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2nd QUARTER 2024

## INSIDE:





### *Last minute tax savings for 2023*

# Yes, we can still save. Reminder - double tax forms

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**Reminder** – Due to the transition between vendors this year, most individuals will have two forms for their taxes from any account that they had activity. Distributions from IRAs, (a.k.a. 1099 R) made during the transition before, and during the transition will certainly have two forms. Client one-time mandatory distributions were done early to avoid duplicate statements. For all after tax and investment accounts, you will certainly have two statements. Please be on the lookout; reach out to us directly if you have

(see **TAX**, Page 2)

# EARLY INVESTOR'S CORNER (Young investors, early savers)

## The emergency fund - new contributory accounts allocation aggressive

The emergency fund is one of the most important foundations of financial planning. An emergency fund should be 3 to 6 months expenses and is in an account that has no volatility.

Fortunately, because of higher interest rates, these funds do earn a return now. This emergency fund should be readily assessable and our personal favorite is with a major entity.

We are not a huge fan of online or off brand higher Interest rate type of entities that may not be easily accessible in a time of urgent

(see **EARLY**, Page 3)

# Personal stories

## *The emergency fund, high deductible reminder*

Saturday Jan. 13, 2024, several relatives and our family decided to meet at a long standing Mexican food restaurant. From all driver's standpoint, it is the only restaurant in the Dallas Fort Worth metroplex that moved three blocks from a venue of terrible parking to another venue of even worse parking. As we converged on the parking lot, the valet line was so long that cars were literally in the main thoroughfare of a much larger traffic vein causing a traffic backup and a dangerous situation.

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# TAX savings for 2023: SEP, IRA, HSA, Roth IRA

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any questions, and understand that professional and individual software will not know to look for the extra account so it's our collective job to be diligent on getting this information into the system and on our tax returns as Uncle Sam will get both notices. The good news is moving forward, the old account numbers will no longer be needed as this is a one-time transition.

Knowing we filled most of the Q1 2024 newsletter with tax information, we are going to hold tight with our tax thoughts this time but we still wanted to remind you of a few last-minute tax savers for 2023.

The SEP- Simplified Employee Pension

In years past our prior vendor allowed us to make a SEP contribution to an IRA and IRA Rollover accounts. Our new vendor will not, and as such, we have to open a new SEP account and for simplicity just move all assets from the old IRA into the new account.

This is very straightforward but needs some planning in advance. The good news is that SEP contributions, unlike many others, can be made up until your final extension, just in case we get in a bind.

Any 1099 income, think non-W2, or consulting type or direct paid income that you have, after expenses, ends up on your Income Tax Return for 2023 and allows you the chance of being able to deduct 25% of this net income after expenses in the form of SEP contribution. This can occur even if you have a 401K or other retirement plan.

While certain limits do come into play, the SEP has a very high threshold for contributions and almost always allows a tax-deductible contribution that will help your 2023 tax bill. As you can tell, one of our favorites!

The good old IRA- Individual Retirement Account

Born in 1974 via ERISA (Employee Retirement Security Act), if you have no plan whatsoever, including a pension plan, you can do an IRA. Under certain limitations, which are newly introduced, if you have a retirement plan but your spouse does not, your spouse may be able to make a tax-deductible contribution to an IRA.

Like your professional or your software suggest, we can do the rest but unlike the prior mentioned SEP, IRA contributions must be made by the final filing date of April 15, 2024 for the year 2023 taxes.

*Pro tip - We are not huge fans of a nondeductible IRA. While we know there are some techniques that have fancy words like backdoor Roth's and other fun looking headline techniques, we are not huge fans of these.*

**HSA – Health Savings Account**

If you have a high-deductible health insurance plan (check with your provider) you can do an HSA. Individuals can put in $3,850 and families $7,750 for 2023 but this must occur before you file your return. This is one of the few plans that is a take it or not, meaning if you have a high deductible plan you can take it and that is it, no phase outs and no other items get in your way.

We are big fans of deferring this and making it a type of future medical retirement account as medical expenses are sure to be there in the future. Another favorite.

