TONKINSON FINANCIAL

Specializing in Your Retirement

QUARTERLY NEWSLETTER 1Q 2017

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MARKET HIGHLIGHTS:

• The Atlanta Fed estimates 1Q 2017 GDP at just over 1%, lower than the average of 2.0% for the full year 2016.

• Consumer and business confidence showed big improvements. The former hit levels not seen since 1997–2000 and before that, the late 1960s. Small business confidence reached its highest level in over 12 years.

• Investors were more focused on indicators of future policy, with many predicting a hawkish change in tone. However, the central bank's outlook for the path of interest rates was mostly in line with December's estimates with no change in the median number of hikes for 2017 (3) and 2018 (3).

• In March, interest rates hit a 2½ year high as a surge in hiring spurred expectations of an aggressive Fed response. The yield curve flattened as a selloff at the short end was met with more caution at the long end, anchored by low inflation expectations.

• The equity markets notched strong gains in the first quarter, marking the best 1Q performance since 2013. Improved corporate earnings growth, solid economic trends, and continued optimism around the potential for tax reform and fiscal stimulus drove markets higher despite increased uncertainty around policy implementation following the administration's failed effort to repeal and replace the Affordable Care Act.

INDEX PERFORMANCE *3/31/17*

	Q	YTD	1 Year
Aggressive Allocation	4.98	4.98	13.33
Balanced Allocation	3.94	3.94	10.03
Conservative Allocation	2.90	2.90	6.79
S&P 500 TR	6.07	6.07	17.17
Russell 2000 TR	2.47	2.47	26.22
Bloomberg Barclays US Agg Bond TR	0.82	0.82	0.44
MSCI EAFE NR USD	7.25	7.25	11.67
	As of 3/31/17		**As of 3/31/16**
10 year Treasury	2.40%		1.78%
Barclays 1-3m Treasury/Cash	0.10%		0.01%
Price of oil	$51.74		$38.64
Real GDP YoY % charge	2.0%		2.0%
US Unemployment Rate	4.7%		5.0%

The aggressive allocation is made up of 50% S&P 500 TR, 8% Russell 2000 TR, 18% Barclays US Agg Bond TR, 22% MSCI EAFE NR USD and 2% cash. The balanced allocation is made up of 39% S&P 500 TR, 5% Russell 2000 TR, 35% Barclays US Agg Bond TR, 16% MSCI EAFE NR USD and 5% cash. The conservative allocation is made up of 29% S&P 500 TR, 2% Russell 2000 TR, 53% Barclays US Agg Bond TR, 9% MSCI EAFE NR USD and 7% cash. All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance does not guarantee future results.

Do You Remember When The Beatles Played on The Ed Sullivan Show?

— By Rick Tonkinson, MBA, MPA, CFP®, CLU, AIF®

On February 9, 1964, 53 years ago, The Beatles played on The Ed Sullivan Show. Do you remember? If you do, then you are old enough to retire.

For me, I was in the fourth grade and the next day waiting for the Saw Mill Road Elementary School doors to open, the kids were lined up outside and the question was "Who is your favorite Beatle?" John and Paul were tied for first place. The show the night before was a life changing event for me and millions of young people. Perhaps it was memorable for you.

George Harrison's song "All Things Must Pass" seems most appropriate. Hopefully you have had 53 years of life's experience with no regrets. Long live Rock 'n' Roll!

MARKET REVIEW

— By Rick Tonkinson, MBA, MPA, CFP®, CLU, AIF®

The U.S. stock market had a good run, up 6.1%, for the first quarter of 2017 while the bond market struggled, up only 0.8%.

In a reversal of post-election trend, Large Cap stocks outperformed the Small Cap while international equities surpassed the U.S. stock market during the period.

Economic indicators were generally upbeat, housing sector continued to advance while manufacturing expanded to its highest measure since the middle of 2014. Job growth continued and unemployment rate remained at 4.7%, the lowest level since the end of the financial crisis of 2008.

The best performing sectors were information technology, up 12.6%, and consumer discretionary and healthcare sectors, both up 8.4%.

The Utilities were up 6.4% and make up just 3.2% of S&P 500. Their 20 year average forward P/E Ratio is13.9x and they are currently trading at a ratio of 17.8x making Utilities an extremely overvalued sector.

