



J.K. Financial, Inc.

8222 Douglas Ave Suite 590
Dallas, TX 75225

JK



3rd Quarter

REGISTERED INVESTMENT ADVISOR

2016

Will raising interest rates slow the economy?

Conventional wisdom is higher rates has and will cause a slowdown in the economy. Looking at the first chart (Page 3) it is clear that higher rates EVENTUALLY can and often do cause a slowdown/recession. Note the blue Federal Funds Rate/ Short term rate and the shaded recession region for the past 70+ years.

(see **Low rates**, Page 3)

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

ESTATE PLANNING Total document summary

The term "estate planning" gets thrown around frequently, sometimes by us. Recently we tossed the term out and upon finding we did not have an article with a total summary of "Estate Planning Docs," an article was born.

Break in - If you have not reviewed your documents in 5+ years, now is a good time... let us know, as we should have a soft copy of file. If not, send us

(see **Important**, Page 3)

Has **FED** raised interest rates during election years?

Since the beginning of 2016, we have wondered if the FOMC (Federal Open Market Committee) has ever raised rates during an election year, and if so, how many times.

A brief history

The FOMC, currently headed by Janet Yellen formally Ben Bernanke and before that, Alan Greenspan, is the government board of members which are all a branch of the Federal Reserve Bank. The Federal Reserve Act of 1913 created the powers to form the FOMC.



John A. Kvale,
CFA, CFP®

Presidentially appointed members approved by the U.S. senate serve 14 year staggering terms. The 12 member group, not all voting members, have two mandates often called the dual mandates:

"The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices and moderate long-term interest rates."

Non-political

Appointments are scrutinized heavily as members have attempted to be non-partisan and very politically neutral, much due to the vetting process which inhibits a major winger. Once

(see **Rates**, Page 2)

INSIDE:

- Rates are common hammer used to stimulate U.S. economy
- Low rates choke economy rather than stimulate
- Long economic cycle is

cause for concern

- Important documents for financial, health security
- App of the quarter: Trivia Crack
- Summer plans

Rates are common hammer used to stimulate U.S. economy

(continued from Page 1)

appointed members attempt to be totally objective and carry the spirit of their dual mandate from the economics of their respected region (12 total, see graph).

Over the years, many, including ourselves, have come to think that the FOMC may have become more

“political” and answer more to the current president or dominating party. We are going somewhere with this, so bear with us, it will all make sense shortly.

Interest rates, the hammer or lighter fluid

FOMC members have several tools but for practical purposes, they control interest rates. Higher interest rates historically are known to slow the economy (*we take major issue with this in our higher rates article- for a differing reason*) and lower interest rates historically have acted as lighter fluid to pep up our economy.

- Higher rates = slower economy

- Lower rates = faster economy

With this historical thinking and evidence, no current or mid-term party would ever want interest rates to increase, especially during an election year.

Has the FED raised rates during an election year?

After asking several fellow advisors and several fruitless searches, we (Donald the Brain) decided to do our own research.

Given the above context, what we found was surprisingly good.

The darkened areas (see

below) represent the past 15 presidential election years spanning 45 years. The blue squiggly line is the FED Funds rates -aka short term interest rates. FED funds rates are the most common hammer and lighter fluid used to slow and stimulate the U.S. economy.

Stunningly, the orange lines are rate increases DURING an election year. Ten of the last

