J.K. Financial, Inc.

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1st Quarter REGISTERED INVESTMENT ADVISOR 2017

Economic update:

Markets consider possible inflation

In the snap of an election, it appears that market participants have begun to price in no deflation and a slowing of the economy but a higher top line growth/sales and possible inflation.

(see **Time,** Page 4)

How long will current expansion last?

How long can we go? Is it possible to change history? A VERY long expansion, BUT…

One of the things we watch closely and monitor is the length of this business cycle. Unless "this time is different," a slow down or recession will make its way to our country borders, eventually. While we are long

(see **Slow recovery,** Page 7)

All about taxes

Saving, deadlines, rates

In just a few weeks, tax information will be hitting our inboxes and mailboxes. It's a good time to refresh our tax savings topics, techniques and ideas.

As quoted in our www.street-cents.com blog near the end of December, by legendary American Judge Learned Hand:

"Any one may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes."

John A. Kvale, CFA, CFP ®

We NEVER want to tempt the gray areas of the tax code, as the rules are what they are and they are easy to understand but there are smart ways to minimize taxes, as Judge Hand mentions.

What you can do this year (2017) to save on last years (2016) taxes

What is key about all of the following plans and ideas are they may be done or calculated now in 2017 and can reach back and help last year's (2016) taxes.

SEP: If you have income that was received via 1099 (not W-2), a Simplified Employee Pension or SEP plan may be a great tax saver. Generally, you may set aside pre-tax 25% of the net income from this income (there are various rules, easily decipherable by your tax professional and today's tax software such as Turbo Tax). One of the best parts of this plan is you

(see **Saving,** Page 2)

INSIDE:

All about taxes

Saving with IRA, HSA, ROTH, credit plans

(continued from Page 1)

may contribute to this plan AND be a member of a company sponsored plan, such as a 401k or other. The SEP offers pre-tax saving offset against the 1099 income. There are collective total maximum contribution limits to be adhered to. The deadline for completing a prior year SEP is the filing date or extension date of filing. We recommend the contribution be made BEFORE you file in either case.

IRA: An oldie but a goodie. If your company does not have a retirement plan, the IRA may be just the ticket. If you have a company plan and are an active participant, income limitations apply. Currently you may contribute $5,500 in pre-tax form and if you are 50 or greater young, you may contribute $6,500. You may always contribute to an IRA and not take the deduction; however, we would advise against this under normal circumstances as the distributions become more complicated at retirement for your Required Minimum Distributions (RMD's). Deadline for a prior year IRA is the April filling regular deadline. EVEN IF YOU EXTEND, the deadline is still April.

HSA: This is one of our favorite savings plans. The HSA or Health Savings Account is available to those with high deductible health insurance plans. Check with your carrier to see if your plan meets the requirements if you are uncertain.

This plan is not phased out and as such resides on the front page of the 1040 with no other limit than the maximum amount to contribute. Those on any type of Medicare are not able to contribute and as such cannot receive a tax deduction but anyone can continue to accumulate your HSA funds, pre-tax and tax-free growth as well as tax-free usage in the future as long as it is for medical expenses.

Our favorite provider, the HSA Bank also has special investment accounts with our custodian for excellent investment options. The deadline for a prior year HSA is similar to the IRA, April of the next tax year, extensions do not matter.

For the current limits from the HSA Bank, see the tables below.

ROTH: This plan is available to those meeting certain criteria and is most useful to earners early in their career who may not have the same tax benefits of pre-tax contributions. A Roth allows after tax contributions that grow tax deferred for use at a future date without taxes upon distribution. All other things being equal the Roth is a bet that tax rates will be higher at retirement which we take issue. There are income limitations similar to the IRA and the limits of contribution amounts are the same as the IRA , $5,500 and $6,500 for those 50 age or older young.

We like the Roth in special situations. The deadline for the prior year Roth contribution is also April of the next year, no matter the extension status of the return.

Sales Tax Credit Itemization: While not an official retirement plan, itemization of your sales tax credit may be useful if you have had some type of larger than ordinary expense. The sales tax credit uses geographic and income information to estimate your sales taxes for the year. These taxes are deductible in most cases. If you have had a larger than ordinary purchase or some type of transaction that sales tax was substantial, itemizing your total year's sales tax might create a larger deduction.

Important Tax Deadlines

Due to an increase in cyber fraud dealing DIRECTLY with

(see **Some early**, Page 3)

2016 IRS Limits

	Single plan	Family plan
Maximum contribution limit	$3,350	$6,750
Minimum deductible	$1,300	$2,600
Maximum out-of-Pocket	$6,550	$13,100
Catch-up contribution (55+)	$1,000	$1,000

2017 IRS Limits

	Single plan	Family plan
Maximum contribution limit	$3,400	$6,750
Minimum deductible	$1,300	$2,600
Maximum out-of-Pocket	$6,550	$13,100
Catch-up contribution (55+)	$1,000	$1,000

All about taxes

Some early deadlines, possible new rates

(continued from Page 2)

the IRS, there are important new filing dates that need to be administered to. Last year we approached double digit numbers within our firm of clients having some type of fake tax related fraudulent during tax season. From false filings showing major expenses to get the federal income taxes withheld, to multiple fraudulent phone calls of fake IRS agents, to letters being sent allegedly from the IRS with fake information. Bottom line, the IRS is out to put a stop to this and has adjusted many of the deadlines forward to help prevent fraudsters by giving them less time.