NextEra (NEE) stock started the year at $118.72 per share and on 03/31/17 was $128.37 a share with a total performance of 8.28% for the quarter.

Because inflation is tamed at 2.2% and there is full employment at 4.7%, the Federal Reserve raised the rate by 0.25 on March 15th. The Federal Reserve adjusts the rates that banks can borrow overnight from each other based on two economic items: inflation and employment. Rates increase when there is economic growth. The stock market rose 112 points on the announcement. The Federal Reserve is expected to increase the rates two more times in 2017.

Real estate values have been holding steady. Consumer sentiment is very high at 96.9 compared to the 44 year average of 85.2.

Light vehicle sales took a tumble this quarter falling from highs not seen since before the financial crisis to a 3-year low but still above their long run average.

In general, the second quarter historically slows down and we will use our research will look for opportunities.

Source: J.P. Morgan 2nd Quarter Guide to the Markets®

Expectation vs. Reality

— By Rick Tonkinson, MBA, MPA, CFP®, CLU, AIF®

The unsubstantiated excessive enthusiasm with the new political reality that has been running unabated had been a reality check when Obamacare was not repealed. The honeymoon is over and the promised tax cuts that are needed to stimulate the economy is now not the slam dunk that people expected. Wishful thinking has been driving the stock market to the point of being overvalued.

Expectations like a pendulum tends to swing from too optimistic to too pessimistic. We remain focused on neutral and eliminate the emotions in our research and investment decisions.

Steven and Rick Have Been Business Partners for 23 Years

— By Rick Tonkinson, MBA, MPA, CFP®, CLU, AIF®

When Steven was age 15 and I was 40, there was no money saved for college. Steven wanted to attend the University of Florida and back in 1996, it cost $8,000 a year. The goal was for him to go to college with no need for financial aid.

We decided that we had to work together. Whatever Steven would earn, I would match it dollar for dollar.

Steven's first job was to be a busboy for a hotel close to the Miami airport that had a breakfast buffet that started at 5am on Saturday and Sunday. We had to wake up at 4am to drive Steven to work.

Steven did a variety of jobs and I came through with the match. Three years later, on graduation day from high school, there was $32,000 in the college fund and Steven went to the University of Florida as planned with no student loans.

Rick Stops and Picks up Pennies

— By Rick Tonkinson, MBA, MPA, CFP®, CLU, AIF®

A good friend and client, George, when we first met asked me "What kind of guy are you?" Rather than talk about my life experience or extensive education, I just said that I stop and pick up pennies. Why? Because for me, pennies have value. George said that I was the adviser he was looking for. Today, I take care of 32,100,000,000 pennies for my clients. Each one is valuable.

Rick's Mom Was an A Clerk

— By Rick Tonkinson, MBA, MPA, CFP®, CLU, AIF®

My mom, Vi, was an A Clerk.

She worked with her best friend, Ruth, who set her up on a blind date with my dad, Jack. I am the result of that blind date. Ruth married my dad's brother, Bob, so the two A Clerks became sisters-in-law.

Rick and Steven Earn the AIF® Designation

AIF® | Accredited Investment Fiduciary®

In January, both Rick and Steven have been awarded the Accredited Investment Fiduciary® (AIF®) designation from the Center for Fiduciary Studies™ (the Center), the standards-setting body for fi360.

