TONKINSON FINANCIAL
Specializing in Your Retirement

QUARTERLY NEWSLETTER 3Q 2018

2398 S Dixie Hwy, Miami, FL 33133 www.TonkinsonFinancial.com T: 866-323-8326 F: 866-610-0042

MARKET HIGHLIGHTS:

- GDP finished Q2 at 4.2%, rising from 2.2% for Q1 and hitting its highest level since 3Q14. The Atlanta Fed estimates 4.1% GDP for Q3.
- The FOMC increased rates 25 basis points to a range of 2.0–2.25%. This was the third rate hike this year and the eighth since the central bank began its campaign at the end of 2015.
- Equity markets marched higher in Q3 with the S&P 500 posting its largest quarterly gain in nearly 5 years.
- Growth extended its impressive lead over Value, and low quality stocks generally outperformed.
- Job growth continued at a steady pace. The unemployment rate at 3.7% is at its lowest level since 1969.

INDEX PERFORMANCE *9/30/18*

	Q	YTD	1 Year
Aggressive Allocation	4.46%	5.70%	11.02%
Balanced Allocation	3.42%	3.98%	8.11%
Conservative Allocation	2.45%	2.36%	5.32%
S&P 500 TR	7.71%	10.56%	18.35%
Russell 2000 TR	3.58%	11.51%	15.41%
Barclays US Agg Bond TR	0.02%	-1.60%	-1.22%
MSCI EAFE NR USD	1.42%	-0.98%	3.80%

	As of 9/30/18	As of 9/30/17
10 year Treasury	3.05%	2.33%
Barclays 1-3m Treasury/Cash	1.30%	0.60%
Price of oil	$73.55	$55.98
Real GDP YoY % charge	2.9%	2.2%
US Unemployment Rate	3.7%	4.4%

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.

NEWSLETTER HIGHLIGHTS:

Confidence
– By Rick Tonkinson, MBA, MPA, CFP®, CLU, AIF®

Confidence is what determines in large part whether we can or cannot achieve anything.

It influences our perspective. Is the glass half full or half empty? Faced with the same facts, we can spin it to be pessimistic or optimistic. Confidence is an emotional response to our circumstances.

Applying this to the economy, the stock market which is based on our collective confidences will be up or down. The facts did not change but our point of view did.

We manage more perception than money. Our clients' level of confidence and consequently their comfort level is our top priority.

We know that eating right, daily exercise, enough rest and staying healthy gives us an improved well-being. Our body is a chemistry lab that needs to be balanced in order to function well.

As money managers, we constantly strive to have the investments balanced so that there is optimal performance. We assess daily our level of confidence in the future of the stock market based on the current circumstances.

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

The 3Q18 was the S&P 500 best performance since 2013. The year-to-date performance is 10.6%. Growth companies, which focus on future earnings have outperformed the S&P 500. Based on Price to Earnings (P/E ratio) the U.S. stock market is reasonably priced.

Unemployment, at 3.7%, is the lowest it has been since December 1969.

Utilities have a year-to-date performance of 2.4%. FPL (NEE) stock has a year-to-date performance of 13.4%.

The U.S. bond market performance has been flat.

The Federal Reserve raised the interest rates. It is now at 2.0% – 2.25%. It is expected to continue to rise over the next 12 months.

The level of Christmas shopping can be anticipated by the amount of goods sent from Asia in September. The number is lower due to the tariffs on China products. Plastic toys are specifically higher than last year. This is an indicator that we watch closely. In 2007, the Christmas shopping was off and the U.S. stock market declined 10% in January 2008. Back then, we felt that the party was over and we focused the portfolios to be more defensive. This may happen again.

The 9 years of economic expansion have regained our confidence to buy. However, credit card debt is again too high. We encourage you to pay down the credit card balances.

