

MARKET HIGHLIGHTS:

- For the fourth quarter, economic indicators were generally upbeat. The housing sector continued its advance, the service sector remained in growth territory, and manufacturing expanded to its highest measure since the end of 2014.
- Inflation remains contained around the Fed's 2% target.
- The FOMC increased rates 25 basis points at its December meeting. The rate hike was the first since December 2015 and the second since the financial crisis.
- The bond market saw its worst quarterly performance in more than 35 years, with the Bloomberg Barclays Aggregate Index declining -2.98%.
- Small cap stocks, viewed as the likely beneficiary of Trump policies given their greater cyclical and domestic exposure, significantly outpaced large caps, rising over 8%.

INDEX PERFORMANCE

12/31/16

	Q	YTD	1 Year
Aggressive Allocation	1.92	8.38	8.38
Balanced Allocation	0.77	6.82	6.82
Conservative Allocation	(0.36)	5.39	5.39
S&P 500 TR	3.82	11.96	11.96
Russell 2000 TR	8.83	21.31	21.31
Bloomberg Barclays US Agg Bond TR	(2.98)	2.65	2.62
MSCI EAFE NR USD	(0.71)	1.00	1.00
	As of	As of	
	12/31/16	12/31/15	
10 year Treasury	2.45%	2.17%	
Barclays 1-3m Treasury/Cash	0.30%	0.01%	
Price of oil	\$53.59	\$53.71	
Real GDP YoY % change	1.7%	2.7%	
US Unemployment Rate	4.7%	5.8%	

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.

MARKET REVIEW

— By Rick Tonkinson, CFP®, MBA, CLU



It seems that the fourth quarter of 2016 has two parts: before and after the election. The before now seems to be a nonevent since the quarter ended so upbeat. The US stock market took off after the election based on the expectation of future tax cuts.

Certain sectors, like utilities which had been outperforming the S&P 500 until the election took a hit. NextEra (NEE) was at \$125.17 a share on November 8th, took a slide down to \$112.96 on December 1st and it climbed back up to finish at \$120.21 on 12/31/16. It still posted a 2016 performance of 18.34% when the S&P 500 finished at 11.96%.

Another sector that had a good year in 2016 was financials which posted 22.8% for the entire year but 21.1% was made in the fourth quarter. Once again, this



We thank you all for your wonderful holiday cards and delicious cookies. We enjoyed every one of them!

comes from the expectation that banks will not be as restricted with government regulation.

The real meat and potato issues for the paycheck-to-paycheck middle class such as low inflation, high real estate values, high consumer confidence and full employment made 2016 very good.

As for US stocks, small-cap (size) companies posted impressive returns compared to mid-cap and large-cap stocks. In general, the US stock market is now overvalued.

The US bond market posted real high results with high yield at 17.1% and corporate bonds at 6.1%.

With this new administration, there is an expectation to return to the gross national product of over 4% a year such like the good old days of the 1990's. GDP of over 3% is real growth and we are currently at 2%. This may be wishful thinking to double the economic growth rate by 100% but if we finally start rebuilding our roads and bridges with \$3 trillion, that will go a long way to getting there.

The downside will be the potential excessive binge borrowing by the federal government that will create once again real big deficits. The government attitude is to kick the can down the street and worry about it later.

The VIX (volatility) index is at 14.0 when the long term average is 17.9%. This means that the stock market is less nervous than normal. At any moment it can be freaking out so we watch this closely.

For 2017, I have a gut feel that on a scale of 0 to 10, I am upbeat and give it a 7 which is above average.

Source: J.P. Morgan 1st Quarter Guide to the Markets®

John Glenn – Rick's Hero

— By Rick Tonkinson, CFP®, MBA, CLU



My dad, Jack, worked for Grumman in Bethpage, NY. Grumman was a major part of the Mercury, Gemini and Apollo space missions. I was a kid in 2nd grade when John Glenn took off for space on Friendship 7 on February 20, 1962. My hero was John Glenn.