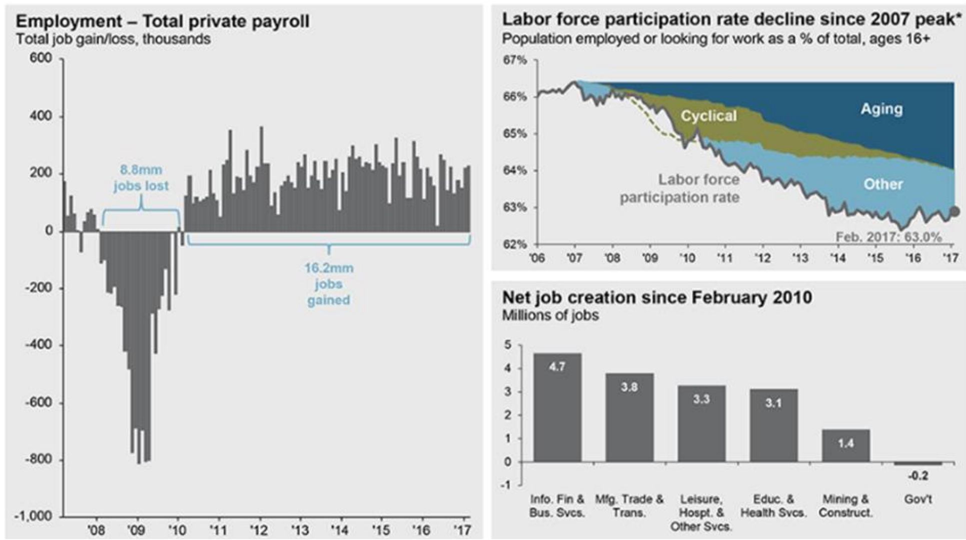
The AIF designation signifies specialized knowledge of fiduciary responsibility and the ability to implement policies and procedures that meet a defined standard of care.

The designation is the culmination of a rigorous training program, which includes a comprehensive, closed-book final examination under the supervision of a proctor, and agreement to abide by the Code of Ethics and Conduct Standards.

On an ongoing basis, completion of continuing education and adherence to the Code of Ethics and Conduct Standards are required to maintain the AIF designation.

INTERESTING STATS:

— Presented by Steven Tonkinson, CFP®, AIF®, CFS®

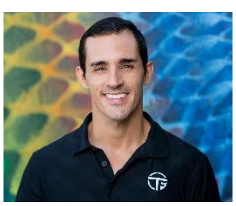


This chart examines the unemployment situation further. The left side of the chart highlights the number of jobs created since the financial crisis, and the right side of the page shows an ever decreasing labor force participation rate since the 1990's, which will limit the number of workers available to take each new job created. The causes for this decline are explored in this chart as well. A large portion of the decline in participation comes from an aging workforce (retirees are counted as potential labor, but are not participating in the workforce). A cyclical decline in the participation rate was to be expected as the unemployment rate shot up, though the effect has diminished as the expansion has progressed. Other factors contributing to the decline in labor force participation may include the rise in the population with a criminal record, in workers claiming disability benefits, and the mismatch of workers' skills with job requirements. The bottom right chart shows which economic sectors have created the most jobs during this recovery.

Source: BLS, FactSet, J.P. Morgan Asset Management. (Bottom right) Info. fin. & bus. svcs. = Information, financial activities and professional and business services; Mfg. trade & trans. = Manufacturing, trade, transportation and utilities; Leisure, hospt. & other services. = Leisure, hospitality and other services; Educ. & health svcs. = Education & health services; Mining and construct = Natural resources mining & construction; Gov't = Government. *Aging effect on the labor force participation rate is the estimated number of people who are no longer employed or looking for work because they are retired. Cyclical effect is the estimated number of people who lose their jobs and stop looking for work or no not look for work because of the effects. Estimates for reason of decline in labor force participation rate are made by J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of March 31, 2017.

SOUND ADVICE: What to Ask When Your Adult Child Moves Home

— Presented by Steven Tonkinson, CFP®, AIF®, CFS®



Facing heavy college debt burdens and an unpredictable job market, many young adults today are returning home to live with their parents. In fact, according to a recent study by the Pew Research Center, more than 32 percent of young adults lived with their parents in 2014—more than lived alone or with a spouse or partner.

I was one of those adult children living at home back in 2002. After graduating university, I had an internship down in Chile and when it was over I moved in with my parents while I saved money and looked for a job. I was there for about a year and I was able to save enough to put a down payment on my first place. It really helped me get a good start financially.

No matter the reason your adult son or daughter is moving back home—job loss, a failed relationship, or a desire to save money or pay down debt—having a plan to manage the new arrangement is essential. The following questions can help you set expectations and ensure that both you and your child stay on course toward your financial goals.

- **What are your own needs and priorities?** It's natural to want to support your child in a difficult time, but you need to be realistic. Don't exceed your limits or sabotage your own financial plans. Your child should understand that it's important for you to maintain your own retirement and debt repayment goals and obligations.

