TONKINSON FINANCIAL
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QUARTERLY NEWSLETTER 4Q 2017

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MARKET HIGHLIGHTS:

- Economic data was generally upbeat in Q4 continuing a year-long trend of improvement. Unemployment began the year at 4.7% and fell in Q4 to 4.1%, its lowest level since 2000.
- GDP, soft for Q1 at 2.1%, expanded to 3.1% and 3.2% for Q2 and Q3, respectively. These were the first consecutive 3%+ quarters since 2014. The Atlanta Fed forecasts 3.2% GDP for Q4.
- As the market anticipated, the FOMC increased rates 25 basis points at its December meeting.
- The yield curve flattened significantly, as the Fed rate hike and expectations for further tightening in 2018 raised the short end.
- Equity markets surged to new highs in the 4th quarter, marking the 9th consecutive quarter of positive market returns and the best year for the S&P 500 since 2013.

NEWSLETTER HIGHLIGHTS:

HAPPY NEW YEAR!

Thank you all for your lovely holiday cards, family newsletters and delicious holiday treats! We wish you a happy and prosperous 2018!

INDEX PERFORMANCE 12/31/17

	Q	YTD	1 Year
Aggressive Allocation	4.59	18.23	18.23
Balanced Allocation	3.57	14.49	14.49
Conservative Allocation	2.58	10.75	10.75
S&P 500 TR	6.64	21.83	21.83
Russell 2000 TR	3.34	14.65	14.65
Barclays US Agg Bond TR	0.39	3.54	3.54
MSCI EAFE NR USD	4.23	25.04	25.04

	As of 12/31/17	As of 12/31/16
10 year Treasury	2.40%	2.45%
Barclays 1-3m Treasury/Cash	0.75%	0.30%
Price of oil	$64.39	$53.59
Real GDP YoY % charge	2.3%	1.7%
US Unemployment Rate	4.1%	4.7%

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, MBA, MPA, CFP®, CLU, AIF®

2017 was a terrific year for the US stock and bond market. The S&P 500 index posted 21.8% with the technology sector up 38.8%.

At this point, the question is can it get any better in 2018? The answer depends on the numerous economic indicators which we track daily. Right now, they are all nearly as good as they can get and there is a lot more room to the downside than the upside.

Compared to the long term historical averages, the US stock market is overpriced and we anticipate the shoe to drop with profit taking being overdue.

Inflation continues to be well contained even as headline CPI hit 2.2%, core CPI and Personal Consumption Expenditures remain below the Fed's target of 2%.

The new tax law will actually impact your tax return in April 2019. However, despite the fact that the people who earn less than $100,000 a year will have a minimal decrease in taxes, people are feeling good and are buying. The holiday online buying exceeded the buying at the stores for the first time.

Consumer debt is at an all-time high. Certainly people have forgotten the pain they went through in 2008. When things are great like now, this is no time to get careless. We encourage clients to use their unexpected 2017 gains to pay off their debt.

Fixed income markets ended the fourth quarter on a relatively calm note following months of policy uncertainty and headline-driven volatility. Federal Reserve policy, tax reform legislation and the sustainability of record corporate profitability dominated trading at various points throughout the quarter.

The Federal Reserve raised rated again in December, making it a total of 3 in 2017. They were all expected by the market. The Fed's balance sheet tapering ran smoothly since its October start with no market disruptions. Central bank economic projections concerning the fed fund rate and inflation are largely unchanged for 2018 with three increases expected.

Large cap stocks significantly outpaced small caps, with the S&P 500 gaining 6.6% and the Russell 2000 rising 3.3%. International equities again surpassed US market returns.

All sectors posted gains with Consumer Discretionary, Information Technology and Financials performing best. Utilities, Health Care and Real Estate exhibited the weakest relative performance. While Value led for the last two months, Growth meaningfully outperformed Value on a full year basis.

The utility sector of the S&P 500 index posted 12.1%. FPL stock (NEE) posted 34.04%.

Accelerating corporate earnings growth, improving global economic trends, and the successful passage of US tax reform drove markets higher despite concerns around high absolute valuations, the beginnings of less accommodative monetary policy, and continued political controversy.

The global stock markets had a banner year with returns for the US of 21.8%, England 22.4%, Germany 25.5%, Japan 24.4% and China 54.3%.

I am cautiously optimistic with the US economy. Politically, the mid-term elections in November could alter the perspective.

