, CFP®

While our goal is not to pay extreme taxes, our goal is to also maximize our income tax bracket.

What we mean by this is if we will eventually have to pay taxes, maybe from an IRA distribution down the road or some eventual

(see TAXES, Page 2)

Happy one year anniversary

Commencement of Federal Reserve rate increases

During the writing of this newsletter, surprisingly even to us, we passed the one year anniversary of the very first interest rate increase by the FOMC, Federal Open Market Committee led by Jerome Powell. With an actual exact day commencing March 16, 2022, the first interest rate increase was made.

(see Likely, Page 3)

M2 discussion

And the new advanced analysis series

This article blends very well with our interest rate anniversary article (above) in this newsletter so if you have not read it yet, we would direct your attention to it first as this article is more suitable as a secondary read after it.

After last year's fantastic comments and sharing of our back to the basics series, we wanted to do something different this year, hopefully with the same fanfare, importance and feedback. This year's series, a more complicated and much less timely certain is our attempt to identify unique items on an approximate

monthly basis and share them with you, for not only our remembrance and education but also likely something you may not be seeing in the major publications or on the regular airwaves.

Right out of the gate, our first advanced analysis topic in late January on our blog at street-

(see M2 turns, Page 3)

TAXES: Saving for 2022, spousal IRA, all tax forms

(continued from Page 1)

tax that hides in our assets, it makes no sense to have a zero taxable income at this time.

The goal is to even these tax brackets over the long time so as not to have a zero tax bracket at one point in our lives and then a much higher tax bracket in the future. Again, just a reminder, know we hate paying taxes but it's better to pay a little taxes along the way than none now and a whole bunch at a later period of time.

Still some tax savings available for 2022

While we are in year 2023, and for the most part our taxes are set for last year, there are still a few remaining tax savings that we can do now that will essentially reach back to 2022 and possibly help our tax situation for last year (2022).

Offset non-W2 income with a SEP

Our favorite tax savings today that can be made even with an extension filing is an offset to non-W2 income via our favorite SEP or Simplified Employee Pension plan contribution.

The key to utilizing this tax offset is having a non-W2 income and offsetting that income after expenses up to 25%. This contribution can be made to a regular IRA or a rollover IRA and just coded correctly via a SEP contribution.

Spousal IRA

If you are married and your spouse is completely uncovered with regards to a retirement plan, double check and see if you meet the requirements for a spousal IRA.

A spousal IRA lets those, as mentioned before, without any type of retirement plan do a contribution in the form of a regular IRA. This contribution if applicable can be made now and retroactive for 2022 and allows a regular contribution of \$6,000 or a regular contribution plus catch up for a total of \$7,000 for the year 2022.

No tax form? Doesn't matter. Still goes on our tax return.

Just because we did not receive a tax form personally, does not mean that the IRS did not receive some type of notification of that taxable event! If you had a transaction, usually of some out of the ordinary type, that you did not receive a tax form for, we are not out of the woods and you should report it.

It's a good idea to try to get the issuer to send the form; however, we run into situations where this is just impossible.

It may take some digging to confirm the amount but we suggest you get it on your return to prevent future problems which always occur at the most inconvenient

time.

New rules bouncing around for 529 Converting to Roth

Laws enacted in December of 2022 open the doors for a 529 conversion to a Roth. That's where the good news and clarity ends.

While we've spoken about this before, it's worth mentioning again, as we long have feared and experienced 529 funds getting stuck because they were not used as well as having many conversations on this subject over the past quarter, hence the reminder.

While these laws were enacted in 2022, the first actions can be taken only as early as 2024. This is part of the reason that there are many unclear items still that need to be clarified by The U.S. government.

Two of the loosely stated rules have to deal with a 15 year mandatory lookback for the life of the account and the other is a conversion of only the maximum amount on an annual base to a Roth. Obviously both of these are very restrictive but hopefully clarification will enable more use and availability.