- **Does your child have a financial plan?** Help your child build good money habits by working together to set a budget and savings goal. Discuss the amount of financial help you're able to provide without jeopardizing your own savings. Also, decide if your child will stay on your health insurance plan (most plans cover kids up to age 26).

- **When does he or she plan to move out?** Along with creating a financial plan, setting a move-out deadline will encourage your child to work toward concrete goals. If you don't set a limit, he or she may stay at home longer than expected or delay moving forward with future plans. If your child needs to start paying off debt or wants to save money for a down payment on a house or condo, have a realistic discussion about how long it will take. To help everyone stay on track, some parents draw up a contract that both they and the child sign.

- **Do you need to reassess the plan?** Once you've made a financial plan and set a move-out date, ensure that your child is making progress toward those goals. Talk regularly about obstacles he or she has encountered and how you may be able to help. If your child hasn't been able to find a job or other circumstances change, you may need to update the plan to reflect a more realistic time frame.

- **Will your child pay rent?** Charging rent can help offset the costs of having another person under your roof. If you don't need rent money to cover your bills, you might consider letting your child save that amount to use when he or she moves out. If your child doesn't have a job or can't afford to pay rent, exchanging work for room and board is an option. Your child's duties might include shoveling snow, mowing the lawn, painting a room, or cooking.

- **What are your child's debt obligations?** Parents are often conflicted about whether to help their children pay off credit card or education debt. If you do decide to help, create a contract that outlines what you expect in return. You could also waive rent for a couple of months if your child agrees to put any savings toward decreasing his or her debt burden. Lending them the money interest free is another option. I've borrowed money from my Dad to help buy a house and we set up a payment plan to pay him back.

Dealing with a full house again can be tricky, especially if you've lived in an empty nest for an extended period of time. But by setting clear ground rules and financial expectations, you can ensure a much smoother transition when a grown child returns home—and help him or her regain financial independence more quickly.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

Roth Conversions

— By Kristina Shamonina, CFP®

The main appeal of the Roth IRA is in its tax-free distributions. However, the tax-free benefit only kicks in if 2 conditions are met: having held a Roth for at least 5 years and having attained age 59½. Roth contributions are not tax-deductible and are always tax-free to withdraw; it is the gains portion of the Roth that that receives tax-free benefit.

Converting Traditional IRA asset into a Roth IRA asset means you are taking the before-tax money and turning it into after-tax money. This results in the assets being immediately taxable. The higher the value in your Traditional IRA, the higher the reported income will be and the more taxes you may have to pay. In essence, you are making the choice to pay tax today in order to save paying later. This is an effective strategy when your current income tax rate is lower than your future expected tax rate.

Assume your IRA value is $100K and your tax rate is 20%. This means the converted Roth value after paying the tax is $80K. However, if you are under 59½, the $20K you withheld for taxes is subject to 10% early withdrawal penalty ($2K), so the converted Roth value becomes $78K ($100K-$20K-$2K).

If you hold the account for 5 years* and have a 4% yearly return:

	Start Value	End Value	Net after 10% tax	Net after 20% tax	Net after 30% tax
Trad. IRA	$100K	$121,665	$109,498	$97,332	$85,165
Roth IRA I	$80K	$97,332	$97,332 (tax-free)	$97,332 (tax-free)	$97,332 (tax-free)
Roth IRA II	$78K	$94,898	$94,898 (tax-free)	$94,898 (tax-free)	$94,898 (tax-free)

If you hold the account for 20 years* and have a 4% yearly return:

	Start Value	End Value	Net after 10% tax	Net after 20% tax	Net after 30% tax
Trad. IRA	$100K	$219,112	$197,200	$175,289	$153,378
Roth IRA I	$80K	$175,289	$175,289 (tax-free)	$175,289 (tax-free)	$175,289 (tax-free)
Roth IRA II	$78K	$170,907	$170,907 (tax-free)	$170,907 (tax-free)	$170,907 (tax-free)

*the assumption is the distribution starts after age 59½

As you can see from the tables above, if the future income tax rate is equal to or less than the current tax rate (20% in our example), the conversion does not make sense as the Traditional IRA would produce either an equal or higher net value. Only when the future income tax rate is higher than the current tax rate does the Roth conversion provide a sizable benefit. In reality though, most people's tax rate in retirement is actually lower than during their working years, potentially making a Roth conversion not a beneficial choice.

