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4th Quarter

REGISTERED INVESTMENT ADVISOR

2017

EQUIFAX

BREACH: Now what do we do about it?

This article was one of our most talked about, shared and commented on during the quarter, posted on Sept. 11. We wanted to put it in print as well for your viewing.

Equifax announced it had a breach of possibly 143 million people who may have a credit report on file.

Before you jump off a cliff, understand this ranks only

(see [Equifax](#), Page 5)

Six new one minute videos on new Total Vault

The summer project was a blast, trying our hardest to keep videos under one minute while helping explain in video form some of the most used features of our new TOTAL Vault.

All videos have been posted to our home page at jkfinancialinc.com under the

(see [Videos](#), Page 6)

Where are the values?

Price is what you pay, value is what you get

Given the length of this economic expansion and the lowering of United States interest rates, it is not surprising to find many areas of the capital markets at frothy levels. We



John A. Kvale,
CFA, CFP®

rarely use the B word (bubble). One important and often forgotten item in the following discussion is accounting standard changes can greatly magnify these ratios especially over long-term comparisons. With this knowledge, let's dive in.

How do we measure the value? Meet the Price Earnings multiple.

One of the most basic valuation metrics used from a very macro level is the P/E ratio or price to earnings ratio. This is simply the price of an asset, group of assets, index or the like, divided by the earnings said asset is delivering. Most times the delivery is on a trailing annual basis, making for a nice round number.

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

INSIDE:

- CAPE ratio is previous 10 year earnings against current price.
- U.S. dollar might still be overvalued accounting for tailwind
- EQUIFAX Modern day Bonnie and Clyde
- Videos explain locating, password, loading documents, etc.
- App of the quarter: Tripit

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

Where are the values?

CAPE ratio is previous 10 year earnings against current price

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The mean (average) and median (middle) are important in determining the afore mentioned value.

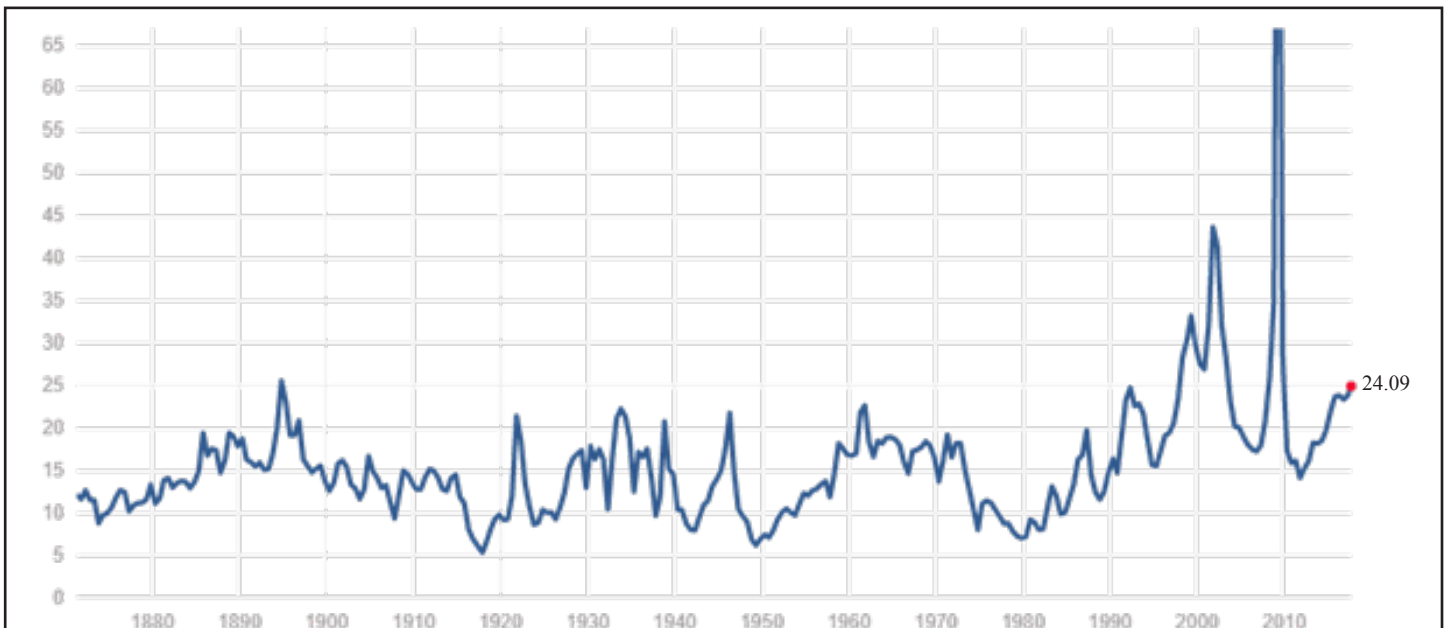
Mean and median of our above noted S&P 500 are 15.