*Pro tip – Have an employer that makes SOME contributions, you can round up to get the full deduction. Reach out but do not wait, not extension filings for this technique!*

**Roth IRA**

An account similar to the aforementioned IRA but contributions are made with after-tax dollars (no immediate deduction) and have tax free distributions at retirement and no RMD (Required Minimum Distributions) at certain ages in retirement. The key to this contribution is that there are income limitations which have increased over the years but for 2023 are phased out at a Modified Adjusted Income (MAGI). Slightly more restrictive than AGI (Adjusted Gross Income) $138k single and $218k married, phase out begins at this income level. This is a great possibility for early investors.

*Pro tip – Especially for parents and grandparents, consider making a Roth contribution for your early earner. As long as they have at least the earned income of the contribution, your gift may be directed straight into a Roth for their future benefit.*

In closing, please reach out if you have any questions and if possible, do not wait until the last minute to complete your taxes, especially if there is a possible technique above, as the set up in some cases is very difficult, not surprisingly, as we get closer to the filing date for all collective tax payers in the country.

JK

# EARLY INVESTOR'S CORNER New investment accounts to be aggressive

(continued from Page 1)

need. It is just not worth the hassle and defeats the purpose of the emergency fund itself. As fixed expenses grow, this amount should grow accordingly and if you just need better sleep at night, it can certainly be greater than these general guidelines.

Also in this newsletter are two personal stories that happened within seven days of each other. The stress was dramatically lessened due to an emergency fund. (See personal story article.)

**New investment accounts to be aggressive – 401k or other early investing accounts**

Precipitous capital market drops when early investors are starting an investment plan is a good thing. Embrace them and do not fear! In almost all cases, as long as the aforementioned emergency fund is in good shape, that new investment account can be aggressive.

Contributions to an aggressive investment account on a regular basis can turn negative situations such as dramatic market drops of 20%, 30%, 40% and even 50% into a very positive situation over the long term. While it has been some time since capital markets have had a 50% plus drawdown, we do know they occur and we have lived through multiple instances of them and do not need any reminder of the appropriate preparation, situation and planning needed in advance.

With a time horizon, emergency cushion and regular contributions, market drops are your friends. New 401K's, early investment plans, regular monthly contribution plans all fall into this category. Large lump sums such as inheritance or larger capital allocations even at a young age do not fall into this super aggressive posture.

After the emergency fund is complete, new investing plans can be aggressively allocated, especially regular contributory plans of smaller size. Reach out if you have questions, especially with your specific emergency fund level as our comments are general guidelines and can vary greatly. JK

# *Spousal Social Security pro tip*

Recently we have come across several situations concerning commencement of Social Security benefits, and while it has been awhile since our Social Security expert Tom Clark has given us a seminar (maybe it is time again soon), there is a small tricky benefit capping that needs to be understood when considering to start your Social Security benefits or not.

As a refresher and a setup for the most important part of this reminder, even if a spouse has not contributed to Social Security throughout the entire earnings history, the spouse is entitled to half of the earner's Social Security benefit once that spouse has started taking Social Security and once in full retirement age, if they have been married for 10 years.

Here's the trick: once this non-earning spouse reaches full retirement age, the benefit does not grow. Prior to reaching full retirement age (FRA), the benefit continues to increase from the earliest retirement age (62) of 75% of half of the spousal amount to the full half of the earning spouse benefit. Once reaching FRA, the benefit does not grow.

What does all of this mean?

While we have long been slightly skeptical of waiting until the maximum age to draw Social Security benefits as a mandate, we always deemed it a case-by-case scenario and many times find it way better to start at the full retirement age (at the latest.)

With the above information in hand, it should be carefully reviewed to continue not drawing Social Security if the lower earning spouse is capped out at full retirement age. There are of course tons of reasons NOT to draw at FRA but not carte blanche.

For clarity, as this is confusing, once the lower earning income spouse can earn the full half amount of the higher earning spouse, since the income will no longer increase with inflation, vesting or any other deferral, it often is a wise decision to commence Social Security benefits for both spouses at that time.

Every situation is different and unfortunately because of this fact you can never say always, as there are different scenarios. It is worth reviewing the situation once both spouses have reached FRA, especially if you had two dramatically different income earners and two spouses that are of similar age.