When contemplating a Roth conversion, careful consideration must be given to several factors, including the value of the IRA, current and future income tax rates, age, expected distributions and their start date.

Unfortunately, there are no simple answers and no cookie-cutter financial plans. An expert opinion from your financial adviser and tax adviser will help make the right and sensible decision for you and your family.

The Pros and Cons of Indexing

— By Tom Saul, Analyst

Stock Market Indices were originally created as a benchmarking tool for investors. Then they developed into a hedging tool for large portfolios. An index is an imaginary portfolio of securities representing a particular portion or segment of the broader market. Stock market indices provide a benchmark for active stock portfolio managers to statistically measure themselves against. For example, in the US the main stock market index is the S&P 500 which is simply made up of the 500 largest companies by market capitalization listed on the NYSE or NASDAQ. Vanguard made Index Funds popular as an investment of its own, and now today investors can invest in index portfolios though many different companies with ETFs and Mutual Funds.

The pros

Index funds which mimics the S&P 500 by investing in the same stocks with the same weights, are a simple way to get a diversified portfolio. Index funds are passively managed so there is no manager, resulting in lower management fees and expenses than those of their actively managed counterparts. Human factor risk is also eliminated and so market risk is all that's left. Index funds simplify investing; there is little research needed and you know what you are getting. The annual returns will always be similar to the benchmark because they invest exclusively in its underlying index.

The cons

The S&P 500 just invests in the largest companies by market capitalization, meaning that when you invest in the ETF that mimics this index, most of the money just goes to the biggest companies in the index. Out of 500 companies in the index, the 25 largest (5% of the 500) make up about 34% of the total market cap. For example, if you were to buy $100 of the index fund, $34 (34%) would go to the 25 biggest positions in the S&P 500 and just a dollar (1.00%) would buy the 50 smallest regardless of their underlying value. If you invest by market cap like in S&P 500, you just keep adding money to the largest companies whether they are flourishing or deteriorating while missing the opportunity for gains with the smaller companies with growing potential. An active manager with research tools, on the other hand, may be able to identify and avoid struggling companies while investing into growing and stable firms regardless of their size. Special attention must be paid to particular ETF index funds that are thinly traded and, as a result, may end up selling for less than their NAV (Net Asset Value) if there is a selloff in their market or segment.

Beating the benchmark

You will never be able to beat the benchmark if you all you buy is the benchmark. Subtract the fees, and you actually underperform the benchmark. When you look at the performance on a yearly basis, the difference between the index and the index fund might be small; but over longer periods of time those little underperformances add up. The purpose of active management is to try to beat the benchmark. Even if active managers may not always outperform the benchmark, they may compensate by reducing risks and creating better risk adjusted returns with more consistency in the long run.

Bonds

As far as indexing bond portfolios go, they are not assembled in the same way as stock index portfolios. While every share of stock is the same, company issued bonds are not. This is because they are issued at different times, with different rates and in different sizes, making it nearly impossible for an index fund to own the same underlying assets as its index.

More than a con

The biggest problem with indexing is that it is passive by nature and by being passive the investor gives up his voting rights. As more and more investors use indexing to gain equity exposure and become passive, the activist investors gain the ability to influence the companies with fewer percentage of outstanding shares. For example, if 60% of the company is owned by index funds, this leaves only 40% of shares with the ability to vote left and if an investor owns 21% (which is over half of the voting shares), he effectively controls the whole company. This may lead to this activist investor forcing decisions on the company which make him large gains in the short run but hurt the company in the long run.

Estimated Net Flows*	Active		Passive	
	1 Year	Assets	1 Year	Assets
	$Mil	$Bil	$Mil	$Bil
U.S. Equity	(269,658.00)	3,724.00	300,332.00	3,231.00
Sector Equity	(31,024.00)	390.00	57,294.00	443.00
International Equity	(70,313.00)	1,527.00	104,840.00	1,046.00
Allocation	(43,272.00)	1,214.00	1,148.00	62.00
Taxable Bond	96,309.00	2,378.00	165,446.00	977.00
Municipal Bond	19,021.00	625.00	6,022.00	29.00
Alternative	(12,287.00)	165.00	496.00	46.00
Commodities	1,660.00	25.00	2,360.00	65.00
All Long Term	(309,564.00)	10,049.00	637,939.00	5,899.00

Summary

Despite the fact that index funds slightly underperform the index they follow and thinly traded index ETFs have serious liquidity issues, indexing may make sense as part of some investment portfolios, when a good manager may not be available, or when a broad exposure to a certain market for a short period of time is desired. However, in the long run, active management with risk control and extensive investment research tools may result in more consistent and stable returns than passive investment in index funds.