With a current value of about 25, this index looks frothy at minimum. (Note the top chart below.)

The CAPE ratio

To smooth out the short-term nature of just a year, a longer dated P/E ratio called the CAPE ratio or Cyclically Adjusted P/E ratio has garnered a much deserved following. Professor Robert Shiller was the founder of this ratio and while it has a fancy name, it basically is just the trailing 10 years of earnings held against the current price.

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



Where are the values?

Countries prosper as growth goes to more efficient providers

(continued from Page 2)

With a CAPE median and mean of about 17, the current 31 still looks fully valued. (Note the chart at the bottom of Page 2.)

Both ratios are based on the S&P 500 index, one of the most commonly reference United States large company indexes.

Are there other areas of the capital markets that are valued differently?

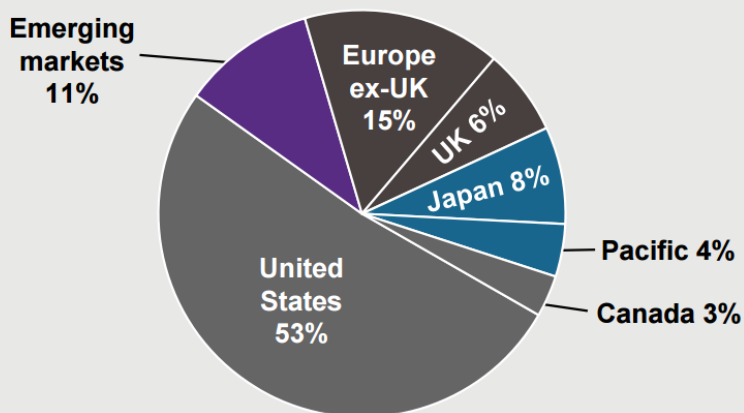
The world gets smaller by the day

Just glance around you to find something that is likely produced or delivered via a company not in the United States. Originally many countries operated within their own borders, utilizing their natural resources and struggling for those needed resources beyond their reach.

Fast forward to today and we have many countries outside of our borders that have grown and prospered as economic growth went to the lower or more efficient provider. As capital has adjusted so have the capital markets.

Here (the above pie chart) is a great breakdown of the Global Capital markets, showing significant diversification beyond the United States from our

Weights in MSCI All Country World Index
% global market capitalization, float adjusted



friends at JPMorgan.

The United States is clearly the largest weight. Over the years this weight has gradually been declining as the world shrinks and capital travels fast.

While many argue correctly that since the world is smaller the United States' portion also represents coverage from other countries, it would be tough to argue the merit of just investing in the United States and ignoring other countries.

“While many argue correctly that since the world is smaller the United States' portion also represents coverage from other countries, it would be tough to argue the merit of just investing in the United States and ignoring other countries.”

Measuring the value of international

If nearly 50 percent of the world capitalization is outside the United States and the world is growing smaller by the day, logic deems it makes sense to have investments overseas.

Currently the CAPE ratios of international large company markets are about 15, and with their smaller emerging market relatives at 13.

