



# *Soundings*

## What's New – February 2017

Quote of the month:

***“There are no secrets to success. It is the result of preparation, hard work, and learning from failure.” Colin Powell***

The only people who never fail are those who never try. Life is a full-contact sport and success is usually directly proportional to the amount of scar tissue one is sporting. That said, the sweetest victories come from the toughest fights as do many of the most meaningful lessons learned. I think that's known as wisdom, or as the kid's say, old man muscles.

Easy come, easy go. Record stock market highs retreated as January came to a close. U.S. stocks reversed course toward the end of the month, with the Dow Jones Industrial Average (DJIA) edging back from its much-touted record high above 20,000. The broad-market S&P 500 also lost ground, while bond yields remain unchanged for the most part. In the end, the three major domestic stock indices ended slightly up for the first month of the year. While there is naturally some degree of second-guessing, financial market participants remain generally optimistic as the new administration gets underway. Recent economic data releases have been less important, as investors are focused on the economy ahead. One possible exception. All eyes will be on the jobs numbers since the labor market plays a major role in the outlook for monetary policy.

As we enter tax season, I thought I'd place a piece in this month's ***Market and Economic Commentary*** to get you thinking. Titled, “Beware These 9 IRS Red Flags,” I think you get the picture. First, to the numbers...

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# Market Update – Year to Date Returns

<u>Major Stock Indexes</u>	<u>(As of 2/1/2017)*</u>
Dow Jones Industrials	0.5%
S&P 500 Index	1.8%
NASDAQ	4.3%
DJ Global ex US	3.5%
Russell 2000 (small cap index)	0.4%
XAU (gold/silver)	16.4%

<u>Major Bond Indexes</u>	
Broad Market – Barclays Capital Aggregate	0.1%
High Yield Corporate - Barclays Capital	1.6%
Municipal Bond - Barclays Capital	0.6%

<u>Lipper Mutual Fund Categories</u>	
Large Cap Growth	4.7%
Large Cap Value	0.8%
Small Cap Growth	2.8%
Small Cap Value	-0.2%
International	3.6%
Balanced Fund	1.7%
US Govt Bond	0.2%
Corporate A-Rated Bond	0.1%

**Source: The Wall Street Journal**

## **Other Disclosures**

- Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect investment performance. Individual investor's results will vary. The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the US stock market. The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ market. The Russell 2000 index is an unmanaged index of small cap which generally involve greater risks. The Dow Jones Industrial Average (DJIA), commonly known as the "Dow", is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. The DJ Global ex US is an unmanaged group of non U.S. securities designed to reflect the performance of the global equity securities that have readily available prices.
- Lipper Indexes are based on the largest funds within the same investment objective and do not include multiple share classes of similar funds. Barclays Bond Indexes are designed to measure the market performance of various fixed income asset classes. The Philadelphia Gold and Silver Index (XAU) is an index of sixteen precious metal mining companies that is traded on the Philadelphia Stock Exchange. The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any opinions are those of Jon Kagan and not necessarily those of RJFS or Raymond James Financial. Expressions of opinion are as of this date and are subject to change without notice. This information is not intended as a solicitation or an offer to buy or sell any security referred herein. There is no assurance any of the trends mentioned will continue in the future. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal. Past performance may not be indicative of future results. Asset allocation does not guarantee a profit nor protect against loss. The process of rebalancing may result in tax consequences.
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# Market & Economic Commentary

## **Beware These 9 IRS Red Flags**

One of the most dreaded letters that can come in the mail is one from the IRS that says you are being audited. There are several kinds of audits, but the full-blown, face-to-face audit is the most daunting. The IRS audits approximately one in 119 tax returns, but most are done by mail. Several factors affect whether a person is likely to be audited. Some are avoidable and some are not, but, if you know what the IRS looks for, you and your financial advisor can avoid an audit or at least be prepared. State-of-the-art technology makes it much easier for the IRS to compare returns and to find omissions. Rob Seltzer, owner of Seltzer Business Management Inc., in Los Angeles, Calif.; Susan Allen, senior technical manager on the Tax Practice and Ethics Team at the American Institute of CPAs; and Brent Lipschultz, tax partner at PricewaterhouseCoopers have suggestions for what might trigger an IRS audit. Following are 10 factors in random order that could bring you or your clients to the attention of the IRS. The red flags listed here are only a few of the many things the IRS looks for, so the experts say you should rely on a financial advisor or accountant when doing complicated returns.

**No. 9.** One situation no one wants to avoid is making too much money, but the higher the income the more likely you are to be audited.

