J.K. Financial, Inc.

8222 Douglas Ave Suite 590
Dallas, TX 75225

1st Quarter REGISTERED INVESTMENT ADVISOR 2016

Appreciation to preservation:

a personal story of risk, safety

During the summer between my freshman and sophomore year in college, a group of close friends gathered at a nearby lake to catch up, visit and have fun. Several members of the group are readers of this story today. What ensued was an early lesson in risk, reward and personal preservation.

Just like in life experiences, investing carries similar

(see **High risk,** Page 3)

How long will current expansion last?

No matter how hard we all want the current expansion to last, present party included, just like paying taxes, it's inevitable, a slow-down will eventually occur. Janet Yellen, head of the FOMC (Federal Open Market Committee) is trying to slowly raise rates to a more normal level from

(see **Current,** Page 5)

–Tax tips, important reminders–

Deductions, key limitation

For those street-cents readers, you know we had an exhaustive list of tips that we reviewed weekly for several months. Now that we are in the new year, we wanted to bring you more tips as tax filing day will be here before you know it.

John A. Kvale, CFA, CFP ®

Deductions you can still take for 2015, if applicable:

- HSA – Health Savings Account
- SEP – Simplified Employee Pension- Due before filing your return, INCLUDING extensions
- IRA- Due April 2016, NOT available for extension filing

Key limitation amounts from the IRS:

- The elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans and the federal government's Thrift Savings Plan remains unchanged at $18,000.
- The catch-up contribution limit for

(see **Key dates,** Page 2)

Tax tips, important reminders

Key dates from IRS for payment, forms

Deductions:

HSA – Health Savings Account

· SEP – Simplified Employee Pension

· IRA

Key limitations:

· Elective deferral (contribution) limit at $18,000.

· Catch-up contribution limit at $6,000

· Annual contributions to an IRA at $5,500

Key dates:

Jan. 15, 2016-

· Pay the final installment

MONDAY, April 18, 2016-

· File for automatic 6-month extension

· pay first installment of 2016 estimated tax

· main deadline for 2015 taxes

(continued from Page 1)

employees age 50 and over who participate in 401(k), 403(b), most 457 plans and the federal government's Thrift Savings Plan remains unchanged at $6,000.

· The limit on annual contributions to an Individual Retirement Arrangement (IRA) remains unchanged at $5,500. The additional catch-up contribution limit of individuals age 50 and over is not subject to an annual cost-of-living adjustment and remains $1,000.

Key dates to remember, from the handy IRS website http://www.tax.gov/calendar/:

Friday, Jan. 15, 2016-

· Pay the final installment of your 2015 estimated tax - use Form 1040-ES.

Monday, Feb. 1, 2016-

· Furnish Forms 1098, 1099 and W-2G to recipients for certain payments during 2015. Furnish Form W-2 to employees who worked for you during 2015.

· File Forms 940, 941, 943, 944 and/or 945 if you did not deposit all taxes when due.

Tuesday, March 15, 2016-

· Corporations: File Form 1120 for calendar year and pay any tax due. For automatic 6-month extension, file Form 7004 and deposit estimated tax.

· S Corporations: File Form 1120S for calendar year and pay any tax due. Furnish a copy of Sch. K-1 to each shareholder. File Form 2553 to elect S Corporation status beginning with calendar year 2016. For automatic 6-month extension, file Form 7004 and deposit estimated tax.

MONDAY, April 18, 2016-

· Individuals: File Form 1040, 1040A or 1040EZ. For automatic 6-month extension file Form 4868 and deposit estimated tax. Pay the first installment of 2016 estimated tax. Use Form 1040-ES.

· Partnerships: File Form 1065 and furnish a copy of Sch. K-1 to each partner. For automatic 5-month extension, file Form 7004.