(see [U.S. dollar](#), Page 4)

Where are the values?

U.S. dollar might still be overvalued accounting for tailwind

(continued from Page 3)

We wanted to show you a fancy chart but these markets are not as well followed, making it difficult to find an open source to use. It's another example of a possible lesser known investment.

Tailwinds for international markets

Let's say you hold one British pound and the value of the U.S. dollar goes down. The value of your pound has gone up in terms of U.S. exchange. The same holds true with capital markets and foreign investments.

When the U.S. dollar gained strongly against world currency a few years ago it was a headwind to international investments. This nice chart (below) from Scott Grannis and

Bloomberg show not only a long-term average but that the U.S. dollar MAY still be overvalued, a possible tailwind or at least not a major headwind that occurred in recent years.

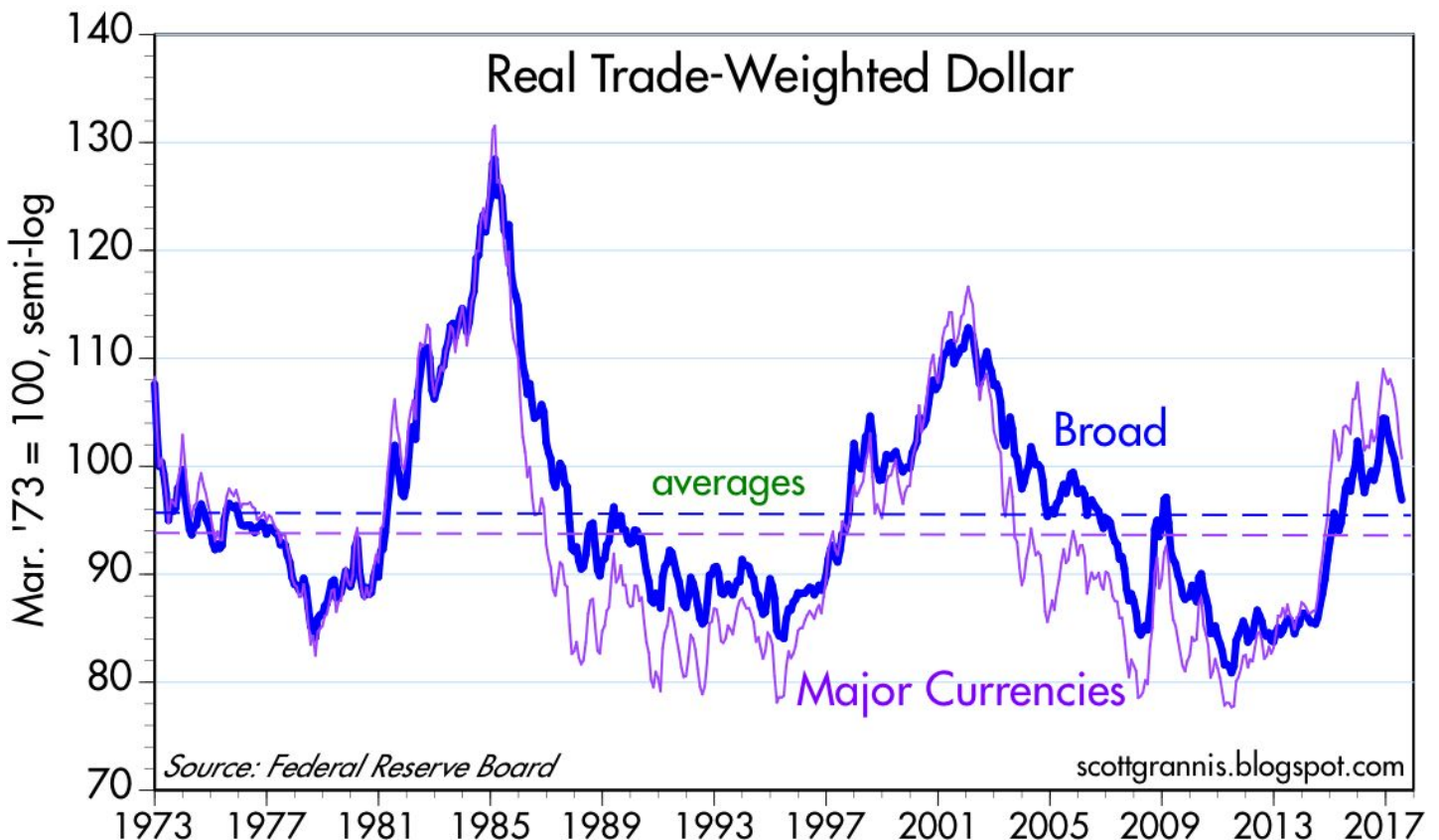
If international markets are relatively less expensive after a slower and more timid recovery, and a strong U.S. currency in the past, values may be good.