Several years later, I had the wonderful experience of meeting John Glenn one-on-one while waiting for the underground tram in the US Senate building in Washington, DC. Completely surprised by this special encounter, I was at a loss of the right words to say something worthwhile. I anxiously let John Glenn know how important he was to me. I mentioned how my dad

worked for Grumman. At that point, John Glenn stopped me in my tracks and said "Do me a favor, tell your old man that John Glenn thinks that your father is John Glenn's hero because those Grumman guys saved my ass more times than he can count." Fortunately, I had the pleasure to tell my dad exactly that.

John Glenn only stopped flying at age 90.

"Old people," he insisted, "should not let the calendar dictate their lives."

I could not agree more.

Rick Was a Paperboy

— By Rick Tonkinson, CFP®, MBA, CLU

My dad told me at age 12 that he would not pay for my college education. His reason was that I would value my education much more if I paid for it. At the time, I thought that this was tough love but as years passed, I realized that dad was very wise.

So at age 12, I started my first job as a paperboy with a route of 52 papers 6 days a week. The paper cost 5¢ a day and the papers were put in the mailbox. There was no plastic wrap and it wasn't tossed on the lawn. I had to knock on the door and do the collection and I normally got a nickel tip. In total, I earned \$5 a week.

I never realized as a kid that I was cutting my teeth on being a street smart business owner that over the 25 years I have been in the financial services business has been life experience that has been vital to my success.

I am proud to have been a paperboy for 3 years. When I find other people that were paperboys, we feel a kindred spirit. Over the years, I have found that Thomas Edison, Walt Disney, Harry Truman, Dwight Eisenhower, Bob Hope, John Wayne, Ed Sullivan and Martin Luther King Jr. were paperboys. These icons started from ground zero and achieved great success that has lasted well past their lifetimes. I don't pretend to be in their league but we do share a common start.

I believe that with financial success comes responsibility and that means that I never forget where I came from. I will always try to be of help for those who are willing to accept it.

Rick Pays His Bills with a Shoe Box

— By Rick Tonkinson, CFP®, MBA, CLU

For all the state of the art technology to monitor the investment and political events in the world on a daily basis

at the office, Rick enjoys paying his personal bills the old fashioned way. A shoe box. He puts the bills in a shoe box, writes the checks, puts the stamps on the envelopes and makes a hand written tally sheet on a yellow pad every 2 weeks.

Why? Because Rick is a rock 'n' roller who still has records that he can enjoy while he writes out checks. He puts on the vinyl from the Allman Brothers to Neil Young. He enjoys letting his wife, Margarita, know when the shoe box is empty. For those who pay their bills at your house, Rick appreciates what you do.

ShelterBox Deployment to Haiti in December

— By Steven Tonkinson, CFP®, CFS



In early October, the southern coast of Haiti was hit by Category 3 Hurricane Matthew. It was the most destructive storm to hit the Caribbean in over a decade with over 1,600 deaths attributed

to the storms. ShelterBox responded right away, focusing on the hard to reach most impacted areas in the southern peninsula bringing thousands of shelter kits, to repair and waterproof damaged homes, and other lifesaving aid like water purification systems, solar lights and mosquito nets.

Steven was there in December helping to train the communities and distribute the remaining aid and kits to thousands of vulnerable families throughout the most severely hit areas.



Steven was able to get back home right before Christmas. After that recent experience, Steven was even more grateful and appreciative to be able to come back to his family, have a roof over his head, a warm meal, clean water and country and community that offers hope, opportunity, and freedom.

SOUND ADVICE: Avoiding Tax-Related Identity Theft

— Presented by Steven Tonkinson, CFP®, CFS



If you're not thinking about your taxes yet, you should be—identity thieves certainly are.