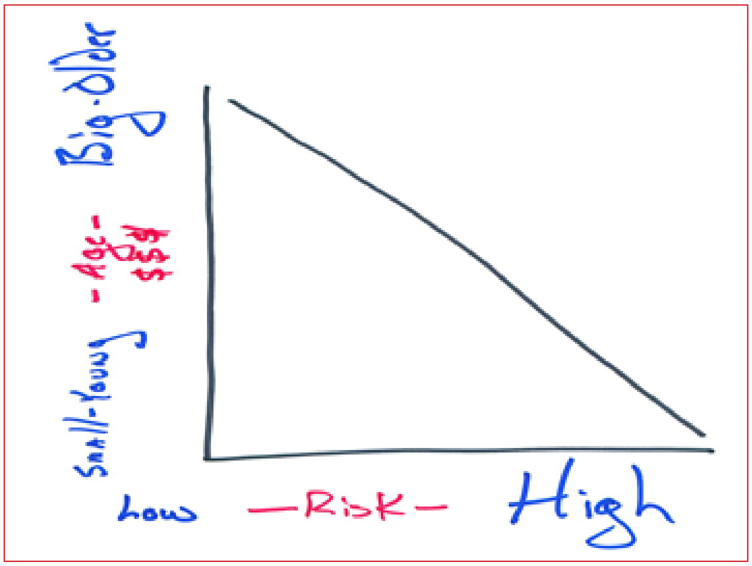
Even with the extra weekend, thanks to the IRS, Monday, April 18 is the main deadline for 2015 taxes and it will be here soon. Hopefully this information has been helpful and a reminder to get started. JK

Appreciation to preservation:

High risk at first, lower risk later

(continued from Page 1)

journeys. When we first start investing, our risk appetite is strong, as it should be. The odds are in our favor. With a longer time horizon and lower asset levels, capital appreciation/risk is our friend.



Looking at our original handmade chart (we could not find or create one we liked) two items that many forget become clear.

1. Larger amounts of money = more conservative
2. Older = more conservative

As either of these two events occur, risk should be lowered for longevity, happiness and less stressful living. A young person (pro athlete for example) with a larger amount of capital needs to be more conservative. As we age, risk becomes less tolerable as our time horizon grows shorter.

Back to the personal story.

Our venue, a state run lake, was known for cliffs, cliff jumping and very deep waters, deep enough for various unique strands of fish to survive a Texas summer, although fishing poles were not part of the trip.

When in Rome – more risk please

If you are at a lake known for cliffs and cliff jumping, a high odds guess will get you to the next events. After a few jumps from a 10-15-foot cliff, higher elevation was sought.

More risk please!

Recent low volatile capital markets mirror the small cliff. (See chart below)

Capital markets can and usually sustain a 20% correction frequently. We currently have not had one in almost six years, leading many to ask "more risk please" as it is clearly different this time. Nope!

Back to the personal journey.

After a lengthy search, higher elevation/more risk was discovered. The last wise (more conservative) thing we did was attempt to discover the depth of the water before climbing, what looked like a small hill from the reverse side of the cliff in order to gain access to the newly found "more fun- risky" jump point.

(see **Preservation**, Page 4)

Source Factset, S&P, JPMorgan

Appreciation to preservation:

Preservation adjustments first choice now

(continued from Page 4)

Who goes first?

There were six of us. Four climbed/added risk on a hot day to the top/more-risky jump point, with two staying on the boat to help (after that fact, more like pour) us back into the boat after the jump. The journey was terribly hard but we were of course adding risk (stretching for better returns), making it more fun and we had nothing to lose, or so we thought. It was similar to adding to capital markets that have had very little long term downside as of recent.

"At that moment, full throttle risk was in our eyes. Give us more, we can handle it. All risky equities anyone?

Thinking back to that day today, THERE IS NO WAY IN THE WORLD any of us would even consider the risk we were about to take. Most would not even consider the first jump, especially after the event.

High flying tech stocks with crazy high P/E (price earnings multiples- general valuation metrics), momentum, concentrated positions, chasing the latest returns (buying higher), shunning slow moving fixed income (less risk), ignoring diversification benefits over more risk are all risk on examples that come to mind under similar thoughts today.

As we slid to the edge of the unstable and rocky edge, what looked like a two times as large of cliff, turned out to be at least four (80 feet or so) judging by the tiny size of the two remaining participants on the water and also the greatly reduced size of the boat via our vision.