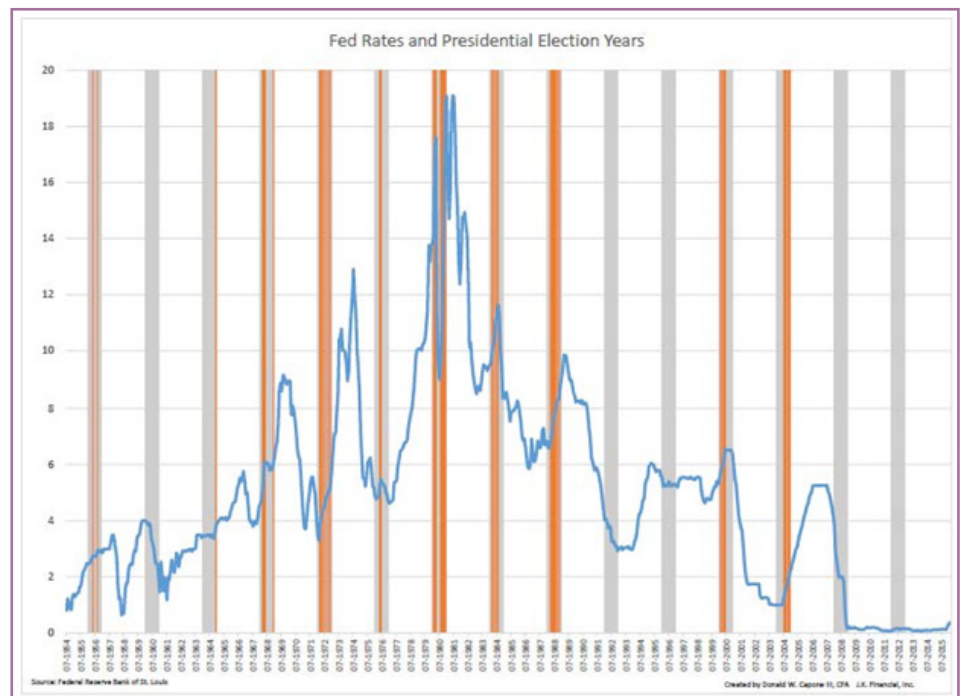
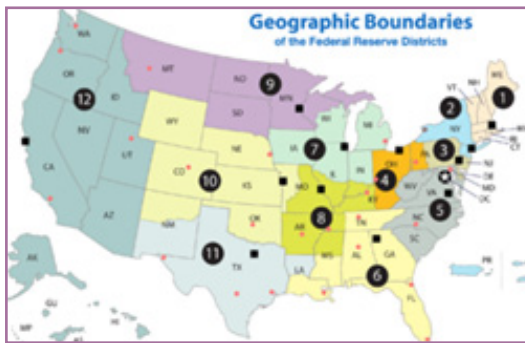
15 presidential election years have had increases in the FED funds rates. We grant that two (1956 and 1964) election year raises were relatively small. We argue, it does not matter since the common thinking is higher rates may slow the economy, increases = headwinds.

Conclusion with a twist

Historically speaking, the FOMC is not afraid to raise rates during an election year. This is NOT common thinking, especially given our small sampling of terribly incorrect guesses including our own.

What if raising rates turns out to be a good thing because rates are TOO low currently? We would expect the capital markets, international currency and the doom and gloomers to threaten and maybe even throw a hissy fit. After the dust settles, could brighter times be ahead? Please see our *Interest Rate* article for the answer.

R



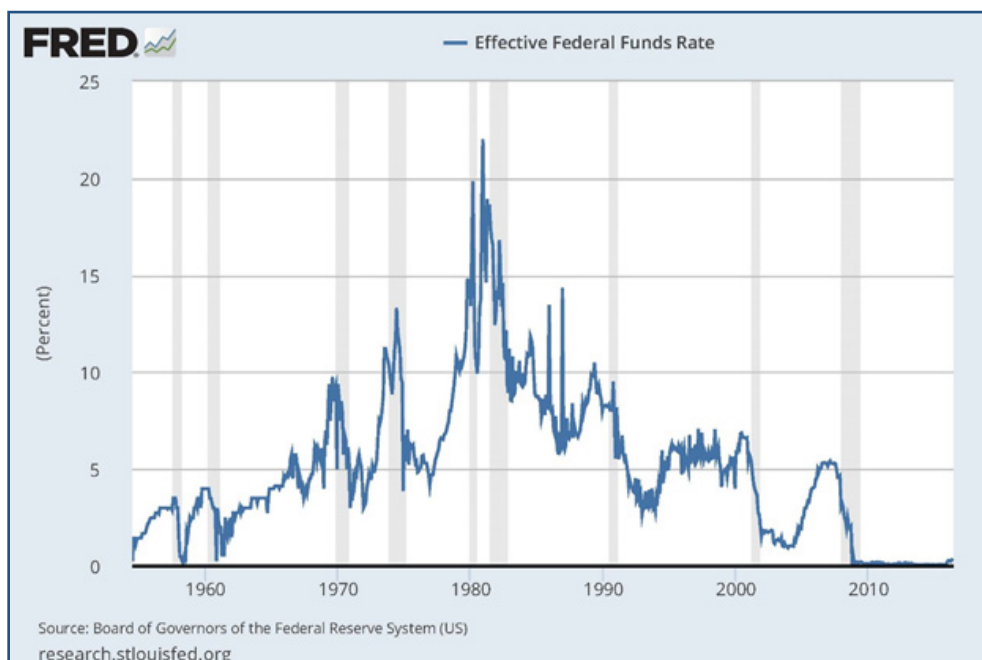
Low rates choke economy rather than stimulate