FBAR – (Report of Foreign Bank and Financial Accounts) People living in the U.S. that have control of assets in another country need to report these assets by this NEW DATE of April, the same as the regular filing. This is several months earlier than prior years.

Recent tax rule changes have created many new filers that may have not needed to report in prior years. Check with your financial professional if you are unsure if you need to file, your new earlier date is April. One last item, the penalties are steep and extensions are not regularly allowed.

W-2 Deadline moved forward for employers – New deadline is Jan. 31. This is earlier than prior years and again is aimed towards fraud prevention.

Another move that is logical from the IRS standpoint is the movement of refunds forward to as early as Feb. 15 in many cases.

Normal individual deadline for 2016 taxes - April 18, 2017 is the actual normal individual tax payer's deadline for 2016's taxes, due to a holiday.

Here are a few non-changed filing dates to remember:

- Tuesday, Jan.17, 2017 – final quarterly ES payment for 1040's for year 2016
- Wednesday, Feb. 15, 2017 – furnish 1099's to recipients for 2016 income
- Wednesday, March 15, 2017 – most corporate, Trust and other similar non-individual filings along with K-1 distributions notifications to appropriate recipients

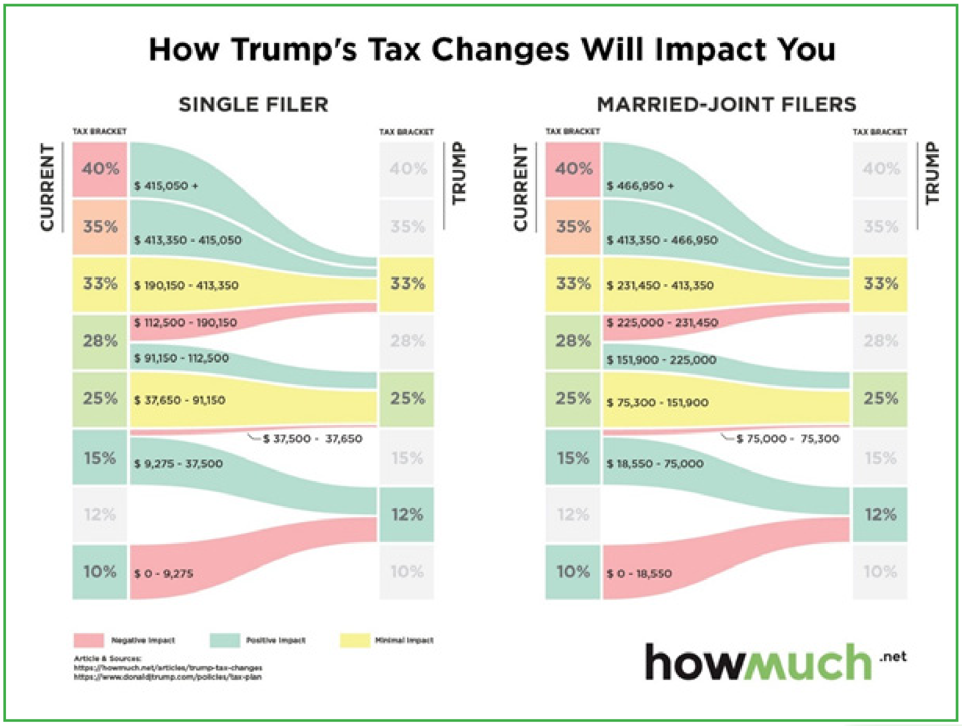
New possible tax rates

So, what we have all been waiting for are what tax rates may be, moving forward. While there will be much banter on if these actually get passed, here (see chart) are the proposed rate changes.

What this wonderful chart from howmuch.net, a cost information website, does not speak to is there is also a proposed **$30k standard deduction for all married filers.** If passed there will be many new tax planning ideas and techniques to be addressed in the future.

Lastly, there is also a proposal to eliminate the Estate Tax but also to eliminate the step up in basis at death valuation that is current policy. If enacted this opens even more neat tax planning ideas and techniques, with many possible savings.