As the world gets smaller it makes sense to have holdings in other countries outside of the United States. While there are no guarantees, there may be nice probabilities to help.

“As the world gets smaller it makes sense to have holdings in other countries outside of the United States.”

Good to know we have holdings there already!

JK



EQUIFAX Modern day Bonnie and Clyde

Calmly take actions

1. Monitor your credit from now on

2. Watch credit card, mortgage reports for fluctuations

3. Check annually

4. Have credit cards send emails after transactions

5. Free Equifax year?

(continued from Page 1)

as the fourth largest breach in history.... big but not even close to the largest from yahoo, about 1.5 billion from 2013-2014.

This is again a modern day Bonnie and Clyde.

BREACH OCCURRED IN JULY

Here is the website (<https://www.equifax-security2017.com/>) Equifax is giving for information that also contains a link to a page that will allegedly check to see if your information has been compromised.

Before you jump in and check your information on the Equifax site, read the following:

The website they have given to check to see if your information was compromised says yes to any inquiry, according to a New York Times reporter... hmmm.

WHAT TO DO? CALMLY TAKE ACTIONS

Assume your information has

been compromised. It will most likely be eventually anyway, if it was not already so again, no jumping off a cliff. It's better than being held up at gunpoint "modern day Bonnie and Clyde."

Monitor your credit from now on. Credit.com, credit karma and many others that guard your credit are a good place to go.

Many credit card companies and mortgage companies send your soft, high level score monthly. Keep an eye on your report for fluctuations.

Check your credit annually, www.annualcreditreport.com.

Here in our article is how to safely do this in what is called a soft check so as not to hurt your credit.

Have all of your credit cards send you an email after every

transaction- it's easy and a good safety net.

You can opt for the free Equifax year. If you do, you must do this by Nov. 21.

We would not recommend the monitoring after the free year unless you have an incident.

There will likely be a large number of people who forget about the free year and actually become a paying client to Equifax after their breach... real irony.

Expect more breaches in the future but if you have done the preventatives above, you will be fine.