(continued from Page 1)

Now take a closer look at the chart and look at when the recession has come - usually some time from the initial raise? Hmm ...

Now take another look and look how long it takes for the slowdown to occur when rates are as near as low as they are currently.

What if raising rates from the extremely low and extremely lengthy period of time does not slow the economy? Could it actually become a tailwind?



Higher rates a good thing?

We find this chart from our friends at JPMorgan (below) rather timely. Rates are currently WAY down in the green area (lower left), below the

normal range and well below stagnation.

While a busy chart, the main item we want you to gleam is that if the folks at JPMorgan are correct, rates are so low they are choking the economy, not stimulating it anymore.

So if low rates are strangling the economy, can higher rates stimulate?

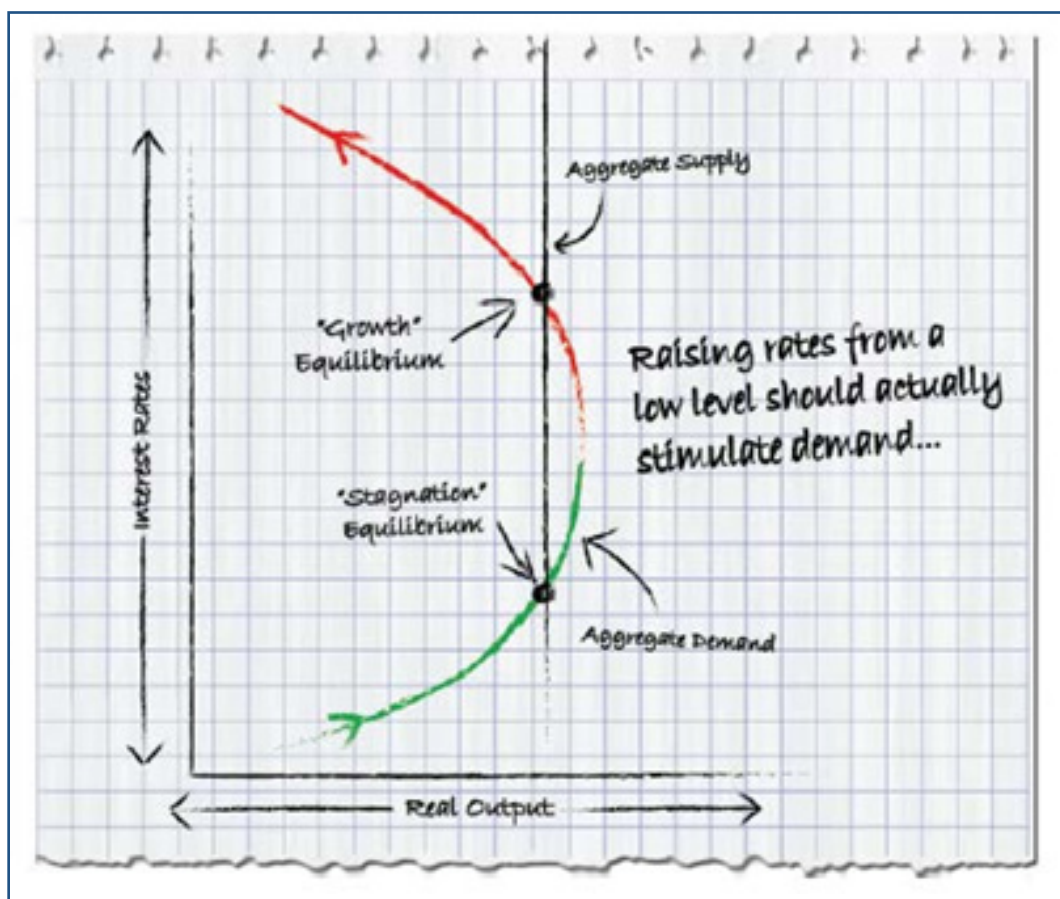
Why lower rates may be hurting the economy