Be Prepared To Retire At Age 55
— By Rick Tonkinson, MBA, MPA, CFP®, CLU, AIF®

If you or someone that you care for is under age 55, I encourage you to be prepared to "retire" at age 55. This is 7 years before age 62 when a person is eligible to start social security benefits.

The ability to stay employed in your current position may be determined by automation or that the retirement benefits have maxed out.

Now is the time to have a plan B. I encourage you prepare yourself to be totally debt free, the children financially independent, and you have enough saved to live on 5% of the balance each year because the time is now to realize that your time horizon has been cut short by 7 years.

Retirement from your current job really means what job you can find in order to bridge yourself until social security benefits start. Make an assessment of your job skills and be realistic on your employment options.

Part of financial planning is to create a perfect balance sheet. Assets (what you have) minus liabilities (what you owe) results in net worth (what is left over). The focus is not on assets but on net worth. A dollar more of assets vs. a dollar less of liabilities gives the same improvement in net worth.

We are your guides as to how to create the perfect balance sheet.

SOUND ADVICE: The Basics of Credit Scores and Credit Reports
— By Steven Tonkinson, CFP®, AIF®, CFS®

As consumers, we know that having a good credit score is important. Whether you are applying for a loan or signing up for a credit card, your credit score plays a major role in determining if you will be approved. Your credit score can also have a significant impact on loan terms and borrowing costs.

What is a credit score?
When you borrow money from a lender or sign a contract pledging to make payments, the other party needs to assess how likely it is that you will fulfill your obligations. Your credit score is a measure of risk that helps lenders quantify this likelihood in real time.

Credit scores also help to make the credit process more efficient. In order to make a decision about whether to lend money, a lender needs to gather a great deal of information. The credit score speeds up this process immensely by giving the lender a quantifiable measure without having to collect all the data. In addition, the efficiency of using credit scores does a lot to increase the amount of credit available, which in turn pushes down the cost of credit to consumers.

Types of credit scores
The FICO® Score, created by the Fair Isaac Corporation, is the most commonly used credit measure. Although in this article we focus on FICO, you should be aware that

other scores—for example, VantageScore and PLUS Score—evaluate credit worthiness using their own methodologies.

A consumer's base FICO Score ranges from 300 to 850—the higher the consumer's score, the lower his or her risk to lenders. During the past 25 years, the base FICO Score has undergone many revisions, and the scoring methodology has evolved to account for new data points. Currently, the most widely used measure is the FICO 8 Score. (Fair Isaac has several other scores whose methodology is specific to the type of lending decision being evaluated. For instance, a bank may use a different FICO Score for mortgage lending than it does for making decisions about issuing credit cards.)

How a FICO Score is calculated

When a consumer obtains credit, the lender reports the information to the three major U.S. credit bureaus: Equifax, Experian, and TransUnion. The information then goes into the individual's credit report, which provides the raw data used to calculate the credit score.

The credit report includes the consumer's personal information (e.g., date of birth, social security number), all of his or her account information, information about credit inquiries, and negative information such as bankruptcies and late payments.

For calculating an individual's credit score, the FICO formula looks at five primary categories of information:

1. The consumer's total amount of debt

2. The combination of different types of accounts

3. The consumer's history of making payments on time

4. How old the consumer's credit history is

5. The amount of new credit applied or shopped for

Although some categories like payment history and amount of debt are more heavily weighted in determining the FICO Score, the relative importance of a category can be affected by the aggregated information in the consumer's credit report.

Improving and maintaining your credit score

Now that you understand what goes into calculating a credit score and why the score is so important, let's look at some strategies for improving, maintaining, and protecting your score. It all starts with an initial check of your credit report.

Consumers may request their credit report once a year from each credit bureau. There is no cost to request the three reports, and they can be obtained easily online through www.annualcreditreport.com.

Once you receive your reports, check them diligently for accuracy. Cross-reference them with each other to be sure that the information is correct across the three bureaus. If you find inaccurate information—especially incorrect negative information—contact the credit bureaus to dispute the data.