During tax season, there's a significant increase in the sharing of sensitive

information, both online and via postal mail. Not surprisingly, it's also when many crooks and scammers come out of the woodwork. For them, it's prime time to steal your personal information and possibly your identity. Or, if you're like the many Americans who fell victim to a major data breach in 2016, your information is already out there, and identity thieves may use tax season to capitalize on it.

What is tax-related identity theft?

In short, a thief uses someone else's social security number to file a fraudulent tax return and collect a refund. Then, when the real taxpayer files, he or she receives a notice from the IRS stating that a return has already been submitted under that social security number. If an identity thief beats you to the punch and files a phony return using your information, the remediation process can take at least six months, and usually even longer.

Ways to protect yourself

To avoid dealing with a fraudulent tax return, keep these important tips in mind:

- **File as early as possible.** The faster you act, the less time an identity thief has to file a tax return in your name.
- **Stay secure.** If you're filing online, use a secure Internet connection. If filing by mail, don't just drop your return in the mailbox; bring it to the post office instead.
- **Shred it.** Be sure to shred any mail and other documents containing personal or financial data. (Thieves are known to rummage through trash looking for this type of information.)
- **Safeguard your data.** Whether online, over the phone, or by mail, don't provide your personal information unless you initiated the contact. If you receive a message asking for personal information, call that entity on a verified number to confirm that the request is legitimate.
- **Consider enrolling in an identity theft protection service.** Beyond typical credit monitoring, these services can track your personal information across the Internet and public databases, alert you to suspicious activity, and provide an insurance policy to repair damage in the event your identity is stolen.

Other key points

As you prepare for tax season, remember:

- The IRS will never contact you via e-mail, and it very rarely contacts taxpayers by phone.
- If you receive a mail notification from the IRS, call your local IRS branch for additional information.
- Be especially vigilant, not only at tax time but year-round, about how and with whom you share your sensitive information.

- If you do become a victim of identity theft, report it immediately to the Federal Trade Commission at www.FTC.gov and follow the steps at www.IdentityTheft.gov.

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.

Withdrawals: What are the tax consequences?

— By Kristina Shamonina, CFP®



Often I get asked about the difference of pulling the money out of the non-retirement account (such as Joint or Individual) versus an IRA and which one is better. The answer is not a simple one.

The retirement and non-retirement accounts are treated differently in term of taxes. Retirement accounts grow tax-deferred; non-retirement accounts pay taxes on the dividends and gains and claim losses (up to the allowable amount) in the year those dividends were received and gains and losses were realized.

When you take a withdrawal from an IRA, the total amount of the withdrawal is considered income and is taxable at your income tax rate.

When you take a withdrawal from a non-retirement account, the withdrawal amount is considered a return of premium and is not subject to tax. However, gains and losses which could result from the sale of securities in order to free the cash for the distribution must be carefully considered. Let's say you hold NEE stock in your non-retirement account. The cost basis of the stock is \$10K, the current value is \$30K and you are requesting a \$30K distribution. The stock is sold and so there is a realized gain of \$20K (\$30K current market value – \$10K cost). This \$20K gain is going to be taxed this year but how it is taxed depends on how long you've held the stock. If you've bought the stock and sold it within 1 year, then the gain is considered short-term and is subject to income tax. If you've bought the stock and sold it after more than a year had passed, then the gain is considered long-term and is subject to capital gains tax. Capital gain tax rate is normally a more favorable tax rate than income tax.

Consider the same scenario but in an IRA account. The gains from the sale of the stock and the time you've held the stock do not matter as the whole \$30K distribution will be subject to income tax.

All withdrawals must be viewed in a context of potential tax liability, portfolio content, suitability, personal preferences, and other relevant criteria. Tax matters are a serious issue

not to be trifled with. Often guidance from a qualified tax professional is needed to create the most tax-efficient withdrawal strategy.