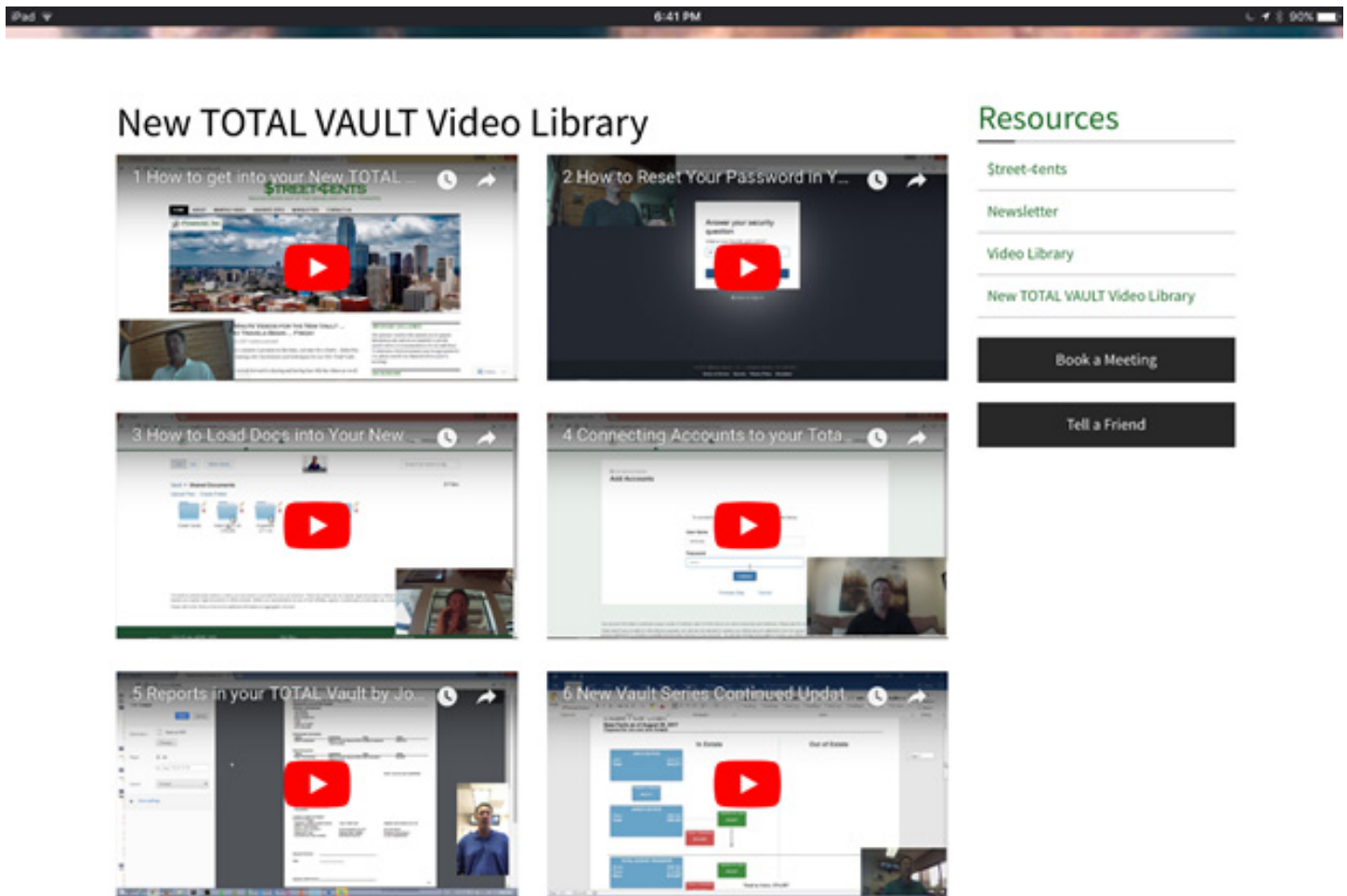
This too shall pass and likely not nearly the incidents many are calling for.

“Expect more breaches in the future but if you have done the preventatives above, you will be fine.”

End of our all our credit? Nah. Pesky modern day Bonnie and Clyde, and a need to heighten

our radars from now on? YEP!

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Six new one minute videos

Videos explain locating, password, loading documents, etc.

(continued from Page 1)

resources tab at New TOTAL Vault. Of course, just as we finished these videos we have run across multiple instances of using our cell phone features and will create more videos showing these SUPER handy features soon.

Here is our current video series:

1. Our first video was a quick refresher on how to locate your new TOTAL Vault and the various ways to get into it.

2. Next was the most common item we are asked,

“how to reset the password?”

3. The most used feature of our new TOTAL Vault, loading documents into it,

4. Our favorite but slightly more complicated feature is connecting outside accounts. We were able to do this in one minute, with very little breath remaining.

5. Advancing forward more technically, we showed the Report feature, again in one minute. We are just touching the tip of the iceberg on this feature and have MANY more

to roll out in the future. If you need something, let us know. We most likely have it already but due to complexity may be keeping it behind the electronic curtain.