Lower interest rates directly affect fixed income - aka Bond investors. Bonds are a necessary fixture in most any portfolio, generally fluctuate less, and pay a steady income stream.

More mature investors correctly gravitate towards fixed income investments due to their stability and safety characteristics.

The following information

(see Long economic, Page 4)



Long economic cycle is cause for concern

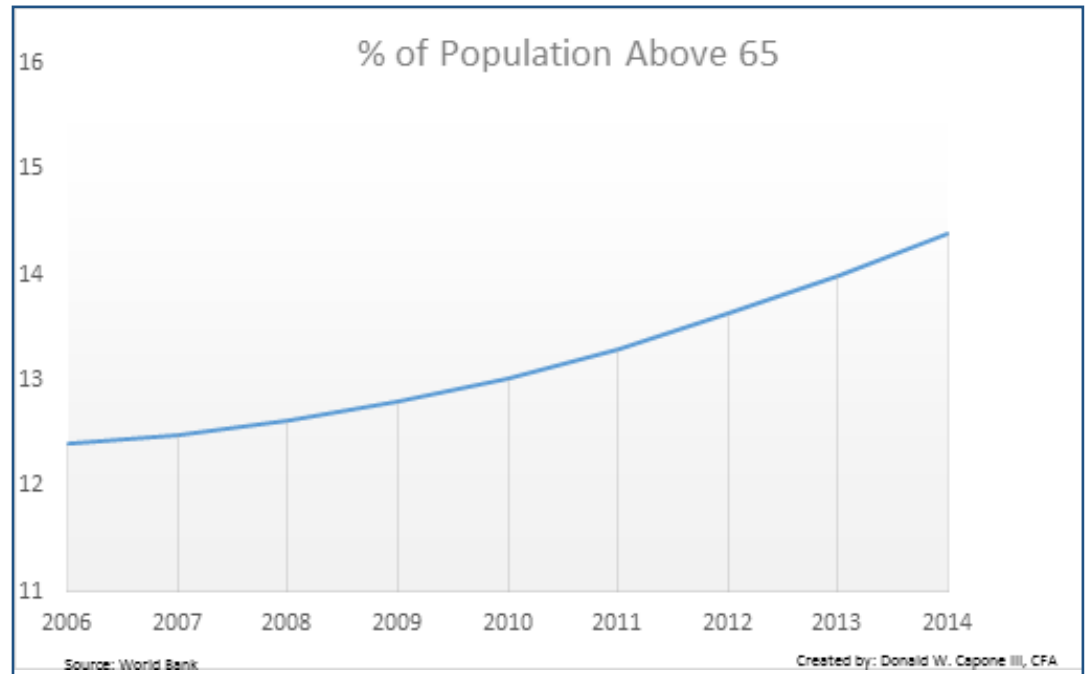
(continued from Page 3)
from the world bank
(chart on right)
highlights more
mature investors, age
65 and above, as a
percentage of the total
population. This is of
course a growing part
of the population as
the country has grown
older.

Fixed income versus equity capitalization

Not only has the population grown that would correctly embrace fixed income but this chart (below) from learningbonds.com shows just how large the fixed income/bond market has grown in total compared to the equity/stock market.

But for the 2000.com speculative period, fixed income investments dominate the total value over equity investments.

More people need them, more are available but due to the current policy, rates are at rock bottom, starving many.

