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3rd Quarter

REGISTERED INVESTMENT ADVISOR

2017

Summer plans

Tennis tournaments, beaches, family time highlight activities

(see [Summer](#), Page 7)



Residential real estate analysis

House prices over last four decades

One of the largest assets many have is their residence. As the American dream for many, the REWARD of buying that first home, sometimes even a second or third home (which is the conversation for another time) or the last for that matter, may be large.

While it is very hard to figure residential homes relative price as well as their overall value, what follows is a logical try to analyze residential home prices over the last four decades.



John A. Kvale,
CFA, CFP®

We understand there are certain areas of the country that may look much different, notably the coast lines which tend to have much higher peaks and shoals, very high end and low end areas, as well as areas that may have grown faster in population or other areas that may have lost population, this is a general analysis covering the entire country from a high level. In completing our analysis,

something interesting was discovered.

House prices and inflation

Using data from our friends at the St. Louis Federal Reserve also known as FRED, the first chart on Page 2 shows a close correlation in Residential Housing Prices and Inflation as measured by the Consumer Price Index (CPI).

In reviewing other data from other sources with a history

(see [Prices](#), Page 2)

INSIDE:

- Prices change in 2000's, take on stock market volatility
- History shows lending standards not the only factor of pricing
- Good time for downsizing but new bigger purchases need long term goals
- App of the quarter: Fitbit
- Summer plans

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Prices change in 2000's, take on stock market volatility

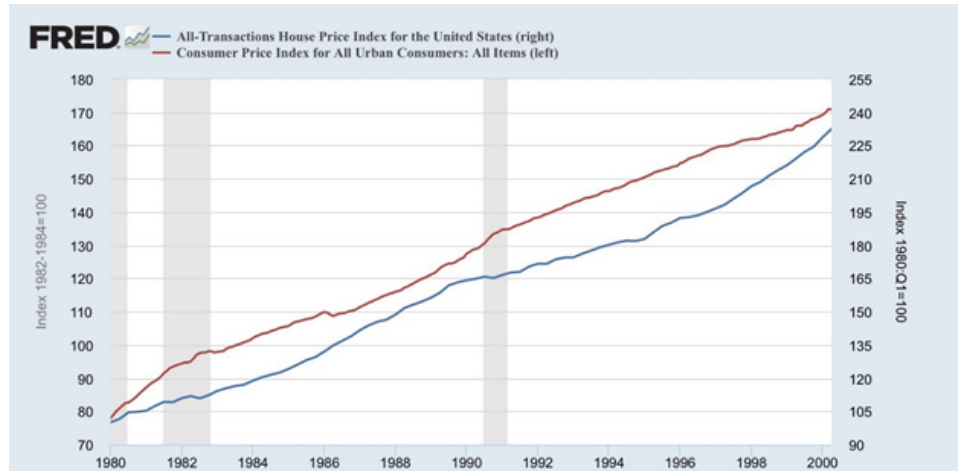
(continued from Page 1)

prior to 1980, it looks very much the same. Over the long term, prior to the turn of the century, residential home prices aligned well with the broad inflation rate.

What happened next - interesting

As we left the 90's and entered the 2000's something began to change as can be seen by the key tell-all chart, top chart at the bottom of this page.

Home prices started their run as the change of century occurred and began taking on stock market like volatility rather than normal steady inflation like increases. In reviewing the chart below, a



possible exuberant move during the decade after the turn of the century then an almost "kiss" back to the trend line of inflation, during the post Great 2007-2009 Recession. With weariness and fear disappearing in short order, prices were back off to the races again.

Are interest rates driving prices?