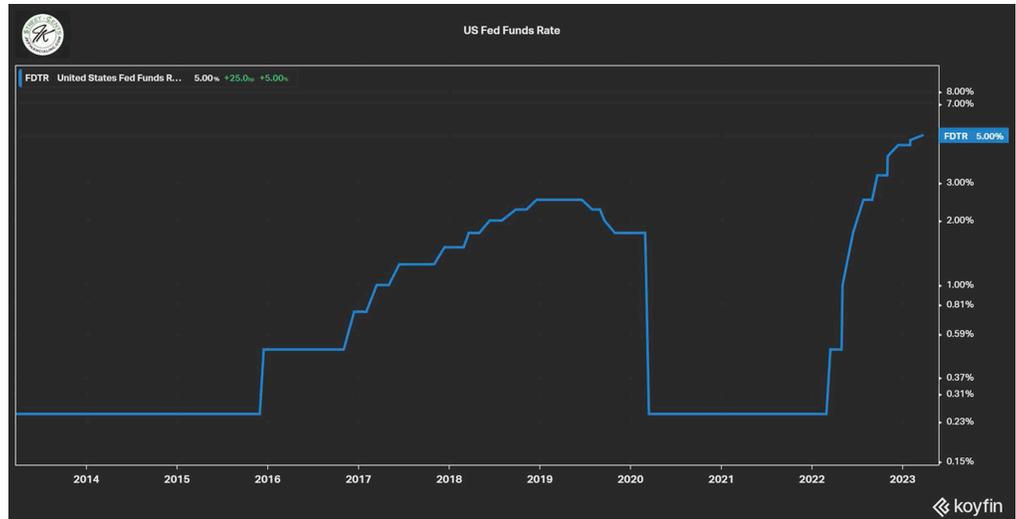
While we hate paying taxes, paying less taxes is much more fun. We hope some of these ideas trigger a savings for you and as always, reach out if you have any questions.

Likely in 8th or 9th inning of interest rate increase

(continued from Page 1)

At that time, with inflation factors most notably the CPI, Consumer Price Index beginning its meteoric rise, many had no idea we were about to embark on the fastest interest rate increase on a percentage basis in history. With continued large inflation readings again from the CPI, the Fed not only continued to raise rates but put both feet on the brake and for all practical purposes pulled the parking brake as well with the fastest interest rate increases on a percentage basis in history.

We've spoken about this so much, it seems like almost a half a decade since the commencement, hence the reason we discuss it again here and add the noted graph. The good news is we are very likely in the 8th or even 9th inning on the interest rate increase front.



The more concerning factor is that the U.S. economy is like a giant aircraft carrier and turns very slowly. We would like to direct your attention from this article to our advanced analysis article also included in this newsletter which discusses M2. The bottom line, these massive interest rate increases are now affecting M2 which from a very high level is liquidity in the system and it's reverberating through the banking system. *JK*

M2 turns negative for first time, long time

(continued from Page 1)

cents.com was the discussion of M2-A blunt measurement of money supply sloshing around our financial and banking system.

From January 18 blog post:

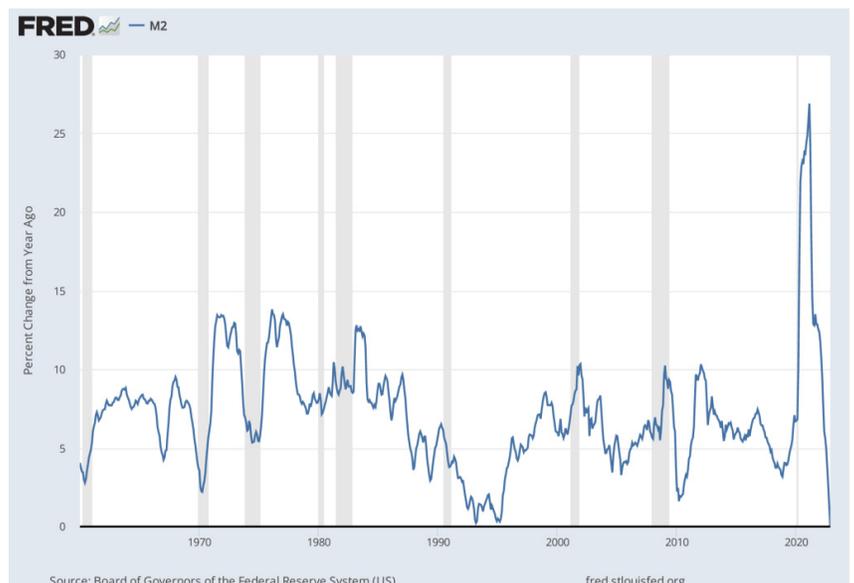
M2 turns negative for the first time and that's a long time!