Here are some additional tips for improving your credit score:

- Do your best to keep balances on credit cards low compared with your total available credit line. High balances can hurt your credit score.

- Create a system to ensure that you pay your bills in a timely fashion. Consistently paying bills on time will have a positive effect on your score.

- Do not move debt around to avoid payments. Work on a system to pay down debt rather than move it.

- Use credit cards, but use them properly and pay on time. Lenders want to see a track record that demonstrates your ability to manage debt responsibly.

- If you are looking to obtain a loan, shop around within a short period of time. If you spread your search out over a long time frame, lenders may infer that you are shopping for many credit lines rather than for just one loan.

- If you are unable to make payments, contact the lenders to try to come up with a plan. Consider working with a credit counselor to develop a strategy for paying down your debt.

Regular monitoring and diligent checking are key

Considering the importance of credit scores, consumers should make a concerted effort to monitor and protect the information that makes up their scores. Request your credit reports at least annually and diligently check the information for accuracy.

Take pride in having a good score and enjoy the benefits that come along with it.

INTERESTING STATS: U.S. and International Equities at Inflection Points — By Steven Tonkinson, CFP®, AIF®, CFS®

This chart shows the performance of the S&P 500 and the MSCI All Country World ex-U.S. indices in U.S. dollar terms, starting in December 1996 and indexed to 100. From the late 1990s up to the Global Financial Crisis, U.S. and international equity markets performed relatively similarly – with international markets slightly outperforming U.S. markets (122% vs. 108%). However, since 2009, the U.S. stock market has gained over 250%, while the international market is up less than half of that.

This outperformance is largely due to the stronger economic and earnings recovery in the U.S. post-Financial Crisis, while regions such as EM (emerging markets) and Europe were held back by falling commodity prices and a double-dip recession, respectively. However, economic momentum has started to pick up in international markets, and earnings have started following suit, which could mean that we begin to see this gap close as the U.S. enters the later stages of its economic cycle and others are just now picking up speed."

Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
Forward price to earnings ratio is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on price movement only, and do not include the reinvestment of dividends. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by FactSet Market Aggregates. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of September 30, 2018.

Steven Deploys To Kenya with ShelterBox — By Steven Tonkinson, CFP®, AIF®, CFS®

The heaviest rains in 55 years hit Kenya from March through July creating massive floods and destroying homes, crops, livestock and damaging roads and bridges. Close to 300,000 people were displaced and 186 people were reported to have died. Working with the Kenyan Red Cross Society, ShelterBox has been working in the affected area with the hopes of helping 2,000 families with shelter kits, mosquito nets, water filters, sleeping mats, kitchen sets, water carriers and solar lights. ShelterBox is currently responding to the multiple earthquakes in Indonesia, super typhoon in the Philippines and many more disasters and conflicts.

You've Been Spoofed or Hacked: Now What? — By Kristina Shamonina, CFP®

Typically, most of us don't realize that our e-mail accounts have been violated until we get a message or call from a friend asking why we sent that "spammy" e-mail with a link to a miracle diet pill website. Have we been hacked? Spoofed? Whatever it was, can we prevent it from happening again?

Spoofing: Think of spoofing as something like falsifying a letter sent via the USPS. Anyone can write a letter, sign someone else's name, and put that individual's return address on the envelope. If you receive the phony letter, you probably believe that it came from the individual who supposedly signed it and from the return address indicated. But it could have been sent from anyone, anywhere.

- Email spoofers forge the header information of the e-mails they send (i.e., the To, From, and Subject lines, as well as the time stamp and path that the e-mails took to arrive in your inbox) to make it appear as if their messages came from someone or somewhere you know (e.g., a friend or familiar organization like Bank of America). The spoofers' goal is to get you to respond to their spam or to click on the malware-laden links or attachments in their phony messages.