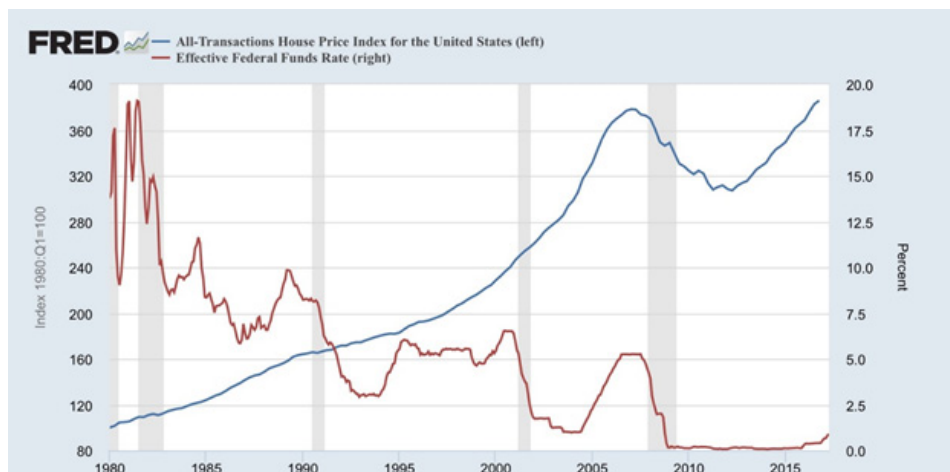
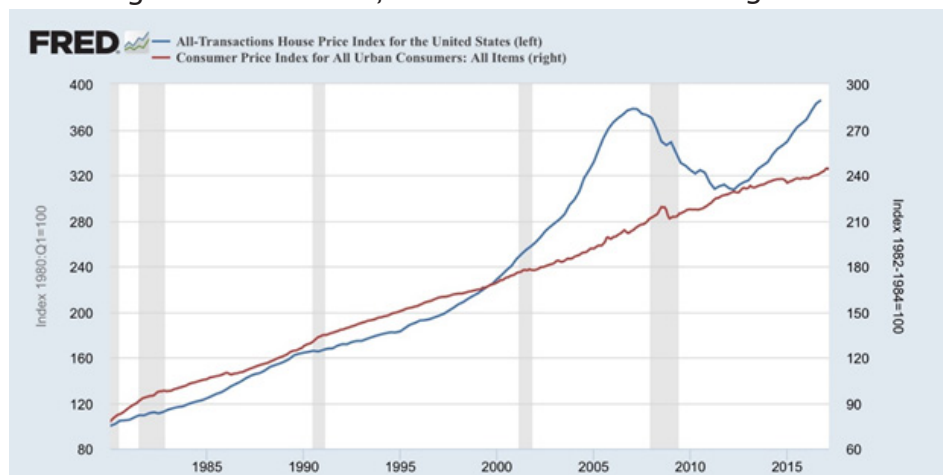
Those with good memories can easily recall a mortgage at 10% or even 12% or more. As rates fall the same dollar will buy more house, most certainly adding demand and price pressure to residential home prices.

In reviewing the chart at the very bottom of this page, if interest rates were the key driver, without other knowledge of the post century move, the early 90's would look to be when housing prices took off but they did not. It is reasonable to think that the interest rate drop in the early 2000's recession added the initial steam to accelerated housing price moves. It is possible that it took some time for more aggressive pricing pressure to occur until rates were well below the 10% range. The move from 10% rates to 7% is not proportionally as large as a move from 7% to 4%.

What about population growth?

If there were a sudden population growth that hit the system, similar to what the

(see [History](#), Page 3)



History shows lending standards not the only factor of pricing

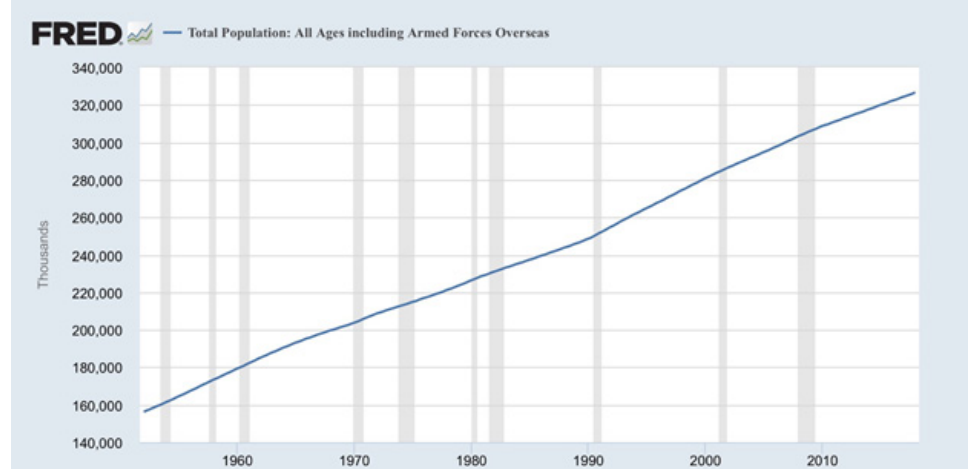
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baby boomers did to many other aspects of the economy throughout time, that might also account for the sudden residential pricing moves. The graph at right showing steady population growth pretty much negates that possibility.