JK



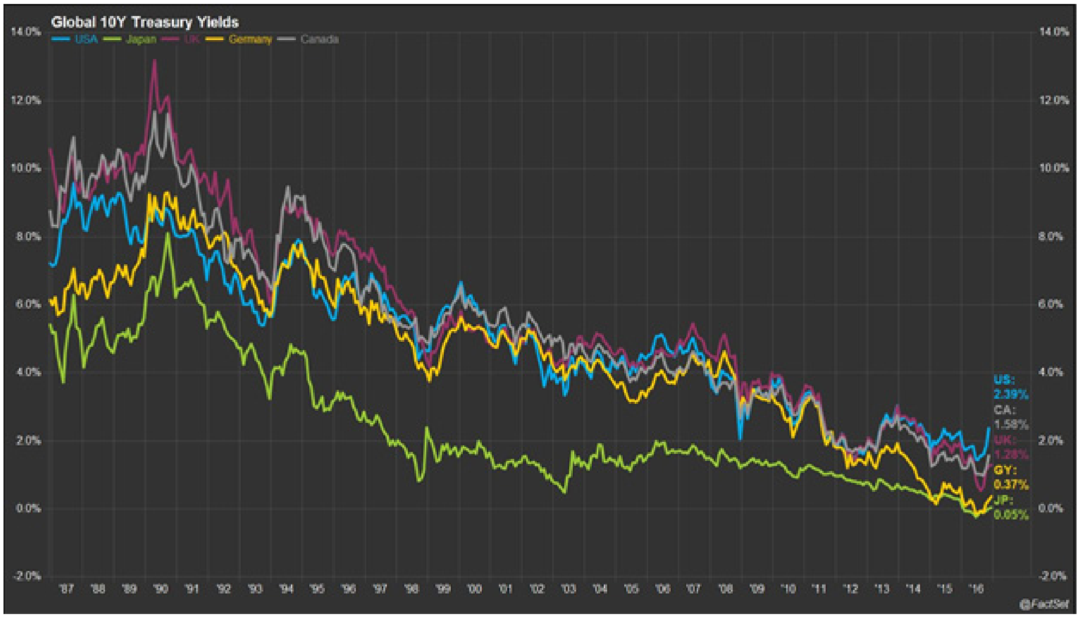
Economic update:

Time will tell if beginning of higher rates, inflation

(continued from Page 1)

World interest rates

This world interest rate chart from FACTSET (Obvious Fixed Income Forecast 2017 by Bill McCoy, at right) shows the global interest rates of various countries. As rates decrease it can be construed that market participants feel less confident in global growth.

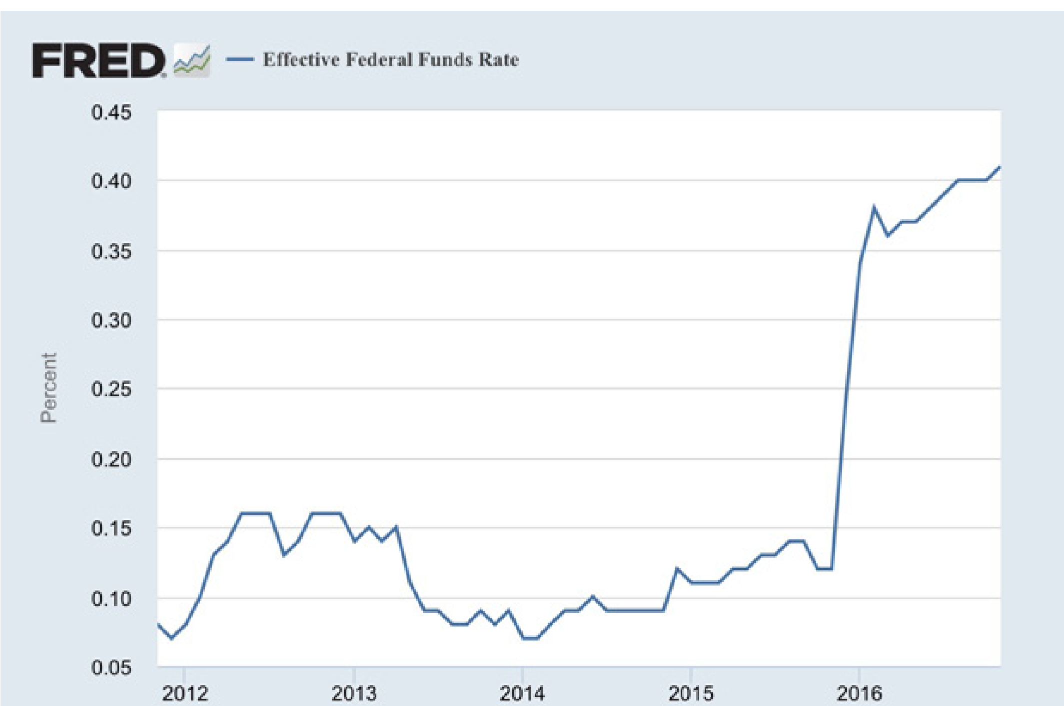


Looking at this chart, updated in the middle of December 2016, at the far right the move up shows rates climbing in anticipation of possible higher growth rates. Only time will tell if market participants are correct and this is the beginning of higher rates and inflation but at this very early time the move is worth monitoring.

FOMC raises rate and calls for three more increases

The 2016 Review is on Page 8 of this newsletter.

As mentioned in our 2016 Review, the FOMC (Federal Open Market Committee) headed by Janet Yellen raised rates in mid-December of 2016, this time actually catching up to what market participants desired, higher short term rates.