What grabs our attention is when the measuring sticks do unique things....or have never happened before!

Why are we watching this?

This draw down of money in the system may put pressure on certain risky players i.e. companies that use junk or high yield debt!

While companies that use junk debt are not the first to hit the headlines, banks that may have been more aggressive in their lending practices seem to have fallen prey in this lack of liquidity. In a seemingly '07-09 like event, several banks have already been taken over by the government, we would state that this is unlike the '07-



09 crisis but the headlines are very similar.

More importantly our analysis of M2 and the lack of liquidity is certainly a major factor in the stresses that we are seeing now in the system. We had no idea that our advanced analysis would have such immediate experience and expect very few of our future analysis to have such effects

(see ODTE, Page 5)

Fed week, tough decisions:

New “Happy Bank” back stop facility, BTFP – Bank Term Funding Loan Program

(Posted on March 20, 2023 at street-cents.com)

While back we mentioned the FOMC, Federal Open Market Committee, lead by Jerome Powell were in a pickle .. as at that time one of their regional banks had a research report out that GDP, Gross Domestic Production, an economic growth indicator, was dropping fast and they were going to raise interest rates against a hot CPI, Consumer Price Index, blunt inflation gauge, which would exacerbate the situation.

Fast forward to today and that pickle is not any better.... maybe even more dill! With the aforementioned Part 1 Advance Analysis M2 review showing dramatically dropping or the pulling of liquidity out of the system, bank fatigue has been seen and felt and here our comments on banks being a slave to confidence for solvency.

On March 22, 2023 the FOMC is bound by their goal of slowing that sticky inflation we are all seeing, especially at the grocery store, and best measured by the CPI ... BUT, this additional rate increase will add fuel to the fire of less liquidity AND on top of that our neighbors across the pond just raised rates .50% last week, albeit from a much lower 3.00 to 3.50% rate....currently the U.S. rate is 4.75% ...

We did say pickle? Right....

Enter the BTFP, Bank Term Funding Loan Program. Happy bank program.

On March 12, 2023 the Federal Reserve created the BTFP as another backstop for possible bank fatigue ..

Press Release, March 12, 2023

FEDERAL RESERVE BOARD ANNOUNCES IT WILL MAKE AVAILABLE ADDITIONAL FUNDING TO ELIGIBLE DEPOSITORY INSTITUTIONS TO HELP ASSURE BANKS HAVE THE ABILITY TO MEET THE NEEDS OF ALL THEIR DEPOSITORS

This new program is a sort of Fed Discount Window on steroids, meant to improve bank confidence.

Quick history-

Long ago the FED (going back in loose form to the 1920's, the start of the Fed) started a pro-

gram for bank help during stressful times, the Fed Discount Window -

Fed Discount Window

Operation of last resort for a bank

Overnight deposit help

Anonymous for two years

30 day length but historically has been lengthened to 90 days

Pledge of assets for security - Treasury Securities of all maturity among other items that are held at par (even value, no gain or loss) or better

BTFP - Bank Term Funding Loan Program

All of the above but the following additions:

One year in length maximum holding period

Pledge of asset securities that may be less than par aka at a loss

The last bullet is the most important and lending a helpful hand from the Fed's fastest in history rate increase.... as mentioned repeatedly, increase of rates are a headwind to fixed income aka bonds, especially longer term bonds....

Some banks may be seeing a need for immediate liquidity due to loss of confidence and liquidity drain, so this new program essentially gives them liquidity to meet those demands if needed and may have negative assets due to the fast fast rate increases.

Headlines continue

While this is being written - Sunday late morning in between newsletter articles, UBS a Swiss neighbor of Credit Suisse has made a much telegraphed offer to buy their friend out... no idea what the market will make of this starting tonight as overseas markets open.... but something just crossed the mind that we have mentioned many times before.... and may be applicable....

“Headlines are always the worst near the end of the cycle!”

BREAK IN - After the writing of this post, the FOMC DID raise rates another .25% to 5% as mentioned in our prior post, due to pressures.