- Caller ID spoofers cause the telephone network to indicate to the receiver of a call that the originator of the call is a station other than the true originating station. Recently, our client reported a missed call from Tonkinson Financial's number on their Caller ID but the voicemail message claimed that they will be arrested if they didn't pay outstanding tax debts and directed them to call some other number to "resolve matters". This was, of course, a tax scam, and our number had been spoofed.

When an e-mail address or a phone number has been spoofed, the spammer doesn't actually gain access to your account. Hacking, however, is something quite different.

Hacking: This is when a criminal actually gets into your e-mail account. He or she can do this in a number of ways—by sniffing your activity on a public Wi-Fi network, through a phishing e-mail, or via password-guessing software. Once in, the hacker can access all of the information stored in your e-mail account, including your contact list, bank account numbers, credit card information, online transaction receipts, your signature and e-mails from other organizations confirming changed passwords (making it easier to identify other accounts of yours that can be hacked).

At Tonkinson Financial, we often receive messages from client emails with requests to withdraw funds. Most are legitimate requests, some are obviously fraudulent and yet there are some that look very legitimate (sometimes even including the signed withdrawal form) but are not. For this reason, we follow strict protocols to watch out for red flags and, most importantly, confirm every request verbally with our client on the phone number we have on record. We do not take withdrawal requests over email.

Unfortunately, there is no way to prevent spoofing. If your e-mail address or phone number can be viewed publicly somewhere on the Internet, someone can spoof it. But there are steps that you can take to mitigate the risk of a future hack.

1. Change your password. This includes any passwords for other accounts that are the same or similar to the compromised password. In creating new passwords, don't use dictionary words or anything personally identifiable such as your birth date. Also, be sure that your passwords are at least 8 characters long and include upper- and lowercase letters, numbers, and special characters.

2. Change the answers to your security questions. Either make up answers to the questions or add an extra letter or symbol to the real answers. That way, even if the hacker figures out the answers, he or she will still have a hard time accessing your accounts. For example, instead of answering "Jones" to the "What's your mother's maiden name?" question, add another symbol or character and make it "@Jones" or "JonesM."

3. Set up multifactor authentication. This feature requires you to provide more than a username and password to access your account. For example, an additional layer of authentication could be a passcode sent to your mobile phone that you need to input when you log in.

4. Review your e-mail account settings. The hacker may have altered your account settings so that copies of received e-mails will be automatically forwarded to

his or her account. So even after you re-secure your e-mail account, the hacker can keep tabs on you. He or she could also have placed fraudulent links in your e-mail signature and automatic replies, so check your settings and verify that these were not altered.

5. Run a virus scan. It's also possible that the hacker inserted malware into your system through your e-mail account. This could enable him or her to conduct recon—meaning that all of your online activity would be automatically reported back to the hacker and allow him or her to collect even more of your personal information.

6. Ensure that there was no financial or personally identifiable information stored in your e-mail account. If personal information was stored, such as your social security number (SSN), birth date, or account numbers, strongly consider getting the compromised account numbers changed. In addition, have the banks or other organizations report the new numbers to you over the phone, not via e-mail. Also consider credit monitoring, especially if all or part of your SSN was compromised.

To sum things up, be wary about connecting to public Wi-Fi networks and the information you transmit over such networks, as this is one of the most common ways that cybercriminals obtain e-mail addresses and passwords.

In addition, be suspicious of unsolicited or spam e-mails and phone calls. If you receive one from someone you know, let that individual know that his or her e-mail may have been spoofed or hacked.