In the year 2015 at this same monthly meeting in December, the FOMC raised rates from 0% to .25%. As also mentioned in our 2016 Review, the early months of the world equity markets were record breaking in their terrible start in 2016. Some have point-

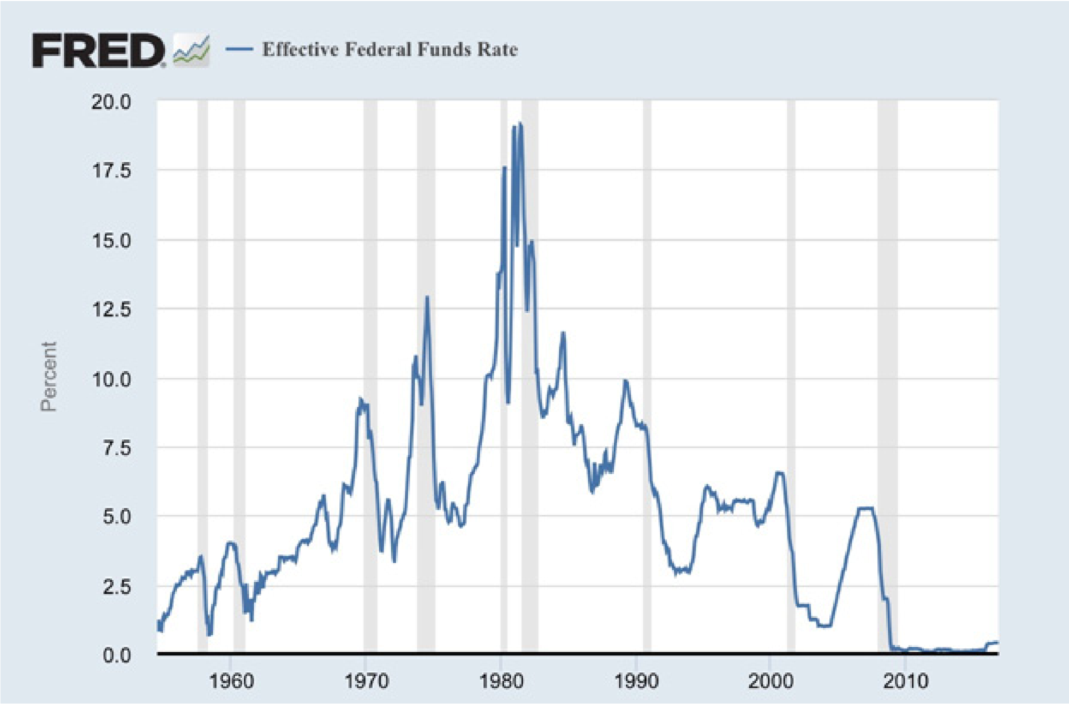
(see **Gallop**, Page 5)

Economic update:

Gallop shows rise to nine year high in confidence

(continued from Page 4)

ed to the increase as a reason. While we do not necessarily agree that the December 2015 increase caused capital market issues in early 2016, we are watching closely as we start 2017.



It is worth noting the bigger picture of interest rates over the long term. While the move (see chart, bottom of Page 4) looks large and possibly caused some market reactions, in the context (see chart at right) not a big deal.

The consumer – very happy?

GDP (Gross Domestic Production) is one of the best and widest ways to measure the economic health of a country. In the USA, over two-thirds of GDP is made up of consumer spending as we are a mature country. This makes watching the consumer and her mood of the utmost importance.

Gallop Consumer Confidence Poll

The consumer confidence poll (see chart at left) from the Dec. 13, 2016 Reading at Gallop shows a rise to a nine year high in their broad measure of consumer confidence.

Why so happy?

From our friends at JPMorgan

(see **If growth**, Page 6)

Economic update:

If growth too fast, interest rate increases may come

(continued from Page 5)

research, the following chart is busy but has a lot of information worth noting that may shed light on why our consumer is happy.

· Left panel: Total Assets currently $103 trillion – up from $68 trillion in 3-2009

· Upper right panel: Debt as a % of income is down from over 13% late 2007 to 10% current.

· Lower right panel: Household Net Worth is up from $67 billion in Q2 07 to over $90 billion today.

Any negatives?