At that moment, full throttle risk was in our eyes. Give us more, we can handle it. All risky equities anyone? I want greater returns or bigger dividends or more income.

Being first off the cliff, at the half way point down, the deafening sound of the air swishing past my ears along with the eternal amount of time to get to the water, gave plenty of time to realize the risk/appreciation should have been exchanged for safety/preservation, three followed my journey off the cliff.

"Maybe this is one of the experiences that makes us more understanding of risk firms today ... We will not go to the higher cliff/greater risk today in search of return.

After a few years of lower returns, it may seem like moving to a higher cliff is just the ticket. Go ahead, let's reach/allocate more to that higher dividend stock or move down the credit ladder on bonds (high yield) to gain more income or greater returns.

Nope, not a good idea. The risk always comes home to roost and is just not worth it. Appreciation is great but preservation is an absolute necessity as well.

The lesson- preservation

I had greatly stretched back muscles, others- Cracked ribs, broken tailbone and one escaped safely. Maybe this is one of the experiences that makes us more understanding of risk firms today or maybe it was 2000-2002 and the great recession of 2007-2009. Either way, we will not go to the higher cliff/ greater risk today in search of return.

Actually, we are more likely to go into preservation adjustments faster, given our experiences.

Hope you enjoyed our journey.

JK

Current expansion lasts 83 months

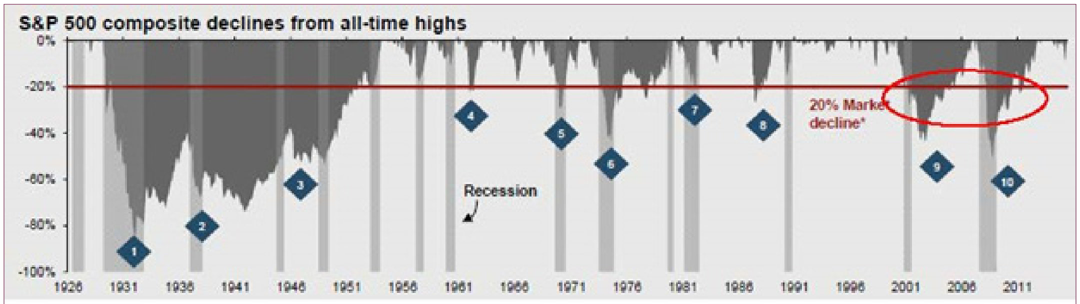
(continued from Page 1)

the extremely post great recession of '07-09 emergency low. In December she raised rates by .25% and looks to continue into 2016.

So how long does a normal expansion last? (See chart above)

Looking to the far right, the average expansion period is 53 months. We are currently 83 months into our current expansion, which would make this expansion the second longest in history and VERY long in the tooth.

Before getting too grim, the most recent "Great Recession of '07-09" was one of the worst in history. Given the severity of this recession, what appears to be happening is a slower and LONGER recovery. We are not calling for an immediate recession, NO ONE knows when the next one will occur. One will eventually occur, just like paying taxes. Expansions do not die of old age but the longer the business cycle lasts, the more vulnerable it becomes.