Using Market Indexes to Make Smarter Investments
— By Tom Saul, Analyst

Aggressive investors check the markets every day. They follow financial media outlets for the most up to date analyses. They forward industry articles of interest to their money managers, and they engage in lively market conversations with their friends and families. Passive investors check the markets very rarely. Passive investors rely on their money managers to protect them from the financial news hoopla which can often seem like an emotional roller coaster. They review and file their quarterly and annually investment statements and meet with their money manager to review their accounts as scheduled. Moderate investors check the markets occasionally. They follow their favorite financial commentators on social media, they know their way around both a financial statement and their favorite stock's earnings report. They check in with their money manager maybe quarterly, but not much more than that. There is no wrong way to invest, and whether you are more of a passive, aggressive, or moderate investor, any investor invested in the stock market has utilized a market index.

What is a market index?
A market index is a weighted average of several stocks from a section of the stock market. Market indices measure the value of groups of stocks and represent a portion of the stock market. Investors use indices to make smarter investing decisions by showing trends and changes in investing patterns, offering snapshots of market activity, and allowing for comparison over time.

The most well-known market indices are the Dow Jones Industrial Average, the Nasdaq Stock Composite, the S&P 500, the Wilshire 5000 and the Russell 2000. All of these indices, with the exception of the Russell 2000, measure the performance of large companies. The Russell 2000 measures 2,000 small companies in the market. While indices are highly correlated, each index focuses on a different part of the market sector, is calculated differently, and has different volatility.

For this article, we are going to focus on the three major indices: the Dow, the NASDAQ, and the S&P 500. These three indices mostly move one to one with each other. There are differences in the weighting and their sector exposures that make them move at different times. The Dow is a price weighted index. Keep in mind that companies can manipulate how big they are in the Dow by buying back shares or doing reverse splits to inflate their price to appear a higher price stock in the Dow.

The NASDAQ is very tech heavy, and the S&P is very well diversified with many sectors and many positions making it a better-rounded benchmark for the average investor.

Market Sector
The Dow Jones Industrial Average (DJIA), commonly referred to as The Dow, is the oldest and most globally well-known index. The Dow represents 30 large cap stocks as determined by the Wall Street Journal and represents about ¼ of the value of the total market.

The S&P 500 is the most frequently used index by financial professionals as representative of the market because it covers seventy percent of the market's total value. It represents 500 of the most widely traded stocks and leans towards larger companies.

The Nasdaq Stock Market Composite is the youngest of the three major indices, represents the largest non-financial companies listed on the NASDAQ market, and is largely considered a technology index. The NASDAQ totals more than five thousand companies and is based on the market capitalization of its components.

Volatility Differences

The Dow is a more consistent index with less volatility because many of its components are large, slower moving companies. The NASDAQ has higher volatility because it is filled with biotech and technology companies that fly all over the place. The S&P 500 is in the middle because it's more diverse. There is one characteristic which is unique to equity indices. The vast majority of market participants are long the stock market in one form or another, and as such, declines tend to unfold much faster than rallies because of the fear factor associated with losses.