Reach out with any questions. We are glad to run hard number analysis which usually paints a clear picture for the situation. JK

# Personal stories

## *Two situations reinforce importance of having emergency fund*

(continued from Page 1)

Thinking to myself, while the food is good, this is the reason coming to this place is challenging, other family members shared the exact same thought and had the same parking experience. We eventually all made it into the restaurant. After a careful review of parking options, what looked like the perfect spot was wiggled into and pushed so close to the curb that upon exit, the car had to be partially moved from the curb so passengers could enter.

As we exited the parking spot after lightly patting myself on the back for such great technical skills, and heading home the next morning would not be so friendly. First sunrise garnered a two panel accident on the car.

Longtime followers know in true "practice what we preach" form, we are believers of high deductibles somewhat of a self insured and lower premium thought as long as the emergency fund is in check.

Disappointing and not the way you really want to start the year, this is certainly not going to be an insurance claim with the aforementioned high deductible in place. Thank you emergency fund.

**The house is on fire, here we go again**

Exactly seven days later plus a few hours (4 a.m.), a voice at the other end of the cell rang, "The house is on fire!" Being on a business trip over 1,000 miles away, this was decidedly disturbing.

Somewhat unbelievable and slightly discombobulated from what was heard on the other line, surely this is a dream as a loss in connection occurred. Unfortunately, not.

Within an hour the fire had been extinguished and as it turned out was caused by a new fireplace which burned through the floor and caught the hardwoods of our almost 100 year home on fire. No telling how many times the hardwoods had been restained. Very strong smoke smells from the fire.

Coincidentally, at approximately 6 a.m. the same morning an inspector called and started with, "I've got good news and bad news. The bad news is you had a fire; the good news is this is not catastrophic." The inspector goes on to ask what is our insurance deductible? 5%. "Oh, this certainly will not be a claim on your insurance."

Thank goodness once again emergency fund for taking the stress out of the situation. While the fire has been almost completely repaired, the car has not. The emergency fund was of course used and lowered the stress level greatly.

In closing, as a long time watcher of water damage, fire has a seat at the table now AND we now have a fire extinguisher that is charged fully and completely within all of our quick known location.

JK

# *Early investing with contributions for growth* versus evened out assets for draw investing

## - Koyfin Research tool and competitor of Bloomberg –

A gentleman by the name of Rob Koyfman founded a new research platform, Koyfin, specifically aimed at competing against an industry standard, Bloomberg. The latter was founded by billionaire Michael Bloomberg who up until this point has had a strangle hold on the industry standard research tool. In an email discussion, Rob asked if we would be willing to be a beta tester. While rarely living on the cutting edge of technology (can cause implementation and operation issues), this request was happily accepted.

Below is a sample snapshot of what our view looks like at the start of each day. (See graph below)

Right out of the gate, making its way into the newsletter is what we think is an awesome representation of why we say as we build our net worth and in our accumulation phase we want things to be reasonably aggressive. **As we grow the assets, more diversification is needed and an even posture is usually best.** For the record, in our brand new Early Investors Corner in this newsletter we have a specific pro-point about making early 401K's and the like aggressive.

### Accumulation versus a 4% draw of assets as a magnified example

The white line is the unincumbered S&P 500, one of the better asset allocations over the last few decades. While having to withstand a 48% drawdown eight years after start, the draw portfolio (blue line) was down over 60% eight years after investment. Not even those with veins of ice would likely make it through the reality of being down over 60% almost a decade after commencement, and then hanging on until 16 years after commencement to finally be back above water.