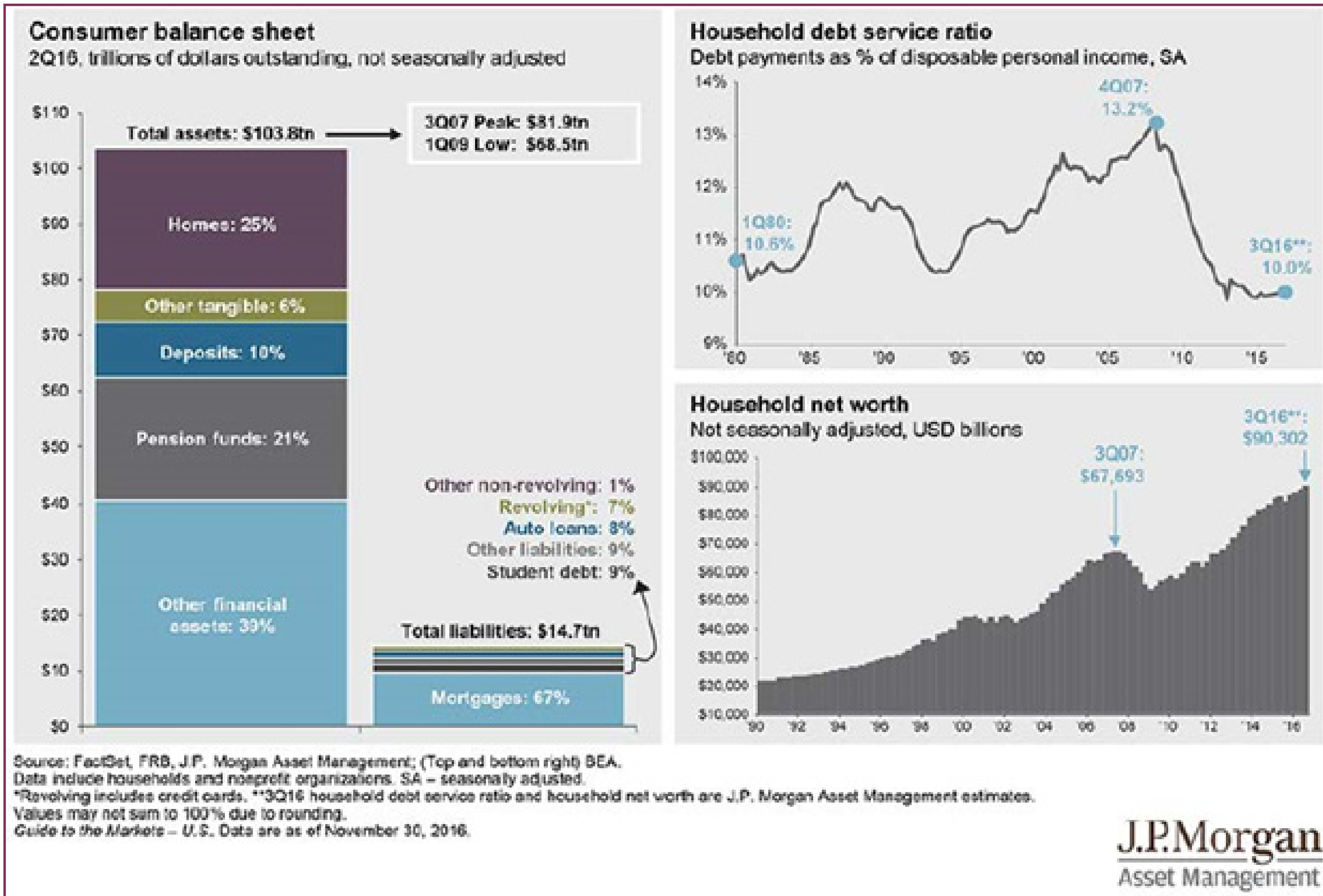
Yes, of course there can be negatives. If the economy begins to grow too fast and aggressive inflation raises its head, faster interest rate increases may be warranted.

The FOMC is on record for wanting to err on the side of being behind on rate increases due to the long prolonged slow growth the U.S. has experienced since the '07-09 crisis.

Reviewing the first and third charts of long term world rates and long term U.S. rates, it is highly unlikely we will be worrying about rates seen during super inflationary periods such as the mid to late 80's; however, there can be a rate of reckoning, meaning too far too fast for capital market participants to be comfortable.

This is likely a long way away and after such a long slow recovery, we should be so lucky. But it is still a possible negative.

JK



Slow recovery may mean slow expansion before inevitable slow down arrives

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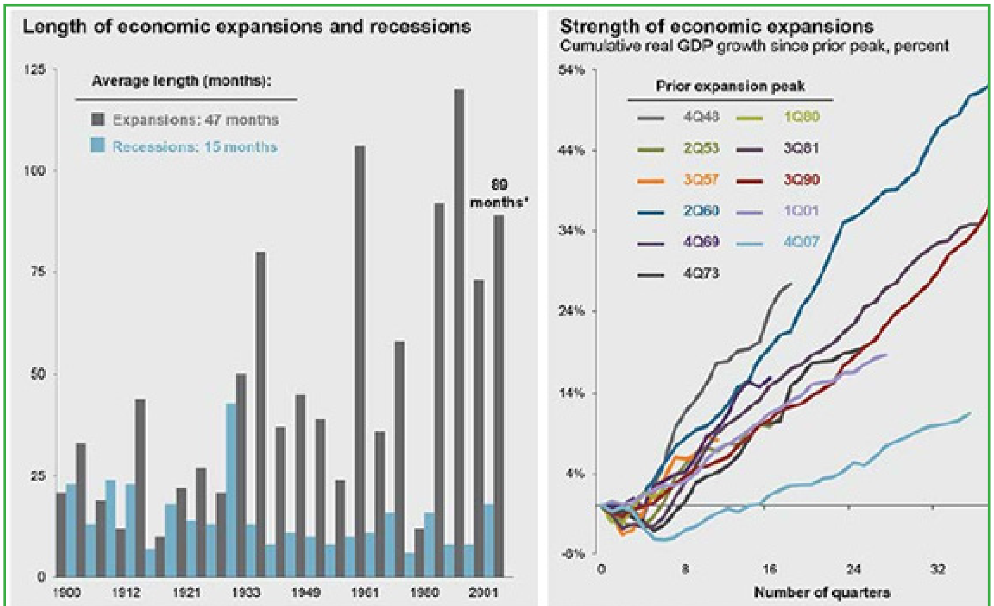
in the tooth from a time standpoint, there are other factors that we discuss in this article that make the case, "yes" we can go longer.