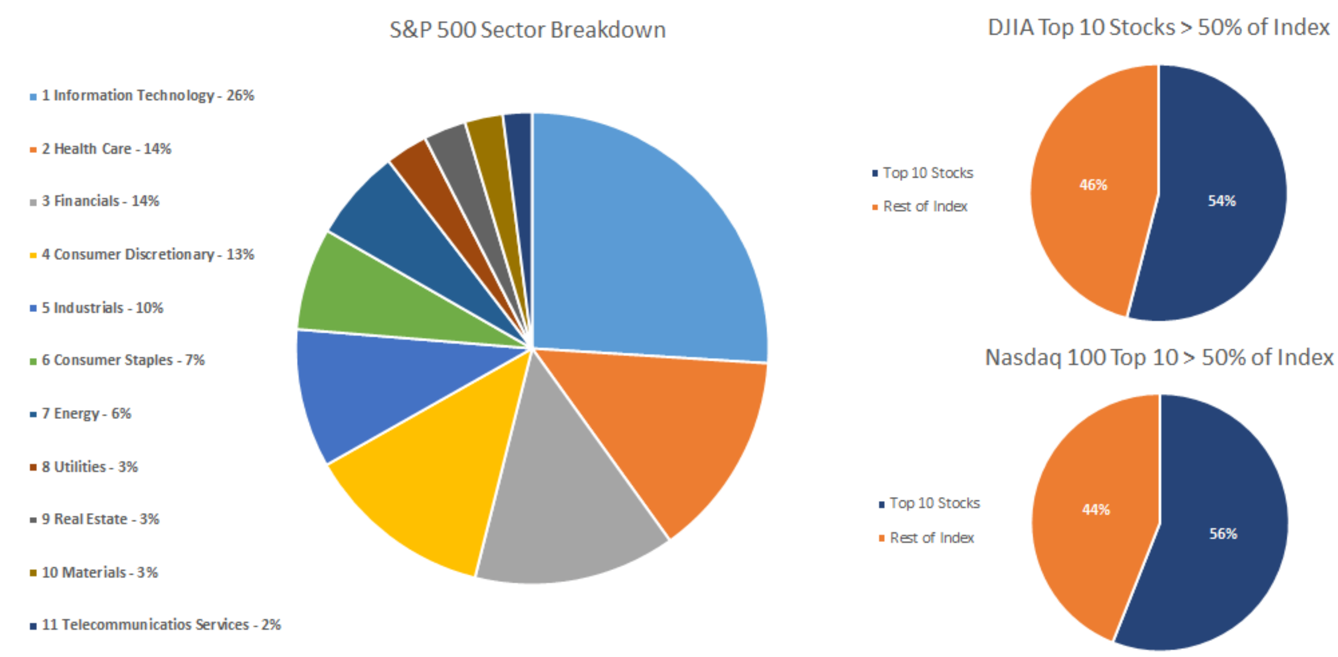
Market Calculations

The S&P index value is calculated by weighting each company according to its market capitalization and then a divisor, which is set by S&P, is applied to produce the final value. The simple calculation is as such: sum of the market cap of all stocks included divided by the divisor, or total market cap / divisor. The NASDAQ is based on the market capitalization of its components. Unlike the S&P 500 and the Nasdaq 100, the weighting for each component in the Dow Jones Industrial Average is ranked by share price, and then a divisor applied to create the final value.

For active strategist day-traders and swing traders that focused on short-term price fluctuations there is another characteristic that separates equity indices from many other asset classes - exchange hours. Due to when the exchanges are officially open for business, U.S. index futures trade mostly around the clock like currencies, but participation is very thin outside of exchange hours. Volume is heaviest when exchanges are open (9:30am – 4:00pm EST).

Market indices are valuable tools that allow investors of all types to make smarter investments. Always remember that indices do not represent the total market, only the market segments. Indices react to actual trades from active strategists of all types, not emotions from financial news commentators. Indices provide a historical perspective that is useful for researching trends instead of forecasting the future.

Major Differences Between Dow, NASDAQ and S&P 500: Breakdown of Weightings



***Weightings are as of July 25, 2018

COMMUNITY EVENTS

Special Olympics Standup Paddleboard State Games

On August 25th, the state games for standup paddleboard were held at Nathan Benderson Park in Sarasota, FL.

Steven has been coaching with the Special Olympics Miami team now for 4 years and had the good fortune of having 3 of his athletes get gold and one get silver.

ANNOUNCEMENTS

Upcoming Events

Date	Event
October 5th	Coral Gables Community Foundation Gala
October 20th	200 Club of Greater Miami 50th Anniversary Dinner
November 1st	Underline Ground Breaking Ceremony – Brickell Avenue
November 15th	Woodystock Free Concert – Downtown Miami
November 16th	American Red Cross Spectrum Award For Women Lunch

REMINDERS

Economic Calendar

Date	Event
November 22nd	Thanksgiving Day (Banks and Market closed)
December 25th	Christmas (Banks and Market closed)
December 31st	New Year's Eve (Banks and Bond Market closed, Equity Market open half day)

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.