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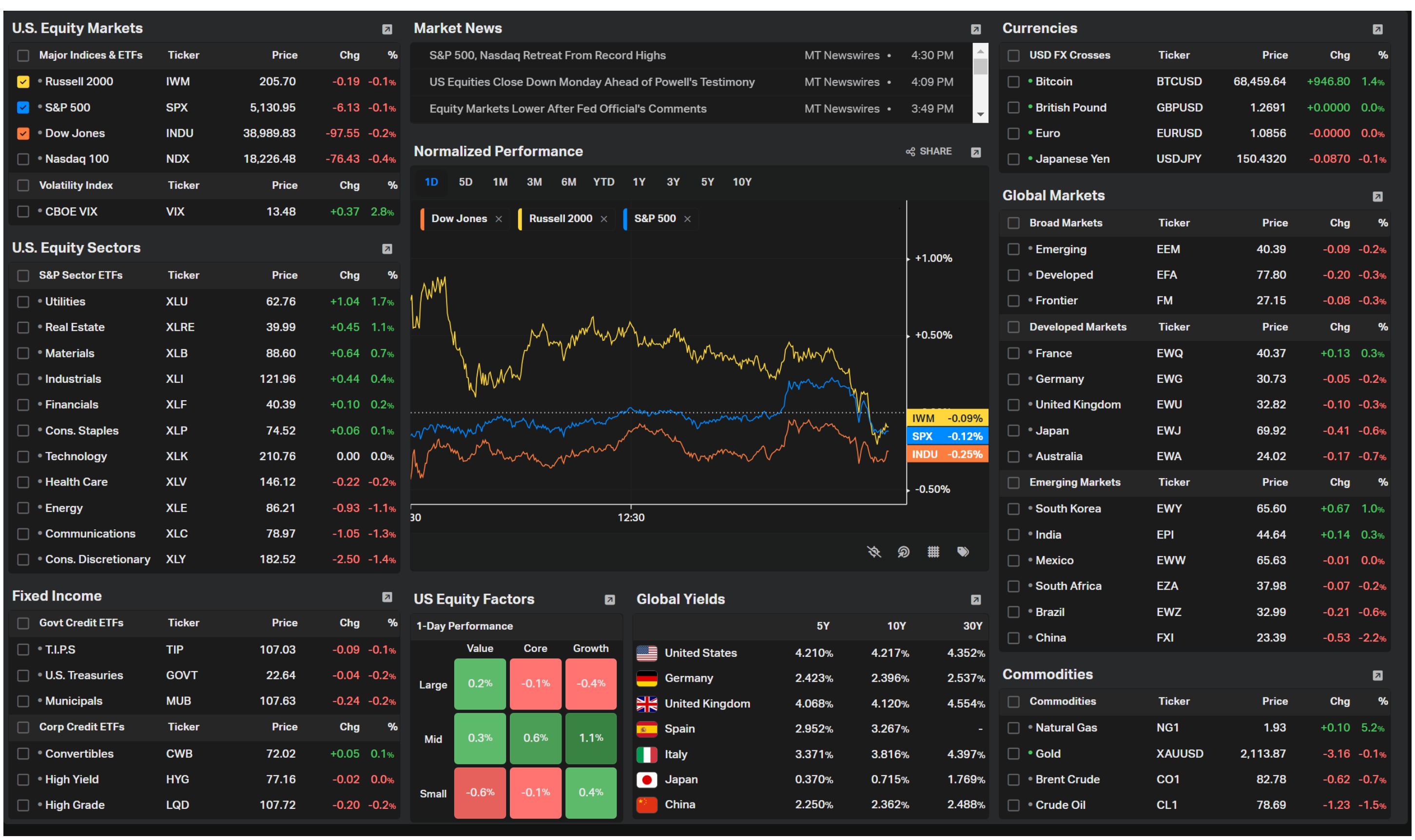