Current expansion



Source: BEA, NBER, J.P. Morgan Asset Management. *Chart assumes current expansion started in July 2009 and continued through November 2016, lasting 89 months so far. Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). These data can be found at www.nber.org/cycles/ and reflect information through November 2016.
Guide to the Markets – U.S. Data are as of November 30, 2016.

This recovery, about 90 months in length now, is one of the longest in history. There have certainly been longer, when the economic stars were lined up perfectly and a dramatic force called the internet hit mainstream.

This being the case there are other factors that can easily explain and make the case for a continued expansion.

Take a close look at this chart from our friends at JPMorgan. The left side represents the length of recovery, with our current, approaching a new all-time long. While you're reviewing, be sure to look at the lighter colored bars, the eventual length of the recession.

The average recession based on JPMorgan's data is 15 months. While 15 months seems like a very short time when we are rolling in an expansion, when recessions hit, time slows, fears rise and animal spirits turn to fearful nerves. Ok, we digress…

What makes a business cycle occur is unsustainable inflationary growth (too much demand, chasing too few goods) pushing prices and inflation to levels that are too high, peaking and then a fall after too fast of growth occurs. A recession/slowdown sets in and a re-set of lower growth, termination of unproductive businesses and new businesses commence.

Given these facts, take a look at the right side of the chart. Guess which line represents the '07-09 recession and is the weak struggling runt on the far lower end? Yep, the current expansion.

The best part of our current expansion in terms of extended time is it has been so SLOW. Being so slow and gradual may allow this recovery to be a rule breaker and history maker for a lengthened expansion. Fingers crossed.

Expansions last about 50 months according to our friends at JPMorgan. We are nearing 90 months currently.

Contractions last 15 months but feel 10 times worse just as pain is much stronger than pleasure. Due to our slow recovery, we may have more room for a slow expansion before the inevitable slowdown/recession arrives!

JK

2016 review What a year it was!

This year has been one of twists, turns, rewards, fears and surprises. Here are a few high points.

Slow start

Talk about out of the starting gates bad. World capital markets finally tugged the large company U.S. markets down, taking the S&P 500 down 15% and oil to under $30 a barrel in mid-February.

Our never go all in OR all out mantra proved once again to be supreme. For no known reason, markets smartly turned up with oil making its way from the high $20's to over $50 per barrel.

Investopedia Expert Planner

Honored to be asked as an expert financial planner to answer public questions from across the country, this pro-bono acceptance yielded over 100,000 views in short order. In the spirit of giving back, a very rewarding effort and happy to help so many.

Wharton Live Sirius Satellite radio show

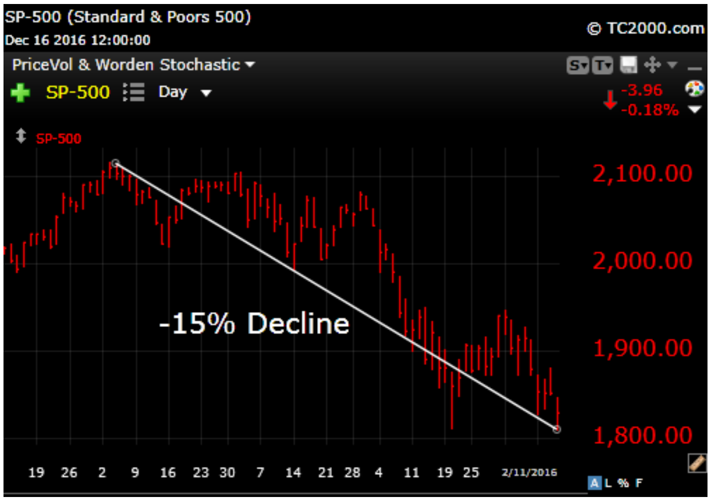
Later in the spring, Wharton called and another live nationwide Sirius Satellite call-in radio show was in the books, again a spectacular fun success and wonderful way to give back with three decades of financial accumulated knowledge.

Brexit

Surely Britain would stay in the European Union, the polls were showing as high as a 90% probability that they would. As the votes were tallied, something strange occurred as the Brits did in fact vote to leave the EU. Capital markets were immediately disturbed but quickly gained traction as the reality of a non-major event set in. As fall continued, this event put the brakes on a Federal Reserve rate increase.

D Magazine for the 10th consecutive time

Flattered by a 10th consecutive nomination to Dallas' D Magazine's Best Financial Planner award, we were happily notified of our nomination as fall began. Thanks D Magazine, we are proud to be a part!



U.S. election

The polls would once again miss big as the election results rolled in and a surprise candidate was nominated president. Capital markets, spooked the night of the election, settled into comfort by sunrise and were off to the races. Big money sloshed around leaving interesting tracks in their wakes (we continue to watch and monitor) as they placed their bets on what the final result would mean longer term. Market participants expect higher top line growth, to even an inflationary theme, reading from their tracks.

Federal Reserve raises rates

Mid-December marked the day the FOMC (Federal Open Market Committee) raised rates from .25% to .50%. Markets yawned, even as the FOMC signaled they expected three more rate increases during 2017. It has been a race to see who moved to the back of the papers faster, Tony Romo or the FOMC.