Characteristics of bull and bear markets

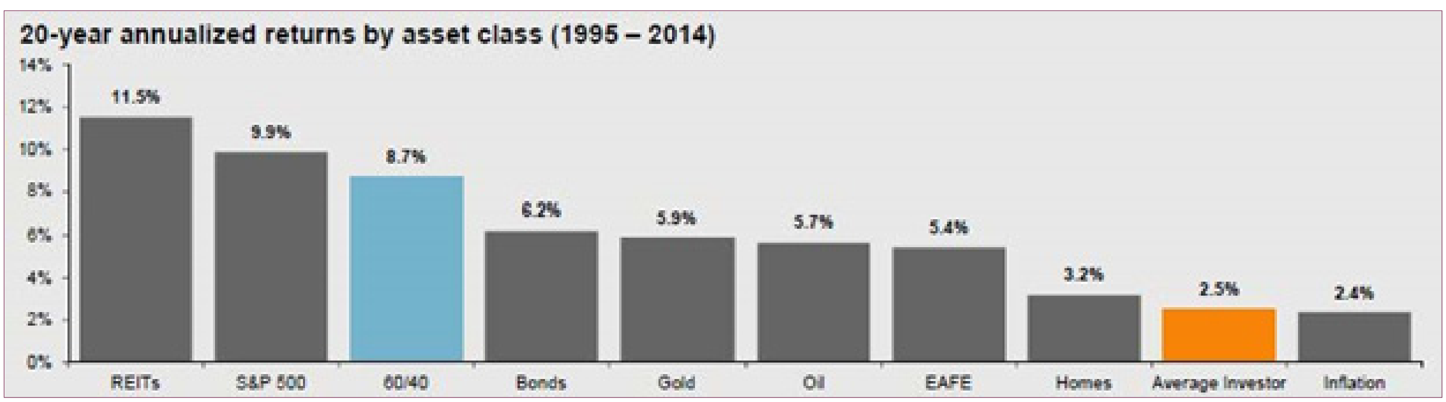
Market Corrections	Bear Markets: Market Peak	Bear Markets: Bear Return*	Bear Markets: Duration (months)*	Macro environment: Recession	Macro environment: Commodity Spike	Macro environment: Aggressive Fed	Macro environment: Extreme Valuations	Bull Markets: Bull Begin Date	Bull Markets: Bull Return	Bull Markets: Duration (months)
1 Crash of 1929 - excessive leverage, irrational exuberance	Sep 1929	-86%	33	◆			◆	Jul 1926	152%	38
2 1937 Fed Tightening - premature policy tightening	Mar 1937	-60%	63	◆		◆		Mar 1935	129%	24
3 Post WWII Crash - post-war demobilization, recession fears	May 1946	-30%	37	◆			◆	Apr 1942	158%	50
4 Flash Crash of 1962 - flash crash, Cuban Missile Crisis	Dec 1961	-28%	7				◆	Oct 1960	39%	14
5 Tech Crash of 1970 - Economic overheating, civil unrest	Nov 1968	-36%	18	◆	◆	◆		Oct 1962	103%	74
6 Stagflation - OPEC oil embargo	Jan 1973	-48%	21	◆	◆			May 1970	74%	32
7 Volcker Tightening - Whip Inflation Now	Nov 1980	-27%	21	◆	◆	◆		Mar1978	62%	33
8 1987 Crash - Program trading, overheating markets	Aug 1987	-34%	3				◆	Aug 1982	229%	61
9 Tech Bubble - Extreme valuations, .com boom/bust	Mar 2000	-49%	31	◆			◆	Oct 1990	417%	115
10 Global Financial Crisis - Leverage/housing, Lehman collapse	Oct 2007	-57%	17	◆	◆	◆		Oct 2002	101%	61
Current Cycle								Mar 2009	208%	[illegible]
Averages	-	-45%	25					-	152%	53

Source: FactSet, NBER, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.
*A bear market is defined as a 20% or more decline from the previous market high. The bear return is the peak to trough return over the cycle.
Periods of "Recession" are defined using NBER business cycle dates. "Commodity Spikes" are defined as significant rapid upward moves in oil prices.
Periods of "Extreme Valuations" are those where S&P 500 last twelve months P/E levels were approximately two standard deviations above long-run averages. "Aggressive Fed Tightening" is defined as Federal Reserve monetary tightening that was unexpected and/or significant in magnitude.
Guide to the Markets – U.S. Data are as of November 30, 2015.

J.P.Morgan Asset Management

Glancing to the graph portion of the chart (above), we have circled the last two recessions which resulted in very dramatic capital market losses of -49% and -57%, also circled on the chart. No matter who you are, a +50% loss in capital is almost unbearable. Investors jumping on the all equity, non-diversified portfolios

(see **Current**, Page 6)



Source: JPMorgan, Factset

Current expansion calls for allocated portfolios

(continued from Page 5)

today have forgotten history. Not us!

Asset allocation – not going all in or all out, wins again.