Lending standards

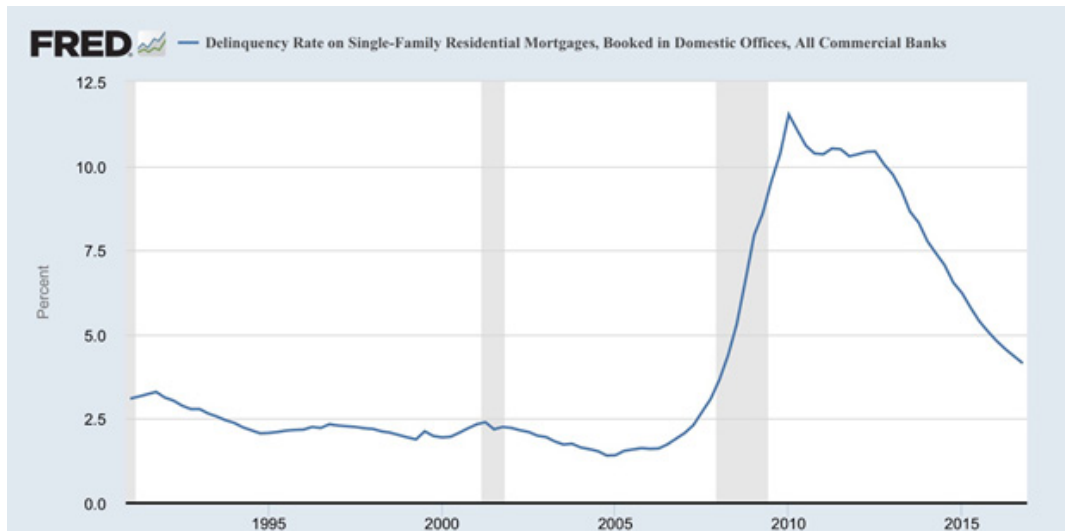
By many counts, lending standards dropped in the early 2000's, possibly adding additional gasoline to the price fire.

While there has been much banter (movies and books) about more relaxed lending standards leading to the great



residential housing collapse also associated with the Great Recession of 2007-2009, taking a peek at delinquency rates (see top chart below), it is noticeable

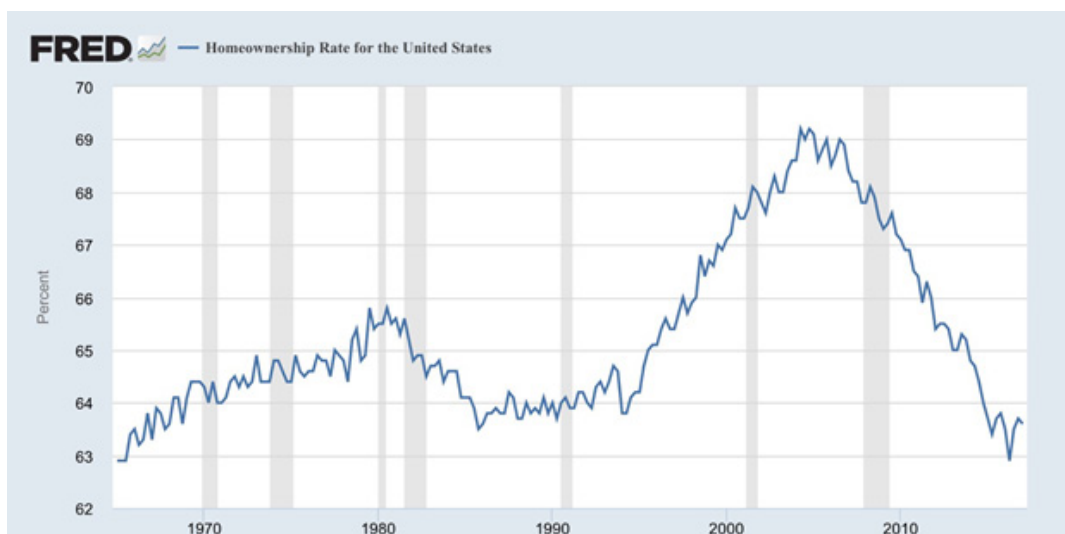
that delinquent mortgages are still higher than the turn of the century when residential housing prices first started their greater than normal volatile movement.