Renewed office lease

Within shouting distance of the new year, we came to an agreement with the landlord to stay in our same place for another five years. We will now be at 8222 Douglas Suite 590 -AT LEAST until October of 2022! Hooray!

Overall a year of surprises that are sure to fill the history books. It was fun to watch and participate.

JK

Managing your  401K: Maximize contributions, appropriate allocations, borrowing from plan

Managing your 401k or other similar company related retirement plan appropriately in the coming year – A perfect time for a quick review

As completely paid into by the company pensions have gone way of the buggy whip, the 401k or other similar employee contributed retirement plans have gained importance. The responsibility baton has been handed over to us and it's a good idea to handle it carefully. With the turn of the calendar there is no better time than the present for a few tricks and pointers for maximum performance.

Contributions

Take the company match as gravy and max the most you can put into your plan. Most companies offer some type of match, which is great but in most cases, we want to put the maximum dollars allowed without regard to the company match component.

Using the 401k as our template, the maximum for 2017 is $18,000 in deferrals. If you are 50 years young or more, you can add another $6,000 to get that total up to $24,000.

You want your contributions to smoothly go into your plan over the entire year. This takes advantage of the ups and downs and will help contributions compound via Dollar Cost Averaging or buying more when investments are low and less when they are high.

Ideally, your last contribution will be taken from your paycheck in late November or early December. Don't forget your bonus or other out of the ordinary cash flows as they can accelerate your contributions too fast or if not included in your contributions, leave you short of your maximum contributions available.

One caveat and counter to smoothly contributing to your company plan is if you will only have a partial year at the employer. Retirement, planned job change or other, if you have advance knowledge of a departure, MAX your plan in the time you have. Appropriate planning for cash flow needs may be necessary but well worth the effort.

> "Our New Total Vault interfaces with your 401K or other retirement plan allowing you and us daily updates...

If you are changing jobs and your new employer has a plan available, BE CAREFUL. This is the easiest way to over fund the plan and will not cause any terrible tax consequences but can result in a loss of tax benefit. Your total contributions to the two plans is still the same maximums as above.

Allocations

Aggressive allocations are correct for new participants in a plan as your contribution will make up the bulk of the plan for the first 4 to 5 years. As the size increases it is a good idea to lower the risk of the plan as a 20% drop (normal every five year market occurrence) of a large number is more than most can handle, leading to incorrect selling at a likely terrible time.

Good news, our New Total Vault interfaces with your 401k or other retirement plan allowing you and us daily updates, putting us together in the driver seat of maintaining our appropriate allocation continually.

Borrowing from your retirement plan

Many plans offer a borrow feature that a loan is paid to yourself as interest. We dislike this option unless it is totally necessary.

1. Borrowed funds are set aside and no longer invested.

2. If you leave your employer with borrowed funds, you will be forced to pay them back quickly or incur a taxable distribution with the remainder of the loan.

3. Borrowing from your 401k likely means we have a cash flow problem or possibly too low of an emergency fund.

These are just a few reasons we dislike borrowing from our 401k or other similar plans unless absolutely necessary.

There you have it, great ways to make our retirement plan hum for the new year.

Once upon a time

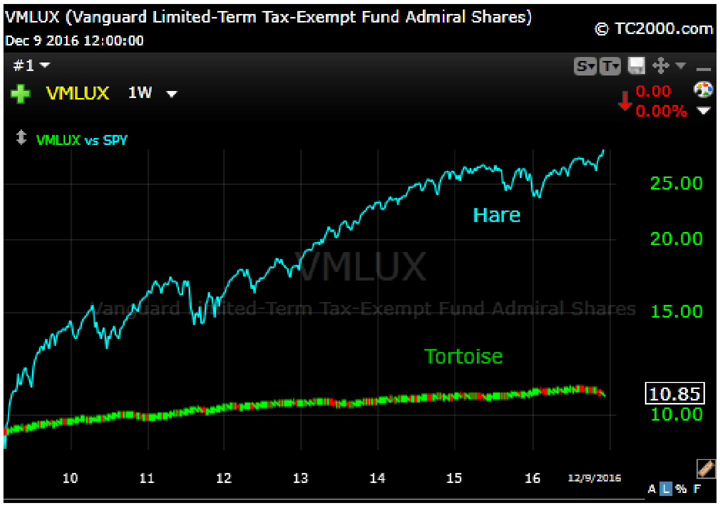
Tortoise and the *hare*

Some blend of the tortoise and the hare are necessary; do not let your guard down

We all know the old fable of the slow tortoise diligently plodding along while the wild hare screams by him but fails to finish first. Of course, we see things through our financial binocular frequently but this kids fable makes for a funny comparison and a reminder.

For our fairy tale, the hare is the S&P 500, one of the best performing asset classes since the great recession of ‘07-09, versus the Tortoise, the Vanguard short term Muni bond fund.

Rewinding for a seven year (yes, that is almost a decade now) the large U.S. capital market has only had a few retreats, and most less than 10%. Look at the hare run. (See chart at right.) Why would anyone give the tortoise a chance?