COMMUNITY EVENTS

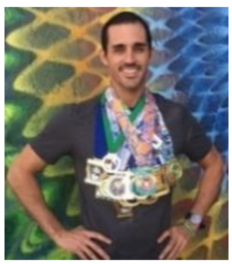
As part of our commitment to the community, we have created The Tonkinson Foundation. Margarita is the Executive Director.

- On January 10th, Rick attended the FPL retiree luncheon at Rodbenders that is organized by Eugene Berry.

- On January 19th, Tonkinson Financial sponsored the House of Cards concert at the Adrienne Arsht Center for the Performing Arts.

- On January 23rd, Rick chaired the FIU College of Communications, Architecture and the Arts advisory board meeting at Perkins + Will in Coral Gables.

- On January 29th, Steven ran in the Miami Half Marathon. He has run in the race for 15 years in a row since it started back in 2002 and has collected 15 medals.



- On February 3rd, Rick, Margarita and Steven sponsored the Cleveland Orchestra concert with Yo-Yo Ma and met him after the concert.

- On February 23rd, The Tonkinson Foundation was the title sponsor for the Woody Foundation Lobster Feast. The Woody Foundation is a not for profit organization that helps raise funds for people with paralysis.

- On March 12th, The Tonkinson Foundation was the title sponsor for the Knights of Columbus golf tournament at Eagle Trace in Naples. John Caltabiano does an excellent job running the event that raises money for scholarships in the local area.

- On March 25th, The Tonkinson Foundation sponsored the Rotary Club of Miami 100th anniversary celebration dinner at The Rusty Pelican in Key Biscayne.

- On March 28th, The Tonkinson Foundation was the silver sponsor for The 200 Club of Greater Miami dinner. The 200 Club is a financial support group for families of police officers and firefighters.

- On March 31st, Rick attended the UM School of Business Entrepreneurship board meeting. Rick served as a judge for the student business plan competition.

DJ Industrial Average (DJIA): Computed by summing the prices of the stocks of 30 companies and then dividing that total by an adjusted value—one that has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are invested to reflect the actual performance of the underlying securities. NASDAQ Composite Index: Measures the performance of all issues listed on the NASDAQ Stock Market, except for the rights, warrants, units and convertible debentures. Barclays Capital Global Aggregate Bond: This index provides a broad-based measure of the global investment-grade, fixed-rate debt markets. Citigroup 3-month T-Bill: Measures monthly return equivalents of yield averages that are not marked to market. The 3-month Treasury Bill Indexes consist of the last three 3-month T-Bill issues. MSCI China: This free-float adjusted capitalization-weighted index is designed to measure the performance of China-based equities. MSCI EAFE (Morgan Stanley Capital International Europe, Australia, Far East): This index is a capitalization-weighted index that tracks the total return of common stocks in 21 developed-market countries within Europe, Australia and the Far East. MSCI Emerging Markets EMEA: This index captures large and mid-cap representation across 8 Emerging Markets (EM) countries in Europe, the Middle East and Africa (EMEA). With 139 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Russell 2000: This index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. Standard and Poor's (S&P) 500: This index tracks the performance of 500 widely held, large-capitalization US stocks. S&P Consumer Discretionary: A market capitalization weighted index that tracks the performance of consumer discretionary companies. S&P Consumer Staples: A market capitalization weighted index that tracks the performance of consumer staples companies. S&P Energy: A market capitalization weighted index that tracks the performance of energy companies. S&P Health Care: A market capitalization weighted index that tracks the performance of health care companies. S&P Materials: A market capitalization weighted index that tracks the performance of materials companies. S&P Technology: A market capitalization weighted index that tracks the performance of technology companies. S&P Utilities: A market capitalization weighted index that tracks the performance of utility companies.