Overview and comments

Digital assets, crypto currency

You likely have noticed that we have been very quiet on any comments in the digital currency or crypto asset arena. This is 100% by design and also there will be very little spoken on this subject in our public blog (www.streetcents.com) as it is open to anyone who desires to read and basically free to share with other people; as such, our goal is to limit the access purposefully to our newsletter due to the topic.

What follows is hand plucked subject matter from various sources to try to give you an easy understanding of the digital assets and cryptocurrency. It is not thorough, and meant only as a brief refresher, forwarded by high level observations.

One thing that we would like to point out in the very beginning, the original attraction of this type of asset was for a helpful non-correlated asset class to all other currencies and capital markets. A fantastic idea, the actuality up to this point is digital assets and cryptocurrencies are highly

correlated to the most speculative capital markets but only even more volatile in the direction that they seem to go.

Another key aspect of digital currencies, there has been no presentation on valuation that is acceptable in our minds. Said another way, when we know the cash flows of an asset, it's costs and expenses it's difficult to get an accurate valuation of that asset. In digital currency, none of these inputs are applicable and as such, at this time it is very difficult to accurately assess a valuation of any digital asset.

Another big advantage stated with digital assets, especially cryptocurrencies, was an anonymous identity. While we will not debate the use of this identity, what we will say is that in several ransom and pay situations, a trail of cryptocurrency was spotted and retrieved, thankfully.

Given the above information, it is also helpful to know that the following information is pulled from the front page of Form 1040 year 2022 for all

U.S. taxpayers. (See below)

It is also worth knowing, sales of such currencies have dramatically different tax handling rates and procedures.

Graphic Analysis of Digital Assets

All of the following items are from one of, if not our favorite Graphic Analysis source, Visual Capitalist. These are from many sources but ordered in a way to hopefully give everyone a better understanding of Digital Assets.

This statement may be more of a hindrance than advantage.

In 2009, there was one cryptocurrency: bitcoin. Now there are more than 9,000 cryptocurrencies and many digital assets with other uses.

(Graphic analysis continued on Page 6)

Digital Assets

At any time during 2022, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) Yes No

ODTE may push capital markets around

(continued from Page 3)

but are glad we brought this to everyone's attention including ourselves.

In February we discussed ODTE or zero dated to expire stock options. These are called advanced analysis because they are not basics, in fact the exact opposite of our back to basics series, complicated and confusing. In this post we not only

discuss in detail the short dated options but we also have a very brief video with live quotes from our systems showing you exactly what they look like.

The bottom line with our second advanced analysis piece is that ODTE may have an effect of brutally pushing capital markets around due to their extreme short dated time horizons.

JK

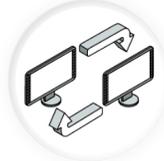
Digital assets, governance

Overview of Digital Assets

Digital assets go far beyond popular cryptocurrencies.

Digital assets may not be an asset class by itself, but rather a technology that underpins all asset classes.

Digital asset functions: STORE OF VALUE MEDIUM OF EXCHANGE PASS THROUGH VALUES



Pass through tokens grant rewards and/or network benefits onto their holders.

Benefits like:

- Reduced trading fees
- Voting rights on token governance
- Cash flow/dividends, or other monetary rewards

Digital assets can have varying governance structures, bodies, and methods of accruing value.

This framework by Arca outlines a simple way for how readers can classify the 10,000+ digital assets that currently exist.

Governance – There is very little at this time.

Governing Bodies

Governing bodies are the entities that offer and control the protocols and functions of digital assets.

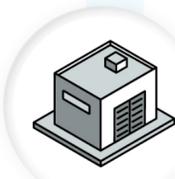
Differences in governing bodies do not limit the functions digital assets can fulfill.



GOVERNMENT

Federal, state, or local government bodies.

Ex: Central Bank Digital Currencies (CBDCs) like the Bahamian Sand Dollar, a digital version of the Bahamian dollar.



ORGANIZATIONS

A for-profit or non-profit entity.

Ex: Exchange tokens like Binance Coin (BNB), offered by cryptocurrency exchange Binance.



INDIVIDUALS

A single person.