With higher than recent delinquency rates now, it would be illogical for residential housing prices to be on the move again if this were the only factor.

Homeownership?

A sudden increase or correlated movement in homeownership would give credit to residential housing price volatility. Unfortunately, looking at the bottom chart at left, the total lack of correlation in homeownership is very puzzling. If one only had knowledge of our homeownership information it would be easy to conclude prices surely started rising in the 90's only to collapse and not increase again. Adding our prior interest rate



(see [Good time](#), Page 4)

Good time for downsizing but new bigger purchases need long term goals

(continued from Page 3)

chart to the picture would lead one to only further conclude with confidence residential home prices at least began their ascent in the 90's, again not true.

Not only would most conclusions of pricing be incorrect from the homeownership chart but adding the delinquency chart to the review would lead one to think residential prices would have collapsed with no recovery in sight, again not true.

Money supply and the Federal Reserve

It has been well voiced by the Federal Open Market Committee (FOMC) that one of their main intentions post Great Recession of 2007-2009 was to increase asset prices through money policy. In this case the FOMC forced large amounts of money into the banking system for bank system repair and for

lending to the public, pushing interest rates lower even on the longer end of the interest rate curve, which also pushed interest rates on mortgages to extreme lows.

In reviewing the chart below, this may account for the post "kiss from norm" bounce in residential home prices but this would not give any credence to the turn of the century initial volatile movement.

Conclusion

It's a real head scratcher. We are sorry but that is just the case. There may be powers outside of the normal in control at the moment or it may be just a perfect connection of events that has begun to make a once very steady asset volatile.

Take your time if you are buying and for heavens sake please put plenty down as there may be more "kiss the norm trend line" to come. Peak to trough was well over

a 20% move with many parts of the country seeing much greater volatility. In theory, if this occurs again, a 20% down payment on a new home could be completely extinguished over the short term by another "kiss" to the trend line.

Don't get sloppy. It's logical to think we are not in a buyers market at the moment. If you are downsizing or thinking of downsizing, this may be the time. If you are moving up, no worry, just make sure you intend to be there for some time and do not worry if your value fluctuates well below your purchase price sometime in the near future.

Until proven otherwise, we would expect more of the same. It would highly surprise us to see the current trend line in residential home prices climb to the sky; we would happily take it but be VERY surprised!

JK





App of the quarter: Fitbit

Device does a lot more than just count steps

may be of interest.

Ok, so this is not really an App of the quarter but it does have an App that goes with the device, so work with us here if you do not mind. It's summer and thought this find

Satellite Wharton Radio show. More on this later.

Steps and more steps

Most are familiar with the "steps" monitoring which actually was not my hot button but has turned into much more than I thought it would be and has changed behavior. One of the most popular monitoring activities of these devices are the step monitoring. After a full day of activities, your total steps are tallied and recorded in a neat App upon syncing.