6. Lastly, we teased the changes and updates to come that occurred while we were doing the video series.

Look for more videos to come soon and let us know if you have a particular feature you are having trouble with as we will be glad to accommodate your request.

App of the quarter: Tripit

Features track flights, car rentals, hotels and more



Long time readers may have noticed the travel schedule has heated up over the last several years. The spring is usually the heaviest but with a budding tennis player and wonderful clients moving to different parts of the country (world), during a recent trip to the big apple, a dear friend introduced us to a neat travel tool.

From the Points Guy Feb 1, 2017 - #1 of 5 best apps for your next travel vacation

Meet **Tripit**.

The key feature desired is the flight refund monitoring. After a purchase of tickets, who has time to check the websites to see if later the flight drops in price? Tripit does and will text you a note if it discovers a lower price.

There is an annual \$49 fee for this slightly higher service but this will likely be easily covered with a ticket or two of savings. After starting with the basic free version, this feature seemed worth the value.

An unexpected pleasure from this app is the organization feature of trips. Just forward your confirms (air, hotel, rental car) to an email or set up Tripit to automatically receive your confirmations and something like the graphic at right is created for you.

The points tracker feature is excellent and will likely surprise you with the number of programs you are involved. Many programs will allow you to just enter your credentials into Tripit and the app will take care of the rest. A few mandate you email your monthly statement to a Tripit email provided.

There is also a seat tracker, terminal and gate reminder, flight status, check in reminder, alternate flight options as well as automatic trip sharing features.

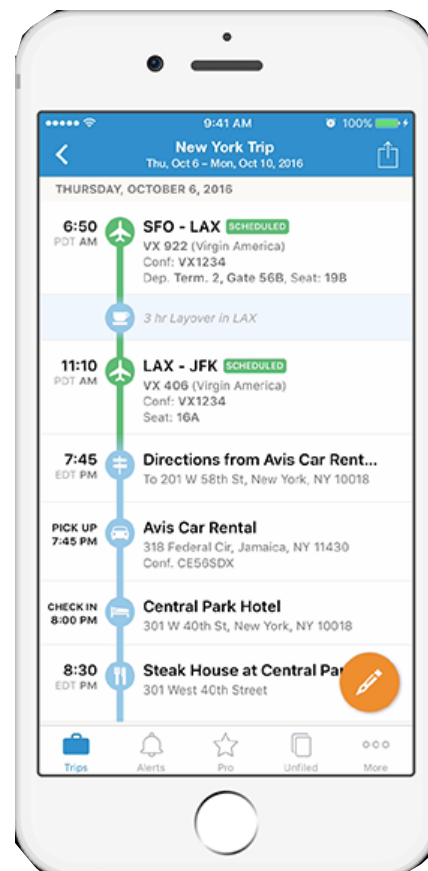
Only drawbacks so far

There is only one person allowed, per app and with a family of four, this will get pricey.

Slightly complicated to set up initially, but like many other new technologies it is best not to try to conquer it all in one sitting...even if that is in the airport (personal experience)!

Hope you find it as fun and useful as we have.

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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.

A few parting thoughts for you...

Watch for a new first for us shortly, followed by a many times consecutive honor. We have to keep everything under wraps for a few more weeks after this newsletter but we will be crowing soon!

In investing, the stars never align perfectly but occasionally the preponderance of evidence may increase the probability of a good outcome. Our main international article discusses at length several factors that may help add winds to the sails

of our friends overseas.

Our app of the quarter is fun and will hopefully save you time, money and angst. What could be better?

In closing, as the year nears an end, we welcome the holiday season and look forward to seeing you at our Holiday party at the Dallas Arboretum the Saturday before Thanksgiving, also known as Nov. 18.

Happy Fall season!



New knowledge sites:

Weather.com - Very valuable lately

Youtube.com - Live webcams, music, video and our jkfinancialinc.com channel too

Dates:

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

Nov. 23 - Thanksgiving holiday

Dec. 25 - Christmas holiday