Undoubtedly you know someone who has said "I sold out at the top before the drop in '07" (or 2000 or even '87). While we would argue many of these stories are just like the big fish that got away or was caught but somehow did not make it to shore, let's go with it for the moment. It has been proven over and over, they are likely still out of the market, as it is often harder to get back into capital markets when all is red.

The proof is shown in the chart at the bottom of Page 5. If they would have gotten back in, their return would have been better. They either did not get out or got out and back in at the wrong time. **Never go "all in – or out!"**

Simple asset allocation solves the problem of emotion and ill-timed buys and sells. Having asset allocation feels slow and stogy when capital markets make their final expansionary runs but saves an investor from themselves when the going gets bad.

Note the time (see chart below) needed to return to whole, marked by our inserted red arrows. We really enjoy reviewing this time frame for reference as this was not called the "Great recession of '07-09" for no reason. This was one of the worst recessions of a generation and highly likely the worst many generations will ever live to see.

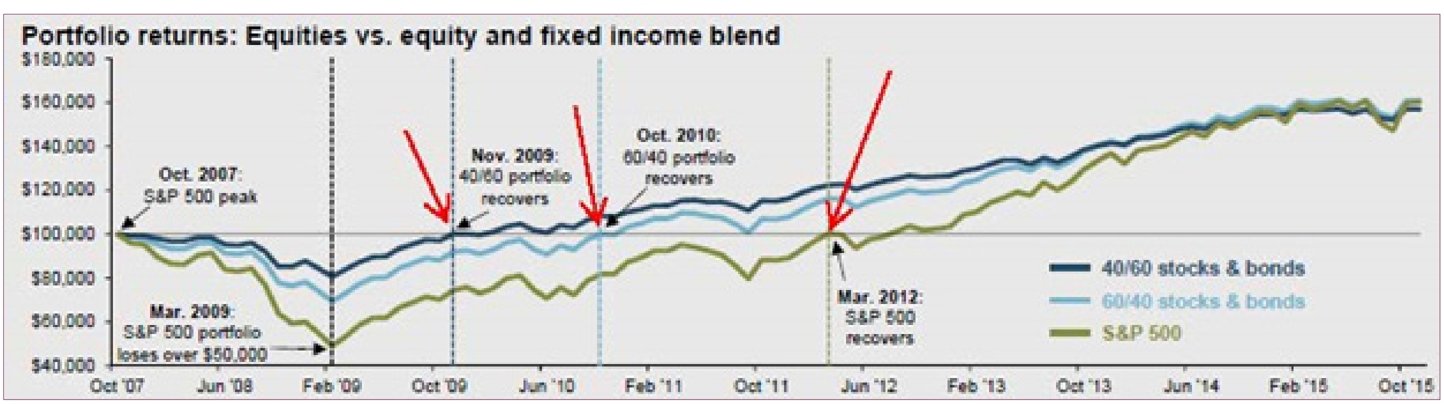
A moderately, non-rebalanced portfolio took two years to recover and dropped just under 20% from peak to trough. A slightly more aggressive portfolio of 60 stocks and 40 bonds, again un-rebalanced, took an extra year to get back to whole.

The wide open equity portfolio took a full five years to recover and dropped 57% from peak to trough causing many unallocated investors unbearable pain that forced them out of the capital markets, in some cases forever.

Interestingly, each portfolio currently is in about the same place, however the journey was extremely different in bumpiness.

Given history, human emotion and historical facts, we firmly like our allocated portfolios for the foreseeable future. It will be tough rebalancing when the going gets rough but much easier from a higher low.

In closing, we highly suspect the next slowdown will not produce the 50% + drops of the last two decades but if it does, we are prepared. JK



Source: JPMorgan, Factset

2015: income substi-tutes turned very sour

Year of avoidance

Frequently the best moves are the ones we do not make. The year of 2015 was especially interesting as income substitutes (investments many turned to for higher yields) turned very sour.

Early in 2015 a reporter asked me why we did not utilize MLP's (Master Limited Partnerships). My response was they can be volatile and we were not comfortable that they had been battle tested.