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

SOUND ADVICE: Social Security Benefits to Rise 2% In 2018
— By Steven Tonkinson, CFP®, AIF®, CFS®

Monthly Social Security benefits for more than 66 million Americans will increase by 2% in 2018, the largest increase in retirement and survivor benefits since 2012. The higher payments start in January. This marks the first significant increase to Social Security benefits in several years following a paltry 0.3% hike in 2017 and no Increase in 2016.

For some beneficiaries, their Social Security increase may be partially or completely offset by increases in Medicare premiums in 2018.

Employers and employees each pay 7.65% of earnings up to the taxable wage based to fund Social Security and Medicare. Self-employed individuals pay a combined rate of 15.3%. The 1.45% Medicare portion of the payroll tax applies to all wages, even those above the maximum wage base ($128,400).

INTERESTING STATS: Retirement Spending
— By Steven Tonkinson, CFP®, AIF®, CFS®

A study from the Bureau of Labor Statistics (BLS) determined that retirement spending is the greatest in the early years. In fact, while average household expenditures for retirees ages 55 to 64 were slightly more than $57,000, the figure dropped to about $38,000 for retirees ages 75 and older. One reason seems to be that we tend to be more active when we are younger (go figure). Entertainment spending for example, dropped by 0.4% for retirees in the 65 to 74 age range, and by 46% for those 75 and older. Hotels and lodging expenses decreased by 3% for retirees ages 65 to 74, and by 48% for those 75 and older.

Average Household Expenditures	
Ages 55-64	$57,367
Ages 65-74	$49,905
Ages 75+	$37,747

Disaster Tax Relief
– By Steven Tonkinson, CFP®, AIF®, CFS®

There's a new law designed to help hurricane disaster victims access their retirement funds early without penalty. The Disaster Tax Relief and Airport and Airway Extension Act of 2017 provides tax relief for "qualified hurricane distributions" to individuals who live within the disaster areas and experienced economic losses.

For people living in each of the following disaster areas, the distributions must have occurred on or after the following dates to qualify for the tax breaks:

- Hurricane Harvey: August 23rd
- Hurricane Irma: September 4th
- Hurricane Maria: September 16th

In all cases, the distributions must be made before 01/01/2019. Here are the benefits:

Qualified distributions are not subject to 10% penalty that otherwise would apply to funds taken from an IRA or other retirement plan before 59½.

An individual can take up to $100,000 as a qualified hurricane distribution. This limit applies to the amount taken from all plans combined. Married spouses can each take $100,000, for a $200,000 total.

While distributions are subject to income tax, the resulting income may be spread over 3 years to defer the tax due. Or an individual can elect to report the entire distribution in the income in the year it occurs.

Individuals can return the qualified distributions back into their retirement accounts within three years, and receive a refund of any tax paid on the distributions. They get the refund by filing amended returns for the three years in which the tax was paid.

A loan option is provided by the Disaster Relief Act itself. The law increases the maximum that employees who live in hurricane disaster areas may borrow from their employer-sponsored qualified retirement plan accounts to $100,000 from the former limit of $50,000.

The law also eases the general rule that limit borrowing to one half the value of the account so that they may borrow their full non-forfeitable balance.

The loans must be taken out after 09/29/2017 and before 01/01/2019. These loans do not apply to IRA's, where loans are prohibited.

Borrowing is income tax free, so this option avoids owing current tax on a distribution and also provides more time to repay funds to the plan. Loans from the plan generally can be repaid over 5 years. Also, employees who live in hurricane areas and already held outstanding plan loans prior to the disaster are eligible for a 1-year postponement of repayments.

Withdrawal Planning
– By Kristina Shamonina, CFP®

A lot of our clients take withdrawals from their investment accounts and I often get asked "how much should I be taking out from my accounts?" I wish I had a simple answer.

Major consideration is the ultimate purpose of your investments; do you wish to spend all your money during your lifetime, or do you wish to also leave a legacy to your heirs?

If the goal is to cover just your life, then you have to think about how many more years you realistically expect to live, based on your current health status and family health history. Using the life expectancy number, a basic calculation can be done to come up with a theoretical amount that you could withdraw from your accounts every year. Then this figure needs to be adjusted based on a multitude of factors, including inflation, unexpected or increased expenses (i.e. medical bills, etc.), market performance and the chance that you might live longer than you expect. And finally, because life circumstances change and market performance varies, you need to review and be ready to adjust your withdrawal plan at least yearly.