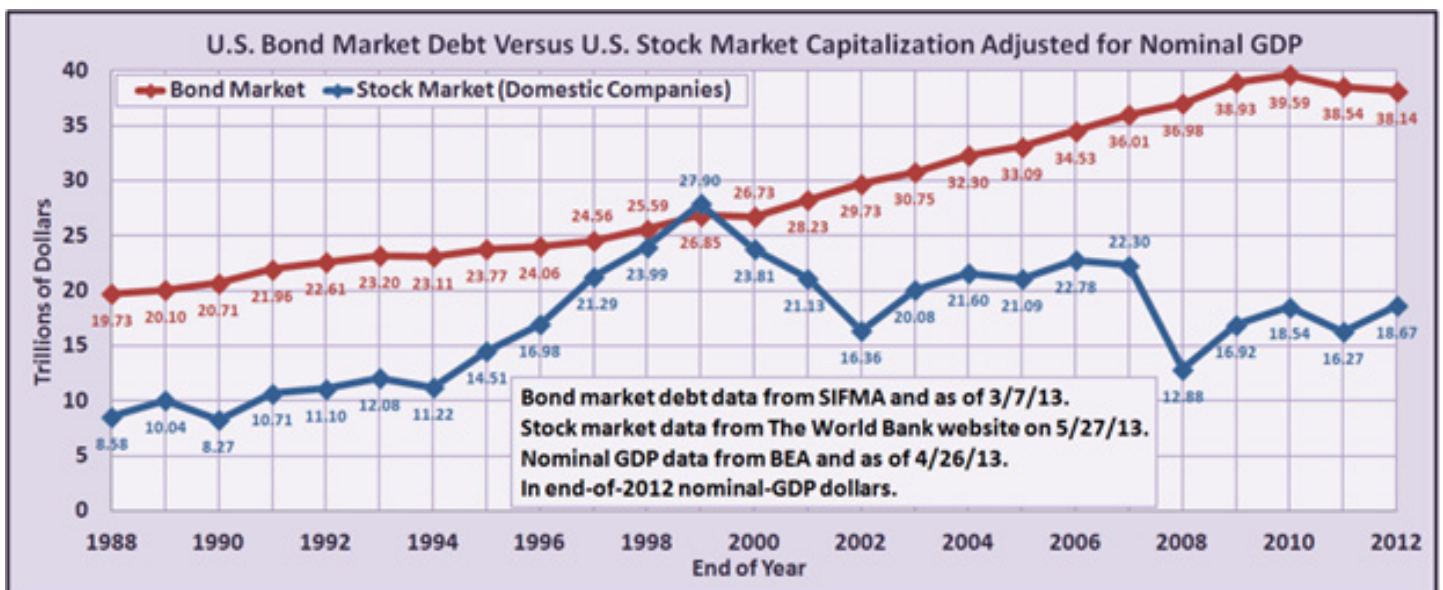


Conclusion, again with a twist

You may be ready for us to say raise rates and we can all be happy and the economy picks up steam. It is our belief that this is a distinct possibility and more probable than not.

However, what concerns us is that we are long in this economic cycle. A terrific eutopian result would be an increase in rates and a coinciding pick up in economic activity, overcoming the statistically very long in the tooth recovery and challenging an inevitable overdue recession or slowdown.

JK



ESTATE PLANNING

Important documents for financial, health security

(continued from Page 1)
one, please!

ESTATE PLANNING DOCS

Will – Document that directs non-beneficiary directed assets (Ex: house, property, cash and regular investment assets) and may create trusts for minors, names a custodian, executor and may also create trusts and trustees for estate tax minimization and other uses (see final statement in article below on Trusts.)

Power of Attorney – Financial document that appoints someone other than you to make most financial decisions in your absence. Generally this document immediately becomes effective upon authorization, as opposed to upon disability.

Healthcare Power of Attorney – Document that appoints someone to make important healthcare decisions if you are unable. Think unconscious and need to approve some type of procedure.

HIPPA – Allows your appointed person to receive medical information on your behalf. This is the anti-privacy document to counter unintended consequences of many of the recently enacted privacy laws.

Living Will - Cease and Decease – DNR – These titles

are one in the same and are frequently confusing. This document allows medical professionals to NOT mandate all possible care should you become deceased mentally but not in body function. DNR stands for do not resuscitate and is probably the most explanative title.