Oddly, the reporter chuckled and said she had not heard that before and that other advisors were utilizing them. I was not quoted in the article.

MLP's are high yielding partnerships that are most frequently related to the transportation of energy. They have been popular as interest rates were lowered to help spur the economy.

We fear many investors parked their safe money, possibly from the sales of lower yielding bonds in these investments only to find a substantial loss of capital. At one point, these investments were down over 40% during the year, far too volatile for our "safe money."

The chart above represents an index of the most popular MLP's.

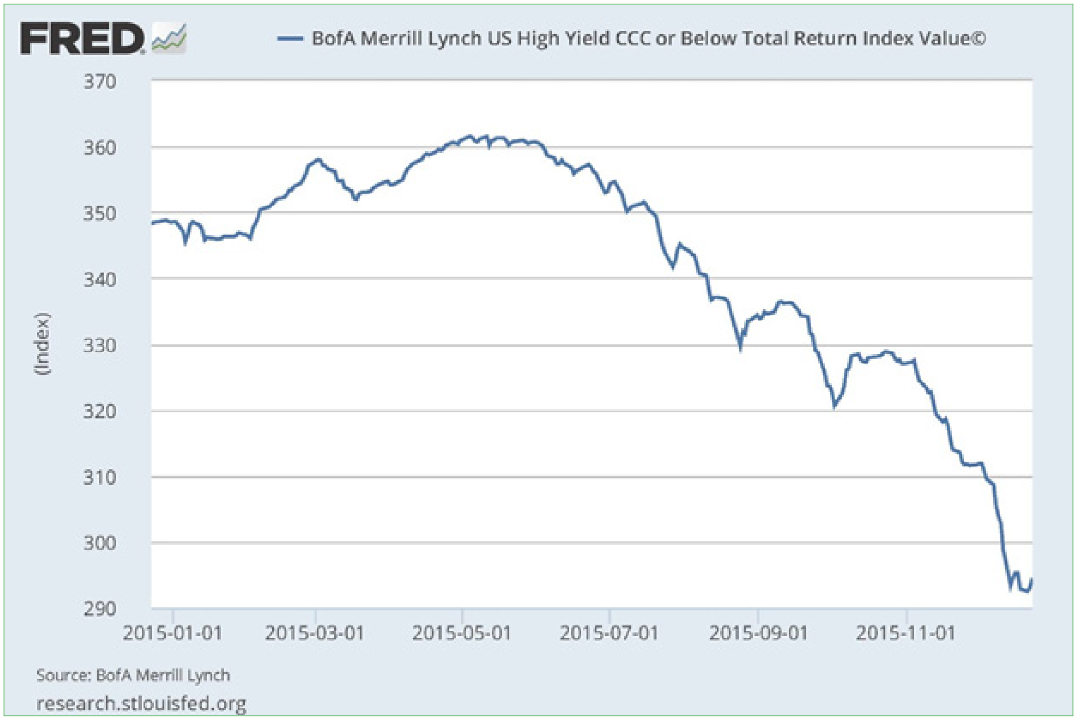
Another income substitute, the Junk bond, also came under dramatic pressure during 2015. We have warned many times NOT

(see **Broadening** , Page 8)