If the plan is to cover your life and leave a legacy to the heirs, then in addition to the factors mentioned above, the market performance becomes even more important. In a perfect scenario, the market gains would cover your withdrawals, leaving your principal untouched for your heirs to enjoy. In real life, your income needs may be greater than your account earnings which would cause the account values to decline. You also might have to dip into your principal due to either the unforeseen circumstances (medical bills, hurricane damage, unplanned trips, etc.) or simply a bad market performance. In this case an adjustment in the systematic withdrawal rate would be beneficial to help restore the principal and its earning and income generation power.

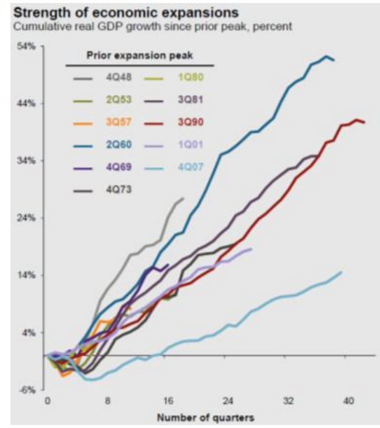
At Tonkinson Financial, we tend to take a more conservative approach to withdrawal planning. The younger the retiree, the lower withdrawal rate we recommend from the retirement accounts, leaving more for later years and ensuring you do not run out of money during your life. For example, a withdrawal rate of 4.5% would be advisable for a 55 year old, 5% for a 60 year old, 5.5% for a 70 year old, 7% for an 80 year old, and so on.

Although there are a lot of variables to determining a withdrawal rate that works for your financial plan, a few things remain constant: a periodic review of your accounts and a timely adjustment of withdrawal rates are key to fulfilling your long-term financial goals.

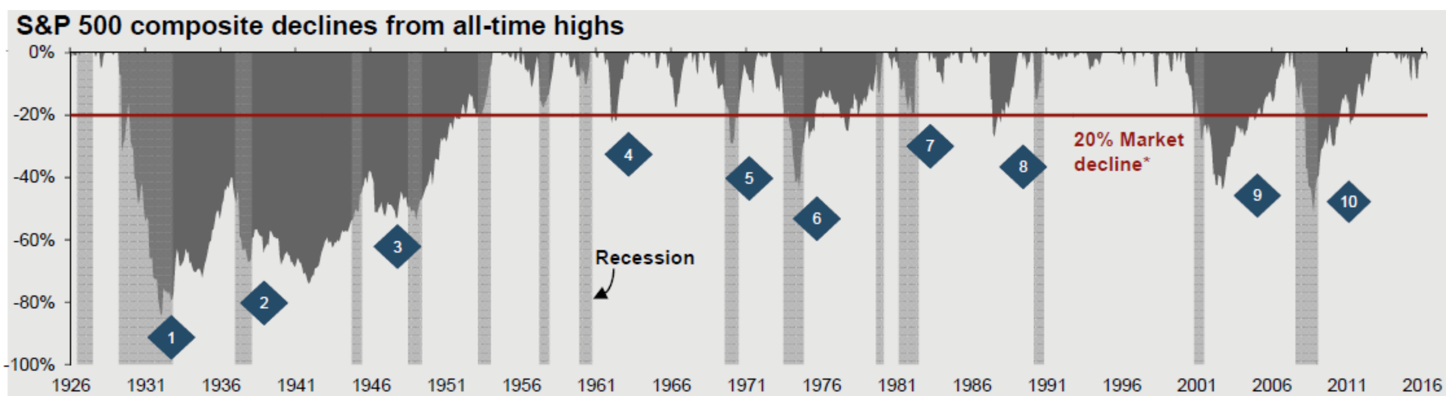
Market Melts Up
— By Tom Saul, Analyst

Two things are true for 2017: all news is good news to the stock market and the S&P 500 just keeps going up at a very aggressive pace.

The S&P 500 is in one of the strongest bull runs. It has just finished its ninth consecutive quarter of gains. It has now been 105 months since the March 2009 lows and it shows no signs of slowing down. In fact it has accelerated in recent months. The bull market in the 90s lasted 113 months, returned 417% and the average GDP growth rate was 5.5%; the current run is 105 months, the market is up 295% and GDP is only growing at 2.2%. In contrast, this is a much slower and steadier bull market than in the past.