**No. 8.** Deducting unreimbursed business expenses will make an audit more likely.

**No. 7.** Someone using foreign tax credits may get audited.

**No. 6.** If you take more than reasonable deductions for charitable donations for your income level, it could trigger an audit.

**No. 5.** Claiming large business losses, especially if they are out of proportion to your income level, or if you report business losses several years in a row, could trigger an audit.

**No. 4.** Returns need to match related returns. For instance, alimony paid by one person needs to be reflected accurately in the receiver's return.

**No. 3.** If you are a freelancer and receive payments from several companies, be sure to include all of the payments on your return or it will trigger an audit.

**No. 2.** Excessively large home mortgage interest payments will garner the attention of the IRS.

**No. 1.** If you leave out one of the forms you should include, the IRS may scrutinize the return.

If you do end up being audited in person, do not go yourself. You may be too emotional. Let your financial advisor or accountant handle it.

***Karen DeMasters, Beware These 9 IRS Red Flags, FA Financial Advisor, January 10, 2017***

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## On a Personal Note

Prior to a trip home, Collin asked me to put him on my calendar. “Let’s camp out and then ride dirt-bikes in the morning.” An offer I certainly couldn’t refuse. With my boys off at school, it’s a rare treat to get some quality one-on-one time these days. The weather changed our plans slightly, unpredictability always adds to an adventure. We set off for Hurricane Lake Friday afternoon, got in a ride through the wet and muddy woods, set camp, then met mom and Alex for dinner at a little place right out of a John Cougar Mellencamp song up in Baker. The best part came afterwards, back at camp. Collin took the lead on the fire, a skill he surprised me with. Once blazing, we got down to the best part of the trip. Hanging out, sharing stories of the earlier ride, philosophies on life, what the future might hold, and other great stuff that makes up all that’s wonderful about being a dad. There may have been a beer or two involved, I’m not telling.

At the fireside, we talked about the rocky relationship I’ve had with my own dad that I’ve shared with you all over the years in these pages. The good news is we are at a high point. We’re communicating more than I can ever remember. A casualty of the rocky relationship of the past was that my own sons had never met their grandfather, my dad. By the fire, we decided that was going to change. I had a conference in Jacksonville the following weekend. Collin lives in Orlando attending the University of Central Florida. We decided on a Sunday rendezvous in Sarasota, the home of my folks. Again, beer may have been involved.

Over the next couple of days, I was excited, but at the same time, a little terrified. Rather than risk being denied an audience, we’d take the gamble and just show up. I know, gutsy move! What if our reception was less than enthusiastic? I did not share this part with my son, who was nothing but excited. He’d never met my dad but heard all the stories. In Collin’s words, *“mostly exaggerated pity stories to make me and my brother not take things for granted. Dad, can we get McDonald’s?, would be answered with, “When I was a kid, we’d get mush for breakfast, lunch and dinner.. and we liked it!”* So how did it go? I’ll let Collin tell you. *“Meeting him went better than I could have dreamed. We sat around the table for a few amazing hours making up for the time we had missed. I could not stop smiling the entire night, he reminded me of my father so much: from the corny jokes, to the showtime personality, even his laugh was a reflection of my dad’s. We left that night with full stomachs and full hearts, but I couldn’t help but think about how similar the two of them were. It was sobering to think of any situation where I did not have my dad to bounce my problems off, talk to, or beg for money for my books for school. So in this short time I had with my grandfather, he did share his stories and pass along his insights, just as I had seen my other friends grandfathers do for them. However, his biggest impact was having me realize how lucky I was to have the relationship I do have with my family, and to never take time you have with anyone for granted.”*

I turned my back and my eldest son Alex has become a man. A junior, studying accounting at the University of Alabama, he’s learned about the importance of networking. He put this to practice recently at an event hosted by the accounting school called ‘Meet the Firms’. They bring in representatives from 35 accounting firms and hold a mixer with the students at the most motivational of venues, Bryant-Denny Stadium, home of the legendary Crimson Tide. Alex had a great night, made strong connections with 7 firms, and was told to stay in touch to set up internships in the future.

Even better, the event motivated Alex to crank things up a notch and make a more personal connection. After a guest lecturer made an interesting presentation, Alex reached out and asked if he would be willing to meet and talk about his career one-on-one. The invitation was received enthusiastically and the two met for dinner the following week. It was a fantastic meeting, Alex found several points in common and they immediately connected. From their faith, to their past pursuits of engineering, Alex’s effort outside the classroom was arguably the best lesson he’s received to date. He’d made a contact, a friend, and a professional advocate, some of the most powerful things a student can acquire. He’s going to need them. His bedroom is about to be my new office!

As always, I hope you’re enjoying each day as it comes. Warmest regards, *Jon*

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