Broadening of participation or a retrenchment

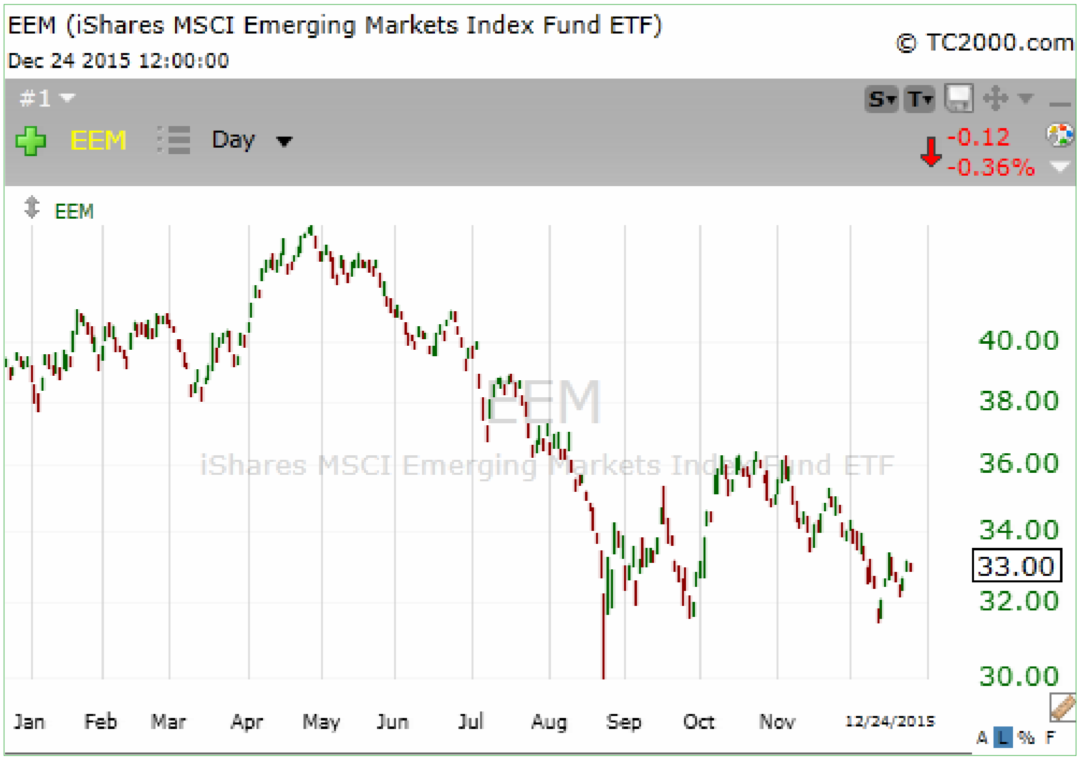
(continued from Page 7)
to stretch for yield in this area of the bond market. During times of stress or uncertainty, Junk bonds act very similar to equities and in some cases can be even more volatile. Again not a wonderful place for "safe money."

The chart to the right represents the riskiest of Junk bonds (CCC) and has a large representation of Energy but was certainly not a great place to be invested during 2015.



One of our favorite long term growth areas of the capital markets, the Emerging Markets (younger country markets) also took it on the chin. Again, energy was very much to blame as many of these young countries export oil as a large portion of their economy.

While the journey in 2015 was not great, we hold investments in these capital markets and look to add to them in the future. One item to note is these investments are known to be volatile and have allocation percentages accordingly.



In closing, a narrowing of appreciating investments is not as healthy as broad full participation. The two ways out are a broadening of participation or a retrenchment.

Either way our allocations are well planned to take advantage of both scenarios.

JK

Special offer for number one new year's resolution

My Fitness Pal, favorite fitness app

On Nov. 11, 2011, it hit me. I stepped on the scale at a whopping 230 pounds, reaching a high for my life. This new high was not a proud moment.

Our second child, Pierce, was now 4 years old and the extra pounds he gained (and was continuing to gain) somehow also found their way to my waist line.

After much deliberation, I finally took the first step. But first, how I got there.

Technology is great. It is amazing to think what we can do with a cell phone these days. Only yesterday, it seemed rude to speak to someone on your cell, or even arrogant. Today, we often sit for hours doing things that in the past required multiple trips or at least walks to another area.

The manila folder has been replaced by a "click to open" file and multiple monitors to view them easily. With a cell phone on one side of the desk, sitting under multiple monitors, it's easy to sit for hours and never move anything more than our fingers.

Compound the wonderful effects, or lack there of technology, along with the weight gain associated with our growing 4 year old, Pierce, and it was time to make a change.

Being New Year's resolution time and by most estimates the top of the list is health related, I wanted to offer you a chance to join me on my favorite fitness app, My Fitness Pal. My username is the sneaky and coy johnkvale. Friend request me and I will be glad to offer encouragement, follow

(see **Patience**, Page 10)

Patience proves encouraging to move forward

(continued from Page 9)

you and hopefully help you achieve whatever goals you have. All of my activities are there publicly for your viewing as well.