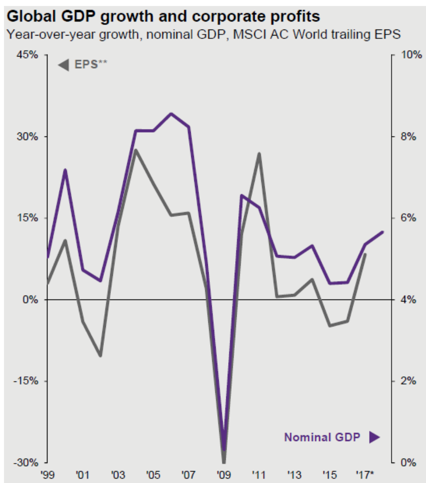
As we start to end one experiment (monetary-policy) and enter into a new one (tax-reform) you have to wonder how long it can last. There are many economists that believe that adding $1.5 trillion to the deficit will outweigh the benefit of lower tax rates to the economy. US government debt is now higher than GDP. Studies have shown that when the debt level is above 90% the economy is slowed by about a third. When President Reagan cut taxes in 1981 growth continued but the government debt was only 31% of GDP. The continued debt buildup could have unintended consequences of slowing economic growth. With the Fed unwinding its balance sheet and the US Government borrowing to give out tax cuts, there's going to be a lot of bonds for sale and not much appetite for them. Increasing the cost of borrowing and inflation may be felt all across the economy but the middle class is likely to feel most of these effects.



Characteristics of bull and bear markets

Market Corrections	Bear markets: Market peak	Bear markets: Bear return*	Bear markets: Duration (months)*	Macro environment: Recession	Macro environment: Commodity spike	Macro environment: Aggressive Fed	Macro environment: Extreme valuations	Bull markets: Bull begin date	Bull markets: Bull return	Bull markets: Duration (months)
1 Crash of 1929 - Excessive leverage, irrational exuberance	Sep 1929	-86%	32	◆			◆	Jul 1926	152%	37
2 1937 Fed Tightening - Premature policy tightening	Mar 1937	-60%	61	◆		◆		Mar 1935	129%	23
3 Post WWII Crash - Post-war demobilization, recession fears	May 1946	-30%	36	◆			◆	Apr 1942	158%	49
4 Flash Crash of 1962 - Flash crash, Cuban Missile Crisis	Dec 1961	-28%	6				◆	Oct 1960	39%	13
5 Tech Crash of 1970 - Economic overheating, civil unrest	Nov 1968	-36%	17	◆	◆	◆		Oct 1962	103%	73
6 Stagflation - OPEC oil embargo	Jan 1973	-48%	20	◆	◆			May 1970	74%	31
7 Volcker Tightening - Whip Inflation Now	Nov 1980	-27%	20	◆	◆	◆		Mar 1978	62%	32
8 1987 Crash - Program trading, overheating markets	Aug 1987	-34%	3				◆	Aug 1982	229%	60
9 Tech Bubble - Extreme valuations, .com boom/bust	Mar 2000	-49%	30	◆			◆	Oct 1990	417%	113
10 Global Financial Crisis - Leverage/housing, Lehman collapse	Oct 2007	-57%	17	◆	◆	◆		Oct 2002	101%	60
Current Cycle								Mar 2009	295%	105
Averages	-	**-45%**	**24**					-	**160%**	**54**

The percentage change in stock market value equals the percentage change in GDP plus the percentage change in the share of earnings (profit) in GDP plus the percentage change in the price-to-earnings multiple (PE ratio). Over short to immediate horizons, all three of these factors contribute to appreciation or depreciation of the stock market. In the long run, however, the growth rate of GDP must dominate. The ratio of earnings to GDP cannot rise forever. GDP and earnings can still continue to grow but the slow growth could be slowed even further as higher borrowing costs start to effect both. If the US stock market is going to continue to grow at its 2017 pace in 2018 most of the gains are likely to come from multiple expansion.



Can the stock market continue to go up? Yes, but after such a long bull market run the new tax policy may end up being more trouble than it's worth for the US economy.

Brothers In Arms Retirees
— By Rick Tonkinson, MBA, MPA, CFP®, CLU, AIF®

A few special people keep the FPL retirees together by organizing a breakfast or lunch. This is independent of the FPL Retiree clubs.

Dave Czyzewski and Ron Rheault have organized the bike week breakfast for several years. This year's breakfast is at Pit Masters BBQ, in Deland on March 14th. Over 100 people are expected to attend.

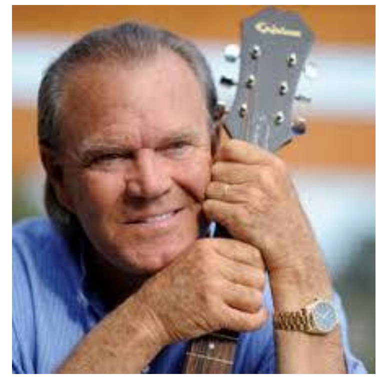
Eugene Berry has organized the lunch at Rodbenders Raw Bar & Grill in Miami for the Turkey Point retirees.