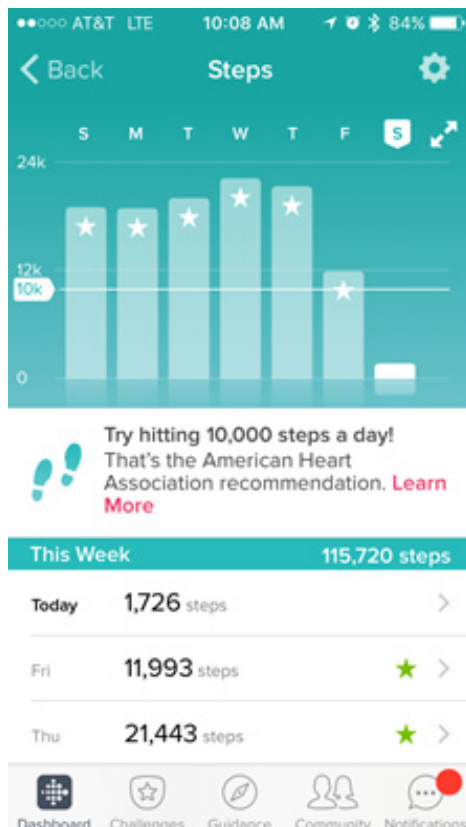
For the holiday season, the kids each received the very low-end Fitbit watch. The cost was about \$70 and the watch only tracked steps and was not that useful. At this point we are not certain where the two devices are but we were not deterred as we could see the usefulness... but possibly not for the kids.

On a recent turn around travel trip (lots of (see [Fitbit](#), Page 6))

A step up - pardon the pun

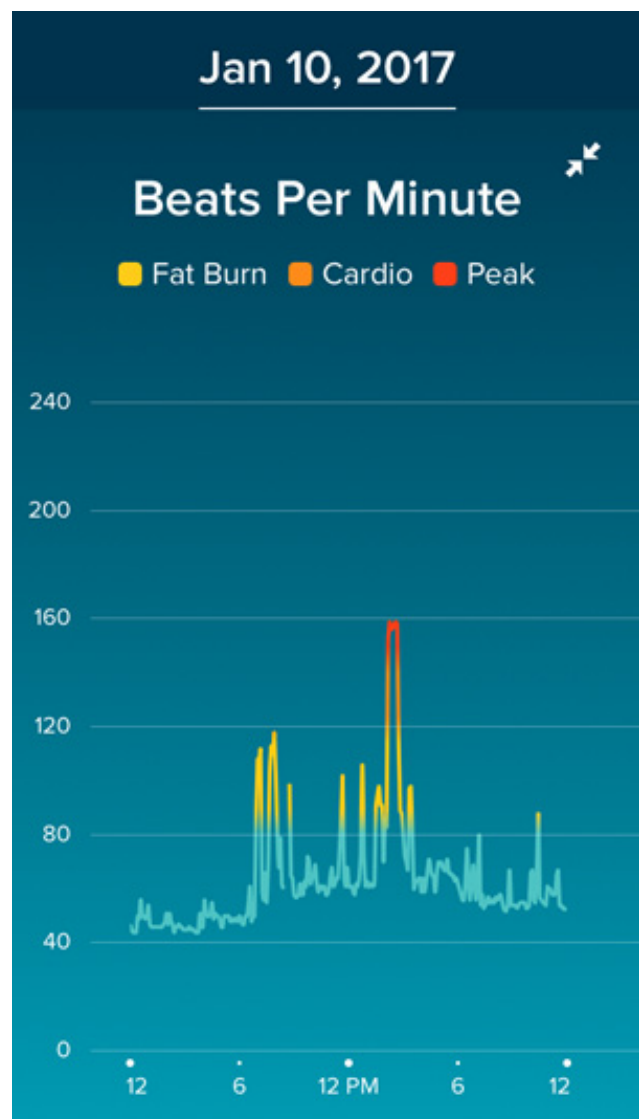
Coming from a family with high blood pressure, a Charge 2 was just the ticket. At about \$125, the features were MUCH more

resilient than the low end initial purchase.



There are many more versions above the Charge 2 and features that are much richer, as it is just one step above the base steps-only version.

The purchase was actually made the same day as the Wharton Sirius



Fitbit: Check heart beat, resting rate, sleep

(continued from Page 5)

flight time) there was enough time between events to take the walkway in the terminal rather than the shuttle, especially after glancing down to a VERY low step count, for obvious reasons.