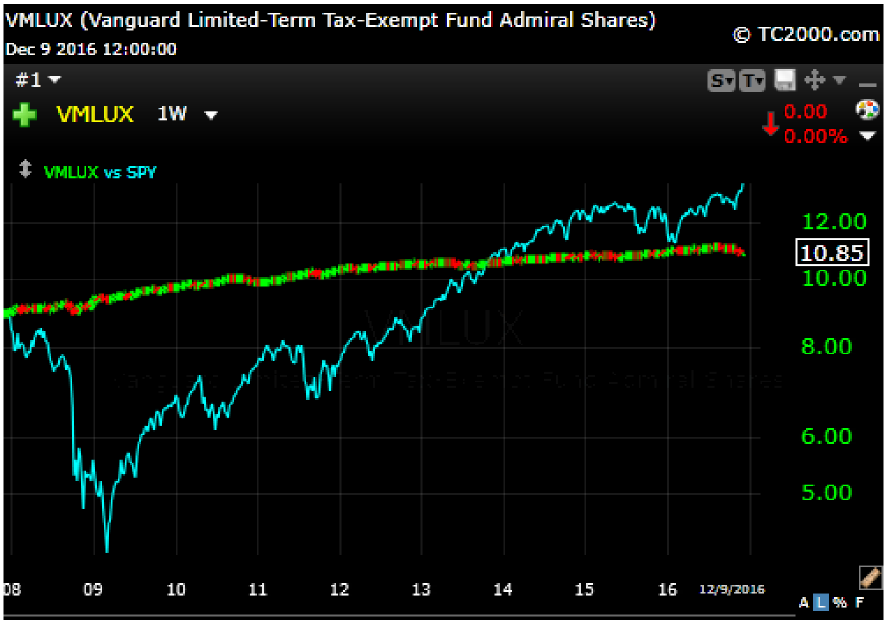


Historically a 20% drop occurs at least every five years… we are long in the tooth overdue for a regular correction. If your memory is as good as ours, and we have the cuts and scrapes to prove it, you quickly see why some blend of the tortoise AND the hare are necessary.

Looking at the lower left hand chart, same tortoise, same hare, just a little farther race (longer time frame).

The Hare does win in our fairy tale but the road was bumpy as you can see in the chart at left. Fortunately, in real life we do not have to have one or the other. We can have both and get a blend of the two personalities.

We are not calling for a terrible market. We feel pretty good about the near term future but we just wanted to remind everyone not to let their guards down. *JK*



Apps of the quarter: Google Maps, Waze

Those regular readers know the road, along with weekend out of town tennis tournaments, have been our friend over the last year. After making a fun discovery, we wanted to review two of our very similar apps that we use constantly.

Google Maps

You may be familiar with this app but did you know it may be helpful to use this app when you know exactly where you are going?

Driving in Dallas for the last 30 years led to overconfidence in the journey. Maps is smart enough to route you around an accident you may not have known existed and best of all, if you are on a regimented journey, maps will likely take you several different ways over time, making for a more scenic ride and even possibly a new discovery of something interesting.

Maps is even great when you are walking and has a button for you to let it know you are on foot, making for even more interesting journeys.

Google Maps has superior address finding skills than our next app and Maps tends to be easier to find a location if you only know the name of where you are going and not an address.

Waze

This app, recently purchased by Google, has a cult like following. One of the neatest features of Waze is the ability to set an alarm for when you want to arrive at your destination; the app will check the traffic intermittently and alert you as to when you need to leave. This was used with great success while in an unfamiliar city for an early flight.

Another great feature is the ability to monitor your speed AND the speed limit. You can set an alarm at a speed of your desire over the speed limit to be alerted. This feature has already saved a ticket or two during those sudden speed limit changes while the accelerator is on cruise control.

The interactive features such as funny voices (i.e. Shaq, R2D2), gas price notification, camera, accident and police warnings make for a fun trip, especially on those more boring long drives when your fellow passengers are snoozing, another personal experience.

Waze is more accurate in finding road blocks, construction and general traffic problems due to its interactive features but may take you through a parking lot on a mission for the fastest journey.

For fun, you can run Google Maps and Waze at the same time, easily flipping back and forth for comparison (and entertainment) but be sure to keep your phone in a charger as both apps, especially when run together, are heavy drags on your battery!

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A few parting thoughts for you...

As we happily start a new year and prepare for the inevitable taxes from last year, we really had fun with this newsletter.

There is a very special "All About Tax" article that is lengthy but meant to remind us all of possible tax saving ideas.

We reviewed 2016 in a special article as there were so many unique items to remind ourselves.

On the economic front, we hope you will like our overview of the economic situation and look forward to possible nuggets of information that have occurred recently.

Our two favorite Apps of the quarter, Maps and Waze make for interesting possible new apps for your review.

In closing, we wonder if the strange start to 2016, Brexit, U.S. presidential election or the local favorite Dallas Cowboys are more surprising! Which one do you think?

Happy 2017 !

New knowledge sites:

Gallup.com
VisualCapitalist.com
Howmuch.com

Dates:

Jan. 16 - Martin Luther King, Jr. day, Banks/ Markets closed

Feb. 20 - Presidents' Day, Banks/Markets closed

April 18 – Regular Individual tax filing due date