Ray Vos organizes the lunch at the Gator Trace Country Club in Fort Pierce for the Port St. Lucie Nuclear Plant retirees.

Ed McCallister and Marshall McDonald have organized the breakfast at the Cracker Barrel in Fort Meyers for several years.
I am very grateful to these people who want their friends and coworkers to have good fellowship. I appreciate their "Brothers In Arms" and doing this out of the goodness of their hearts.

If you are attending a similar event in your area, please let me know.

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

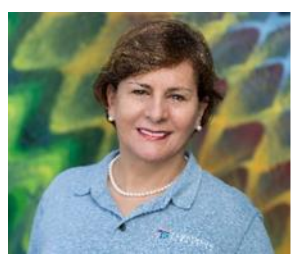


Glenn Campbell passed away on 08/08/2017 at the age of 81. He sang *Wichita Lineman* which I consider to be a tribute to linemen and to all those that make electricity.

Last year we had 10 FPL retirees pass away. We recognize their long term dedication and they are missed.

♬ I am a lineman for the county
And I drive the main road
Searchin' in the sun for another overload ♬

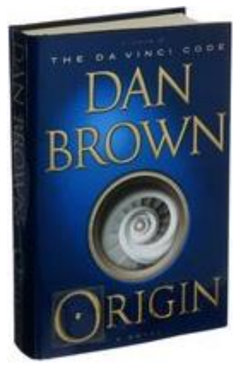
Book Review: *Origin* by Dan Brown
— By Margarita Tonkinson, MPA



Dan Brown's novel, *Origin*, is another adventure that Robert Langdon, Harvard Professor of Religious Symbology, embarks on. Langdon has been the main protagonist in Brown's previous novels: *The Da Vinci Code*, *Inferno*, *The Lost Symbol*, and *Angels and Demons*. Every book is a puzzle waiting to be solved.

At the Guggenheim Museum Bilbao Langdon attends the event hosted by Edmond Kirsch, an inventor, futuristic billionaire and Langdon's former student, who prepares to make an announcement to the world of his new breakthrough theory. Kirsch's theory will provide and scientifically prove the answers to the two most important and daring questions that humanity has been asking since the beginning of times; the answers that will shake and, possibly, shatter the foundations of all religions and humanity in general. The event erupts into chaos as Kirsch is murdered in front of his guests, and Professor Langdon's initial support to his presentation dramatically changes into finding his former student and friend's killer and also into saving his own life. Together with Ambra Vidal, Director of the Guggenheim Museum Bilbao, Langdon starts the search for Kirsch's killer with the help of Winston, Kirsch's quantum computer. Winston's British-accented voice helps them stay alive and obtain the cryptic password to unlock Kirsch's secret. In the process, Professor Langdon finds clues, deciphers and interprets many symbols and tries to think as his friend Kirsch.

Through this interesting plot that takes place in four cities in Spain (Bilbao, Madrid, Barcelona, and Seville), Brown beautifully describes the architecture of the Guggenheim Museum in Bilbao, including some of its sculptures and abstract paintings, giving the reader a new dimension to appreciate art and the history behind it. I found fascinating Brown description of Antonio Gaudí's architecture, particularly the Church of the Sacred Family, Park Güell, and Casa Milá in Barcelona, and how Gaudí's view of art and architecture was intrinsically connected with nature. By reading *Origin*, the reader is not only entertained, but is also educated in many topics, such as history, literature, science, art, and even artificial intelligence.



ShelterBox Deployment
— By Steven Tonkinson, CFP®, AIF®, CFS®

Over the Thanksgiving holiday, Steven deployed to Dominica to volunteer with ShelterBox and help with the distribution of life saving aid to communities that were devastated by Hurricane Maria. As always Steven is amazed how people can shine so bright during such difficult times.