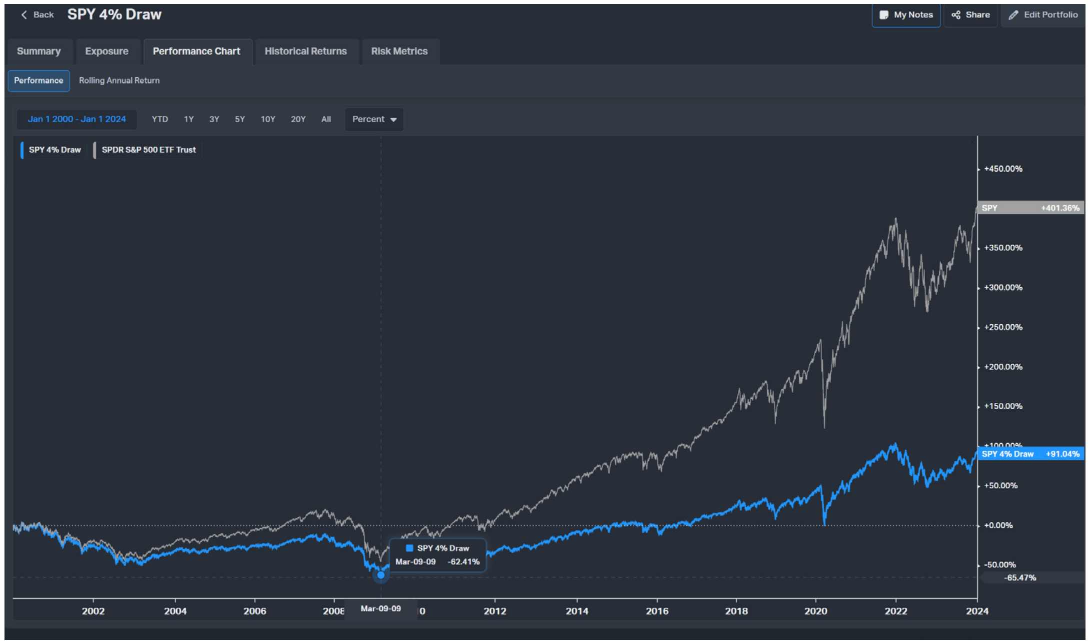


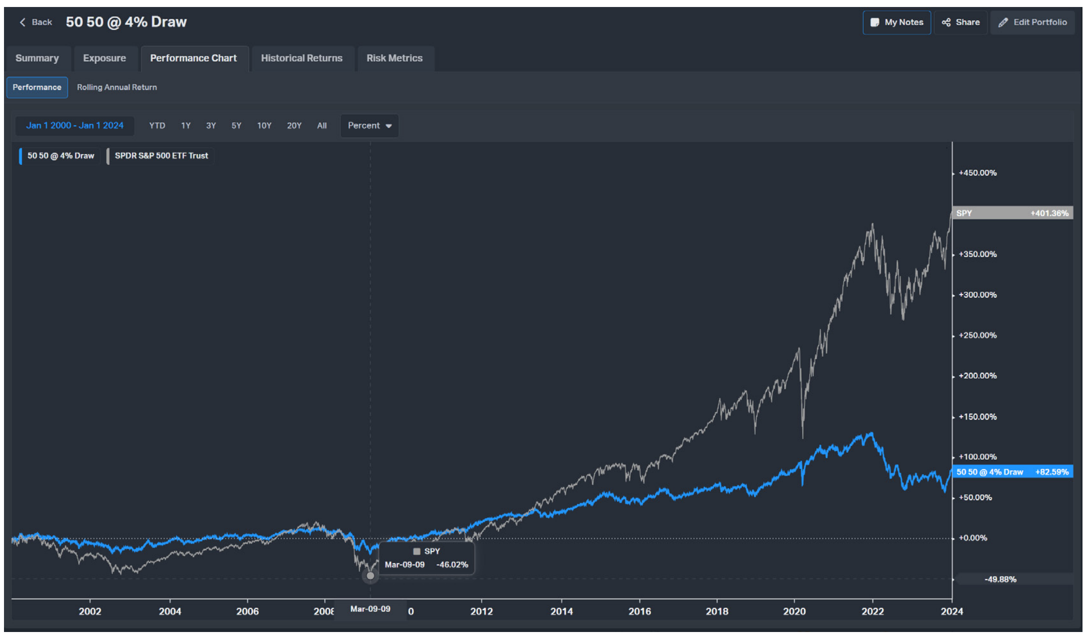


**"We can even argue that more balanced and conservative may even do better."**

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**Evenly distributed portfolio of 50% Stock and 50% Bond compared versus Rabbit S&P 500 also withdraw**

This more evenly distributed portfolio outperformed until just recently with much less risk. The drawdowns of the portfolio (just over 15%) would in most cases be digested and would certainly not cause the dramatic lifestyle change that our prior Rabbit only investment would have.

While it may seem desirable to swing for the fences, no one knows when the next major drawdown will occur.

With interest rates currently much higher than this time period measured, we can even argue that more balanced and conservative may even do better.

Lastly, we have lived through two 50% drawdowns and are living proof, they do occur. We have the battle scars to prove they are not fun and can come without notice.