At the end, and throughout the day, pokes are made at family members who have a low step count, usually from someone with an active day in his/her grasp. Again, it will change behavior in a good way.

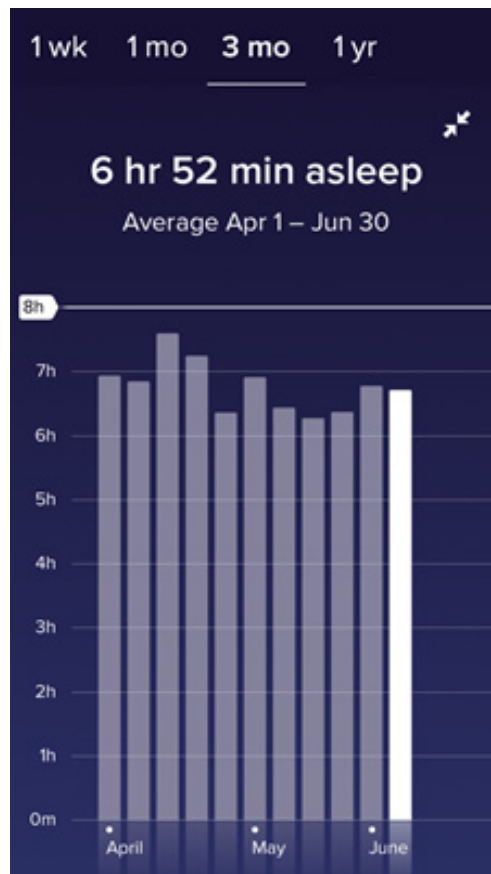
Several family members of smaller body frames have accused of over counting others as well as undercounting theirs. It is, of course, not an exact measurement.

Heart beat and resting rate

As mentioned earlier with a Wharton Live National Radio Show occurring the same day of purchase, a 100% battery was certain and after the hour-long show, a surprising view.

The high heart beat was the jog earlier in the day. The show was near 6 p.m. and hardly even a blip in heartbeat increase was detected.

At that moment, accuracy was questioned but upon further monitoring, oddly our heart rates do not increase as much as you may think, even when it feels like it is



pounding. It must be adrenaline.

ZZZZZ's, or the lack of?

The “all-nighter” before an exam was not a friend. Delayed study and cramming does not fit with someone who needs a full night sleep. After years of fighting, pride was taken in getting a full night’s sleep.

Not so fast! One of the more stunning aspects of these devices are the monitoring of sleep and sleeplessness at night. The screenshots show several options for viewing nightly sleep.

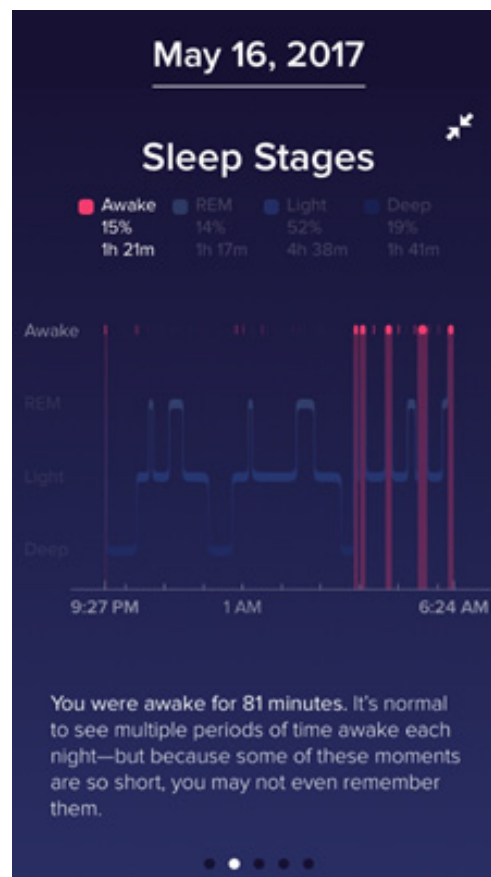
Stunned at the results, more attention is given to “tired” days and in most cases the Fitbit has already spotted the shortage.

You may be surprised just how little sleep you may be getting!