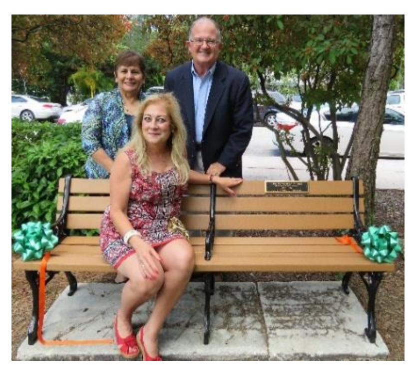
One of those amazing people is Avandel Laurent. He is a husband, father, contractor, village council member and overall awesome guy. During the storm, he sheltered his neighbors in his own home holding a mattress against a broken window for hours. After Hurricane Maria passed, the first thing he did was help his surrounding neighbors. "Seeing people around, even if they have some type of shelter around them, I was concerned about people not having shelter. I also think about the children in the street not having anywhere to sleep, I am feeling much better now that I know people are recovering. I clean first my neighbor's house before I could take care of my own house." Now Avandel spends his spare time helping people in his community, physically unable to do repairs, install tarpaulins on their roofs. It's hot and dangerous work but he does it with a smile.

Photo of Avandel Laurent repairing a roof

COMMUNITY EVENTS

- On 10/02/2017, Tonkinson Financial was the Silver Sponsor at The 200 Club of Greater Miami dinner. This charity is a financial support group for families of police officers and firefighters who died on the job. Rick is on the Board of Directors.

- On 10/20/2017, Rick and Margarita donated a park bench in honor of their close friend, Mary Young.



- On 10/15/2017, Rick attended the Diabetes Research Institute Foundation national board meeting. The DRI's mission is to cure diabetes.

- Rick and Margarita sponsored the FIU Music Miami Festival opening concert with Nestor Torres on 11/03/2017.

- On 11/09/2017, the FIU College of Communication Architecture and the Arts (CARTA) advisory board meeting took place. Rick is the Chairman. There are 10,000 students enrolled at CARTA which is larger than the UM.

- The American Red Cross 23rd Annual Spectrum Award for Women lunch was held on 11/09/2017. The Margarita and Rick Tonkinson Community Service Award was presented to Constance Collins. Constance is the founder and Executive Director of the Lotus House Women's Shelter. Lotus House was formed to support holistic, innovative solutions to bring an end to child and family homelessness.

- On 11/11/2017, Steven ran in a 12-team Ragnar Relay race from Vero Beach to Miami Beach.

- Rick attended the UM School of Business Entrepreneurship board meeting on 11/14/2017. The purpose of the board is to conduct a business plan competition and fund it.

- Rick sponsored a "tree" at the FIU Festival of The Trees on 11/16/2017. This is a fundraiser for the Interior Architecture Department.

- On 11/29/2017, Tonkinson Financial was a sponsor for the 9th 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.

- The Woodystock Benefit Concert was on 11/30/2017 in Downtown Miami. Spam Allstars and Ripcord played. The proceeds of the event will go to funding next year's Woody packs. The Woody Pack is a backpack filled with a collection of assistive devices for people with limited hand function. Tonkinson Financial was a Gold Sponsor.

- On 11/30/2017, Rick and Margarita became members of the DRI Governors Society which recognizes an accumulation of $500,000 in donation over the past 10 years.

- Steven became a board member of The Woody Foundation on 12/11/2017.

ANNOUNCEMENTS

- We welcome your suggestions and feedback on our quarterly newsletter. We will be emailing a brief survey and we appreciate you taking time to give us your thoughts.

- We are pleased to let you know that our client database now allows a photo for your file. If you would like to add a photo to your file, please send us an email of your name and photo.

REMINDERS

Clients can receive immediate e-mail notifications as soon as tax forms are available online by signing up for e-delivery through their Investor360° portal. Tax forms sent by mail will be mailed 5–7 days after they have been posted online.

Please note that some tax forms may be mailed on a delayed or corrected mailing cycle.

2018 Tax Form Calendar:

Date (available online)	NFS Tax Form	Purpose
01/20/2018	Form 5498	For contributions to, and year-end market values of, brokerage retirement accounts.
01/20/2018	Form 1099-R	For distributions from brokerage retirement accounts.
01/27/2018	1099 Consolidated Tax Form (*mailing cycle 1*)	For accounts holding securities with no anticipated reclassifications.
02/17/2018	1099 Consolidated Tax Form (*mailing cycle 2*)	For accounts holding securities with income reclassifications to date.
03/03/2018	1099 Consolidated Tax Form (*mailing cycle 3*)	For accounts holding securities with income reclassifications to date.
03/10/2018	1099 Consolidated Tax Form (*mailing cycle 4*)	For accounts holding later-issuer reclassifications (e.g., UITs, REITs).
04/17/2018		Filing transactions for 2017 tax year must be completed by this date.
05/09/2018	Follow-up Form 5498	For contributions made between 01/01/2018 and 04/15/2018.

*All dates subject to change

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.