Now you have a great all-in-one spot for just what the heck all those “Estate Planning” docs are... and us, too.

ESTATE PLANNING DOCS Part Two – Trusts

Trusts, in our opinion are most helpful for organization, directives for minors and very useful in avoiding estate taxes, just to name a few.

ESTATE TAX REVIEW

Estate taxes are the tax that is incurred upon the final death of an estate member. Unlike Federal taxes, estate taxes are accessed on the TOTAL VALUE of all assets less liabilities.

Currently these taxes begin just under \$5.5 million for a single person and if done correctly, can be double (\$11 million total) for married couples. Above these total amounts, the tax rate quickly gets to 40%. For this reason, the popularity and needs of many of the following Trusts have grown and will continue.

TRUSTS – ALL TYPE REVIEW

Over the last several years, we have grown warmer to the

use of trusts. Residing in Texas, a low cost probate state, trusts frequently have lessor place in the estate plan. However, we are finding more and more uses for them, and as such wanted to have a detailed list of the various trusts. This is the second, and more deep dive to our original Estate Planning Doc Summary.

Revocable Trust – By far the most common and most commonly misunderstood trust of the bunch. Revocable means it can be changed at the grantors request. Due to this fact, there is very little tax or liability avoidance. The key positive for this trust is organization, especially over state borders. In high probate cost states may prevent substantial probate costs.

Testamentary Trust – Trust that is usually embedded in a Will and is created upon the grantor’s death. Testamentary trusts can take many forms but are a key aspect of estate planning for minors, estate tax and generational transfers. It has virtually no existence until the grantor passes away.

Irrevocable Trust – The Hulk of trusts. Being Irrevocable, once established and funded, this trust is a beast. Estate tax, liability, inheritance are just a few items that can be addressed with an Irrevocable

(see Trusts, Page 6)

Questions challenge for friendly competition

As a planner and sometimes over planner with engineer like tendencies, skepticism was great when the app of the quarter made it into our household.

Participation is regular and what has been most enjoyable is the entire family jointly challenging each other.

After an 11 year old embraced this app, joining a spouse and spouse's twin sister in competition, a brow was raised. Now even an 8 year old is in the mix.


It's easy to challenge someone, and if you do not have a friend or relative, someone unknown will be glad to challenge you as well. These online challengers tend to be VERY good.

We use the free version, which has an extensive sales Ad waiting time when a

App of the quarter: Trivia Crack question is answered incorrectly, making for more incentive to get as many questions correct as possible. Sports, geography, science, entertainment and history are all questioned.

Did we really study Greek mythology in school? Darn if I recall.

Give it a try. It may make your next travel time with or without family a little extra fun and help broaden and challenge your knowledge base at the same time.



“What type of climate are we talking about if we refer to steppe? Semi-arid, Continental, Mediterranean, Tropical (Answer Page 8)

ESTATE PLANNING

Trusts give directives, minimize taxes

(continued from Page 5)

Trust. The biggest issue of this type of trust is what makes it a beast, Irrevocable ... once you put assets in it, there is no turning back. Careful use is advised.

QTIP Trust - Qualified Terminal Interest Trust. Most commonly set up by grantor to give direction to assets beyond the spouse. Frequently used in second marriages to protect children from a prior marriage. Created and resides most frequently in a Will.

Credit Shelter/A:B Trust - Type of trust that is used to help minimize estate taxes by maximizing the first person in a married couples estate tax exemption upon death,

commonly resides in a Will. Can give directives to eventually end up to a non-spouse beneficiary but living spouse maintains control during lifetime.

GST or Generation Skipping Trust - This handy estate planning trust gives relief to grantors by jumping a generation and essentially skipping the grantor's children and passing to the grandchildren. Income may be distributed to the children but the ultimate beneficiary will be the grandchildren. Under current law there is estate tax relief from this trust.

ILIT - Irrevocable Life Insurance Trust. This trust is very useful in getting life insurance proceeds out of a

grantor's estate. While life insurance is free from Federal taxes in most cases, proceeds are included in an estate for total estate tax purposes. Done correctly, the ILIT trust can limit most if not all of the proceeds from an estate and thereby estate taxes.