Hopefully this may help with the encouragement.

My progress chart is at the bottom of Page 9. What does not show up on this chart is the very beginning.

As I mentioned before, I tipped the scales at 230 pounds. The first several weeks my weight actually increased to 232.

As disturbing and deflated as I was, I did continue. If you find yourself in this situation, do not get deflated. Consistency will win the day.

Again using my situation as an example, once 10 pounds, about a 5% loss, had exited the scale, the momentum began.

In my case I began jogging more and once 15 pounds left, the acceleration continued.

Be forewarned. With each weight-loss your calorie intake does decrease. After my first 10 pounds, my total calorie intake dropped from over 2000 daily to about 1750.

It was tough at first but this continued the process of weight loss, and it makes sense but was startling anyway.

My total loss took over a year so patience and perseverance were a must.

Noting from the chart, there have been several slip ups, mostly after vacations or an illness, which seem to let the bad foods enter my mouth. Don't get discouraged if you face the same slip ups. I believe it's just part of the process.

A few of my secrets are as follows:

- Eat light at breakfast.
- Save up those calories for a big dinner if applicable.
- Water, drink tons of water. If you're anything like me, frequently hydration was mistaken for hunger.
- Time in the gym doesn't get counted. Other activities do, such as golf, walking or cardiovascular.
- Walk and take the stairs rather than ride, whenever possible.

In closing, so frequently we talk about saving, making or earning money but forget the fact of enjoying it. Hopefully my story may encourage you to move forward.

If your New Year's resolution is one of the more favorites, please friend me and we will continue on this journey together.

Working With the App

- Eat a light breakfast.
- Save calories for dinner
- Water, drink tons
- Golf, walking or cardio-vascular count. Gym doesn't.
- Walk, take the stairs

New vault with great new services

We are super excited to announce a New Total Vault that we think will knock your socks off. We are currently loading all current vault information into our New Total Vault.

We have already added a link at Streetcents as well as on our main website, as you can see from below.

Here is what has us so excited:

· Enhanced security – password- outside service

· All platform friendly- iphone and ipad as well as computer and Mac

· Shared (all can see) and unshared folders (only you can see)

· Live TDA data

· Aggregation of all accounts

· 401k – updates- will still need new investment options but all data live

· We have an app, too. Well, kinda. It's a short cut to our website via home page save.

The big news here is the aggregation of accounts. We can now link and view ALL of your accounts, including your company 401k, bank, life insurance, mortgage, credit cards and almost any information that is available from any provider.

This is a view only site and will not control or direct any information but will allow a view of everything all in one place. Once completely set up, it's a living Net Worth.

Look for continued updates and services throughout the year as this is just the tip of the iceberg of what we have planned and are working on through this new portal. 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@jkfinancialinc.com

Check out our Blog
www.street-cents.com

A few parting thoughts for you...

We hope you enjoy our start of 2016 new year - newsletter.

There are two personal articles, one (My Fitness Pal) inspired by a conversation over the holidays and another (Appreciation to Preservation -cliff jumping) that hopefully parallels a very personal experience along with financial market clarity and preservation.

We were also very pleased with our expansion article, and surprised at the historical normal versus where we are today.

Look for many great features with regards to our new total vault. We are super excited but temper our enthusiasm as we get to know and utilize these new tools better.

As we have for the last several years, this newsletter is 50% larger than the normal. The extra room was needed as we went heavier into taxes and tax strategies, an idea we initially started last year, that was met with a very positive response.

John and the J. K. Financial, Inc. team

New knowledge sites:

www.irs.gov
Terrific starting place for tax answers

www.tax.gov/calendar/
Calendar for ALL your tax filing dates

www.dinkytown.com
Fantastic tax calculator for high level tax payment estimates

Dates:

Jan. 18 – Martin Luther King, Jr. day, markets closed
Feb. 15 – Washington's birthday, markets closed
March 25 – Good Friday, markets closed