In closing, the idea to do this article was formed while at a golf outing when coincidentally all parties began comparing their steps and their progress after discovering the majority of us were wearing the same Charge 2 Fitbit.

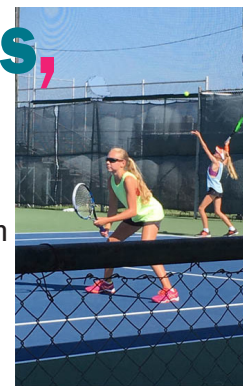
Fad? Maybe. Cost? Not bad. Fun and healthy? Absolutely. If you were on the edge and had interest, take a look. It may be more beneficial than you ever thought. It certainly was for us!

JK





Kvales play in tennis tournaments, enjoy beach, fishing, mountains



Just a few summers ago it seemed as if mom and dad determined our summer schedule. Today summer vacation seems to be a quick get-away here or there in between tennis tournaments, especially given the increasing distance to tournament venues and with a second (Pierce) beginning his tournament entries. It is likely that as fast as it has come upon us, it will leave. We are enjoying it all as it occurs.

The official summer schedule still includes an extended stay in the mountain cool air mid-summer, where our latest technological upgrades will earn their keep by helping us to transparently work while not missing a beat.

Fishing, mountains and beach time are still the go-to family favorites for the summer when possible. Here's hoping everyone has fabulous summer adventures!

Capone boys do summer camp then off to cooler climates

Years ago the summer used to be quiet time around the Capone household. However, with two energetic boys around the house, we are off and running.



Isaac was excited to take the big brother role one step further this summer as Asher joins him at his school for summer camp. He really enjoys walking Asher to class every morning and from what his teachers tell us, he takes

great pride in seeing him in the halls throughout the day.

Now that we have two boys who love to be outside, the Capones are taking a page from the Kvale summer play book and jumping ship from the Texas heat late in summer for a week vacation in some much thinner, cooler air. Asher will also make his first trip to New England this summer to visit family and spend some time at a beach or two. Randi and I will surely be enjoying these times with the boys as we are becoming more aware time goes by so fast.

We hope that everyone has a wonderful, fun filled summer!



Cathy cherishes family times, spends time with all on weekends

My two daughters and I enjoyed visiting with my sister and her family earlier this spring. Nothing means more to me than my family and as summer approaches I am reminded of times long ago when I was a child. My memories flash back to catching fire flies with friends, eating watermelon, going to the

community pool with my family and the occasional trip to East Texas to visit family.

Then I grew up, had my own family and recreated the same memories for my children but our family vacations would be to South Padre Island enjoying the ocean. Those were fun times!

I have the same summer plans

as last year, taking care of our awesome clients during the week and spending time with family and friends on weekends.

Happy summer to all!





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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.

A few parting thoughts for you...

We are super excited to announce our 22nd Annual Holiday Party on Nov. 18 (Saturday BEFORE Thanksgiving) at a long desired venue in the Dallas Arboretum. We have secured The Alex House (details to come) from 1-3 p.m. for food, fun and visiting with access to the entire park including the recently opened Kids Park until 5 p.m. We hope you and a friend can join us.

A House Price Analysis article turned into the theme of this newsletter. As we dug deeper into analysis and review of the changes residential housing prices have had during the last two decades, we

decided to run with the full article rather than cut it short in light of other desired subject matter. We think it worth the print coverage especially given the feedback from our teaser post on street-cents.com.

Enjoy a peek into our summer through the article on Page 7.

Be sure to take a look at our new fresh company website at www.jkfinancialinc.com and while you are there click the link to our new J.K. Financial, Inc. Facebook page and give us a “like” as well. As the summer continues we will have more great updates hitting your in-box.

Have a great summer!

New knowledge sites:

FRED – Federal Reserve
St. Louis Fed – Near 500k
Economic Time Series

Texas A&M Real Estate
Center – Great Real Estate
Data specific to Texas

Dates:

Sept. 4 - Labor Day

Oct. 16 - Extension for
Regular 1040 due

Nov. 18 - 22nd Annual
JK Holiday Party, 1-3 p.m.
Dallas Arboretum