Pat yourself on the back (especially if you are still awake and made it this far.) With a reasonable understanding of these types of trusts, you now have deep knowledge of the types of trusts available. Reach out if you have any questions.

JK

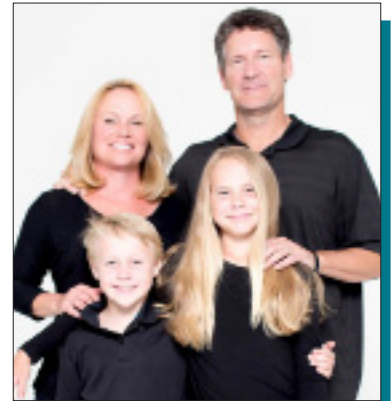
ESTATE PLANNING Part I was originally posted on April 20, 2016 and Part II was posted on June 15, 2016 at street-cents.com.

So what are you doing this summer?

**Kvales travel
out of state,
play in tennis
tournaments,
enjoy summer
school**

After a fantastic trip to the sunshine state in early June, tennis will be an integral part of the summer for the family. The out of town tournaments commence for Sophia in June. Pam will attempt to attend her multiple league commitments. Pierce, not so happily, has summer school plans, which he hates to think of but enjoys tremendously after it begins.

As the mercury rises, the family plans to take their annual "extended remote working" trip to the coolness of the mountains with several fellow advisors, friends, family and fun.



Capones visit family, beach, park, snow cone stands



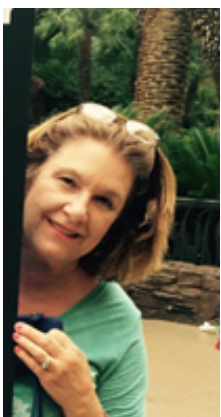
As always, the summer seems to start earlier and earlier each year for the Capone's.

This year we were off and going in early May with a fun trip to Plano for our nephew Noah's Bar Mitzvah (he did an amazing job!!). Isaac and Asher got to visit with family and spend lots of time with their cousins.

Asher will get to take his first trip to the beach in July as we visit Port Aransas for the first time in all our years in Texas.

Early morning trips to the park and trips to snow cone stands will be the key to beating the Houston heat this year.

Randi and I are always amazed how fast time flies, especially now that we have two amazing boys to share the days with. We hope that everyone has a wonderful, fun filled summer.



Pros, cons of summer through Cathy's eyes

Pros: School is out...no school zones so it just takes 7 minutes to get to work instead of 10.

Cons: It's hot and mosquitos are as big as flies. Did I mention it's hot?

Pros: Daylight savings time. It's still light at 9 p.m.

Cons: I go to bed at 9 p.m.

I know this is supposed to be about my summer plans but the only thing I have planned is to take care of our awesome clients during the week and spend quality time with my family on weekends.

Happy summer to all!



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

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...

Break in - Brexit or the Exit of the British from the European Union has likely delayed an interest rate increase. We feel our views are still correct, but a rate raise is likely not in the cards soon!

We hope you enjoyed our mid-year newsletter which includes our "what we are doing for summer" article as well as a deep dive into interest rates as it relates to economics and the presidential election. Trivia Crack is our app of the quarter and continues to be a family favorite.

After a short notice invite to

again co-host Wharton's Sirius Satellite live radio show, the third show was in the books. With the first leg of the show, a full hour of live rapid-fire questions and answers were completed. An acceptance of a future offer to co-host was made just after completion of the show. We must be doing something correct.

Mid quarter we were notified that several of our Investopedia answers had been reviewed over 20,000 times and shared by yahoo finance. We never thought THAT many people might be interested in our answers! Nice to give back. 

New knowledge sites:

www.triviacrack.com
Our App of the quarter

tradingeconomics.com
Neat economic site

Dates:

Sept. 15 - Q 3 1040
Es Taxes and
1120/1065 Ext due

Oct. 15 - Extension for
Regular 1040 due

Nov. 19 - 21st Annual JK
Holiday Party, 3-5 p.m.
Dallas Athletic Club

(Answer: Semi-arid)