Ex: NBA player Spencer Dinwiddie tokenized his contract with the Brooklyn Nets in 2020, issuing bond-like security tokens (SD26).



DECENTRALIZED AUTONOMOUS ORGANIZATIONS

DAOs are open source organizations that are governed by encoded and transparent rules.

Ex: Nexus Mutual (NXM) is a DAO that offers insurance against smart contract failures and exchange hacks.



PROTOCOLS/ PLATFORMS/DAPPS

Blockchain-based programs that have encoded and transparent rules for their function and operation.

Ex: Ethereum (ETH) and Solana (SOL) are decentralized blockchain platforms.

<https://www.visualcapitalist.com/sp/going-beyond-crypto-exploring-the-digital-asset-ecosystem/>

(continued on Page 7)

The most famous digit asset - bitcoin

Digital assets

We hope you enjoyed our first foray into the digit world. This is just the very tip of the iceberg but hopefully an interesting overview to give you some knowledge should the subject cross your path.

Source - <https://www.visualcapitalist.com/explained-the-differences-between-electronic-money-and-bitcoin/>

BITCOIN IN BRIEF

What is it?
A peer-to-peer virtual currency without any fiat currency counterpart.

Who oversees it?
There is no central authority. Every transaction is authenticated by a collective network of Bitcoin users' computers.

How much is it worth?
Value fluctuates depending on demand and trust.

Is it anonymous?
It is mostly anonymous. Users create transaction "addresses" that are public but do not easily identify their owners.

How many will be in circulation?
Bitcoins will be created until 21 million are in circulation.

When did it start?
It was launched in 2009.

Who invented it?
That's a mystery. Satoshi Nakamoto is the creator's pseudonym.

Who uses Bitcoin and who accepts it?
Bitcoin seems to be used by people who easily have access to the Internet and formal financial services in general. A limited number of businesses accept Bitcoins as payment for goods or services.

Normal real world problems

Problems with Bitcoins



THEFT is still as much of an issue for financial institutions and some major thefts have included the loss of tens of thousands of bitcoins – some of which are now considered permanently removed from circulation

Theft, Fraud & Money Laundering



FRAUD is also still possible, such as with the Bitcoin Savings and Trust Ponzi scheme



MONEY LAUNDERING may be easier with other currencies given the open nature of bitcoin blockchains, but that didn't stop Charlie Shrem from being arrested for money laundering

<https://www.visualcapitalist.com/bitcoin-the-past-present-and-future/>

JK

J. K. FINANCIAL, INC.
REGISTERED INVESTMENT ADVISOR
8222 DOUGLAS AVE SUITE 590
DALLAS, TX 75225
Phone: 214-706-4300
Fax: 214-706-4262
E-mail: info@jksfinancialinc.com



Check out our Blog
www.street-cents.com

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investments may be appropriate for you, consult your financial advisor prior to investing.

Parting thoughts for you...

If you are not receiving our street-cents.com blog posts weekly Monday, Wednesday and Friday, please reach out and let us know. We have entered the late cycle portion of this economic slowdown and items are moving much quicker than our quarterly newsletter so we are posting frequent and very important items amongst our sometimes-humorous articles for your review and knowledge.

You know it's that time of the year when last quarters Q1 newsletter had all the new tax rates and contribution amounts and in this quarters newsletter, being so close to that all important time of the year, a short but sweet and very important lead article. Yes, it's tax time and in an effort not to bombard you, we kept this newsletter to the absolute most important tax items.

Next up our second lead article is the anniversary, which we just recently passed on the 16th of last month, the one year anniversary of the

start of interest rate increases. Wow, what may seem like a half a decade is only just now a year, which speaks volumes to the speed at which these increases have occurred.

Then, on to economic talk, most notably M2, a broad measurement of liquidity sloshing around in the financial markets and banks. The measure slowed to the lowest level ever and makes the first Advanced Analysis, a new series, and is a major factor of what we are seeing in the banking system currently.

Lastly we make our pioneer foray into digital assets and cryptocurrency with a very 10,000 foot level, for your edification and ours for that matter.

We hope you enjoy our Q2 2023 Newsletter!

JK

Dates:
April 9, Easter
May 14, Mother's Day
May 29, Memorial Day
June 18, Father's Day