Change

— By Tom Saul, Analyst



The fourth quarter was all about the election. The market was slowly selling off into the election and, as a regime change took place, it rallied into the end of the year. Even though we don't know the full extent of what the new president and his administration will bring, the market is expecting international trade action, regulatory reform, incentivized domestic corporate repatriation and tax cuts and credits.

While these changes might take a year or two to have an effect on the economy, the tax reform is already making an impact as investors price in a reduction in default risk on lower quality companies. If the companies are expected to be paying lower taxes, they then have more dollars to pay down their debts and/or invest in future projects.

This makes them more attractive to investors, which in turn could explain the recent price increases. A great way to see this is by looking at the performance of the S&P 500 by credit rating in the chart below where the BBB-rated companies outperformed the AAA-rated companies by a substantial margin.

Avg S&P 500 Stock Performance by Credit Rating

Rating	Number of Companies	Post-Election Average Performance
AAA	2	0.59%
AA	26	3.27%
A	140	5.18%
BBB	237	6.12%
Junk	63	5.01%
NR	32	2.09%
Overall	500	5.29%

Chart as of January 15, 2017

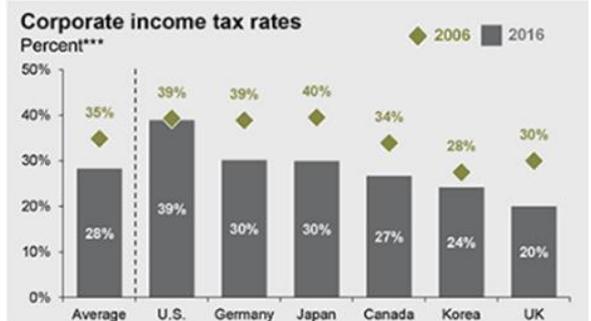
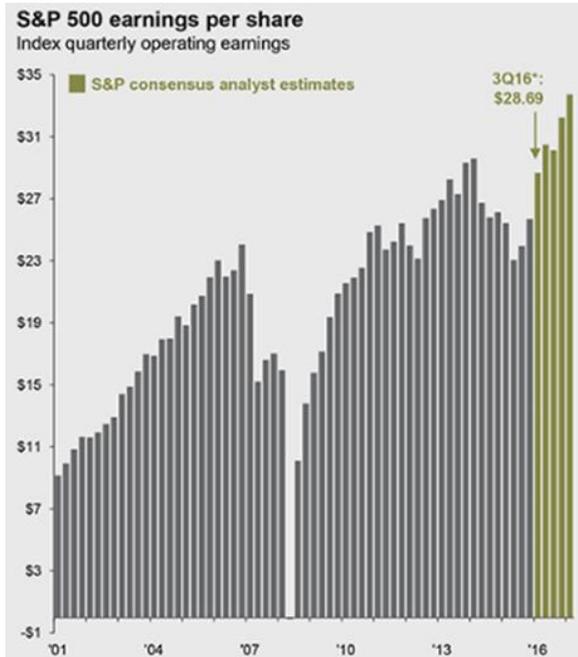
So if an investment portfolio did not perform as well as S&P 500, it is likely due to the higher quality holdings of the portfolio.

Now with all of changes and transitions going on, we are at the beginning of something new. Some sectors might find new opportunities and others might find new struggles. We can hope that these new policies will succeed in creating new sustainable growth but we have to realize that they will take time. It is important to adapt slowly and not act out of emotion.

INTERESTING STATS:

— By Steven Tonkinson, CFP®, CFS

This graph looks at corporate profits. The left chart shows operating earnings for the S&P 500 as well as consensus analyst expectations for earnings through the end of 2017. It is becoming clear that the pullback in earnings was due to transitory factors, as earnings have begun to rebound as these headwinds subside. The charts on the right-side show two factors that have historically



been headwinds to earnings: the strength of the U.S. dollar, and the aggregate corporate tax rate. While dollar strength has the potential to weigh on earnings in 2017, a lower corporate tax rate could act as a tailwind.

Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Top right) Federal Reserve, S&P 500 individual company 10k filings, S&P Index Alert; (Bottom right) OECD.

EPS levels are based on operating earnings per share. Earnings estimates are Standard & Poor's consensus analyst expectations. Past performance is not indicative of future returns. Currencies in the Trade Weighted U.S. Dollar Major Currencies Index are: British pound, euro, Swedish krona, Australian dollar, Canadian dollar, Japanese yen and Swiss franc. *3Q16 earnings are calculated using actual earnings for 98.6% of S&P 500 market cap and earnings estimates for the remaining companies. **Year-over-year change is calculated using the quarterly average for each period. USD forecast assumes no change in the U.S. dollar from its December 31, 2016 level. ***Corporate income tax rates include state and local taxes.
Guide to the Markets – U.S. Date are as of December 31, 2016.

COMMUNITY EVENTS

- On October 5th, Rick was a sponsor of the Fritz & Franz Bierhaus Oktoberfest which was a fundraiser for the Woody Foundation Lucy Forester, Executive Director, did a great effort for the entire 2 week celebration.
- On October 11th, Rick was interviewed for the FIU CARTA (Communication Architecture and The Arts) video on donations.



Armando Codina, Nat Moore, Irish and Don Bell,

Robert Martinez and Mayor Dorothy Thompson. Irish and Don Bell presented the award to Rick and Margarita. There were 400 people who attended.

- On October 15th, Steven created and made the "world's longest mini-golf hole" for The Underline at the Brickell Metrorail Station. Steven is actively involved with The Underline Young Professionals Organization. Tonkinson Financial was a sponsor.



- Rick and Margarita have purchased 2 seats at the UM School of Music auditorium in honor of their friends, Shelley and Julia Berg. Shelley has been the dean of the School of Music for 10 years and a famous jazz pianist.

- On November 9th, Rick was a silver sponsor for The 200 Club dinner that had 500 attendees. The 200 Club has provided financial support for the past 40 years to families of policemen and firefighters who died on the line of duty. Rick is on the Board of Directors.



- On October 10th, Rick, Chairman of the Board for FIU CARTA, conducted the meeting in the library campus and attended the Walk on Water competition in the lake nearby.

- On October 16th, Rick attended the UM School of Business Entrepreneurship Advisory Board meeting. The board membership has added several UM Trustees and major venture capitalists. President Julio Frank has made the committee a focal point on commercialization of new discoveries with the medical and engineering schools. Rick has been on the board for 6 years.

- On November 17th, Rick and Margarita attended the UM grand opening of the Lennar Foundation Medical Center on campus. This 205,000 sq. ft. state of the art facility will include sports medicine, cancer treatments, a diabetes clinic and Bascom Palmer eye clinic.



- On November 17th, Rick sponsored the student entry in the Festival of the Trees which was a major event with 1,000 attendees. It is a fundraiser for the FIU department of interior architecture and Janine King, the department head, does a wonderful job. There were 40 entries from major design firms. The tree that Rick sponsored won first place in the People's Choice voting.

- On November 19th, Rick and Margarita were the honorary team captains for the FIU vs. Marshall football game. FIU won 31 to 14. This was the first time that FIU had beaten Marshall. Butch Davis will be the football coach for the next 5 years starting next season.



- Tonkinson Financial was a sponsor for the 8th year in a row of the Merrick Festival Caroling Competition which is 4 nights of singing from middle school and high school choirs both private and public. Sally Bumgarner has done a magnificent job since inception in 1987 (29 years ago).
- For 8 years in a row, 4 large holiday wreaths are sponsored by the Tonkinson family for the Arsht Performing Arts Center Opera House.

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Investing in individual stock involves principal risk – the chance that you won't get all the money back that you originally invested—market risk, underlying securities risk, and secondary market price. Talk to your financial advisor before making any investing decisions.

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.