We are NOT saying one is coming now, only that they do occur and given the above analysis, depending on the chapter of life we are in, there are safer paths to travel that do not bring lifestyle adjustments into the picture.

Thank you, Rob, for the content. We look forward to showing more of these types of analysis in a simple and easy to decipher manner.

JK

# Inheritance reminder

## Unique direct lineage characteristics...The Shark Speech!

Over the last few months, we have repeatedly run across multiple inheritance situations…. As a reminder to ourselves and others, inherited assets have unique lineage characteristics. It is in reality much more than to share or not to share, and important to review non-reversable decisions before they are made.

In an inheritance situation, we have coined a light hearted term "The Shark Speech" for the reminder of these characteristics.

**Inheritance carries unique non-joint spousal characteristics**

An inheritance is separate property until commingled… We have coined the casual term "Shark Speech" as a reminder that when you receive an inheritance, before you commingle those funds, there are a few things to think about. Commingle means pouring the assets together either by joint deposits, withdrawals or multiple transactions to dissolve the direct lineage.

Be careful here as a joint account can stay separate with no outside transactions, just as an individual account can be commingled with joint deposits, withdrawals and other mixes….

We, of course, have to immediately remind that we are not talking about the split of wedlock; that is part of it, but not the main part… see next…

**Liability**

Once funds are comingled, they are subject to all joint family members issues and possible liabilities. This is one of the most important considerations when thinking on inherited assets and should be considered when one party has distinctly different liability than the other, which may make sense to keep property separate.

**Estate organization**

There may be advantages of keeping inheritance separate from an estate and more importantly a future estate tax standpoint.

**Generational transfer**

There may be a reason to keep assets separate if there was a desire from the descendant to pass these assets after use at the current generation to the next.

**Wedlock**

The last of importance, most sensitive subject, but does carry direct rights if a future marriage were dissolved.

Certainly many people choose correctly to commingle inherited assets. There is nothing wrong with doing this and it is done frequently. The Shark Speech is simply a reminder of the above items since once assets are commingled they cannot be uncommingled. JK

*This was a post that we did on street-cents late in the quarter that has relevance as we had multiple situations occur recently. One thing worth noting and in addition to this article, there are very few tax liabilities that are burdened by the inheritor. The tax liabilities are generally but not always held at the estate tax or descendants level. There are certain required minimum distributions that depending on the age of the descendant may need to be fulfilled and that could cause tax consequences to the recipient, but generally these are the only taxes.*

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## Parting thoughts for you...

Welcome to our Q 2 2024 quarterly newsletter and a very special hello to all new clients and followers that are receiving this as we have had quite a few through the first quarter. We thank you in advance for your time. On that note, these are all original articles which help us clarify our thoughts and also attempt to update and demystify some of the crazy headlines you may be reading as well as reminders of important events that are occurring on the calendar. We hope you enjoy.

Speaking of reminders, our lead article includes our favorite last minute tax saving ideas that can be implemented now and will still help with our last year's 2023 taxes. Of special note, keep an eye on the deadlines as they are all slightly different, and since most everyone has the same tax filing deadline of April 15, when the calendar turns to April 1 it gets very difficult to process last minute tax items.

Our second main article is a new edition called Early Investor's Corner that speaks of not only the emergency fund but is also paralleled with another article of two personal experiences of that emergency funds lowering of stress, even with pictures and a closing tip of being aggressive with investment pools when first commencing.

With several occurrences over the recent quarter, our Social Security article digs deep in spousal benefits, when they maximize and when they stop accruing.

While never on the cutting edge of technology, we happily accepted an invitation from a new provider to be a beta tester and straight out of the gate, we have some excellent material to help visualize two stages of asset accumulation, early and drawing. As we learn the systems, certainly more to come.

Thank you for your time in advance. Be sure to sign up for our blog at www.street-cents.com as I write three times a week, Monday, Wednesday, Friday at 10:30 a.m. central time; once again all original content and once signed up, you will receive a reminder email when posted for our busy lives.

Enjoy our Q2 newsletter and talk to you in the summer.

JK

### Dates:

**March 29,** Good Friday
**May 27,** Memorial Day
**June 19,** Juneteenth
**July 3,** Market closes 1 p.m.
**July 4,** Independence day