

The Goodman Report

Spring 2010



Culture of Compliance

By Steve Goodman, CPA, CFP®, President & Chief Investment Officer

Culture – the attitudes and behaviors that are characteristics of a particular organization.

Compliance - the state of being in accordance with established specifications or legislation, or the process of becoming so.

The title of this article was not an afterthought, but a description of the foundation of our firm. In today's uncertain environment, such a foundation is even more important and matters in more ways than you can imagine.

Regulation of Firm

Securities and Exchange Commission

Regulation of Professionals*

CFP Board

Texas State Board of Public Accountancy

CFA Institute

*based on individual licenses and certifications

For many years I have told people that while we are known as a financial advisory and money management firm, there are really three things that we do that are of utmost importance. First, ***we protect our clients*** from the scammers, the fraudsters, and yesterday's hot investment that become tomorrow's headlines. Many individuals feel that they don't need that protection, but tell that to investors who invested with Madoff, Stanford, or Lapin & Wigginton. The second important thing we do for clients is to ***determine an appropriate asset allocation*** given their individual needs, risk tolerances, and time horizons. Further, we rebalance to that asset allocation on a regular basis. As time passes, and needs change, we evaluate the appropriateness of revising the target asset allocation, but not in order to time the market. I would opine that these first two services alone are extremely important as they protect clients from outsiders trying to get at their money and from themselves, as having the proper asset allocation target and rebalancing to that target protects one's investments from the individual investor tendency to buy high and sell low. It is not until we

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Market Update

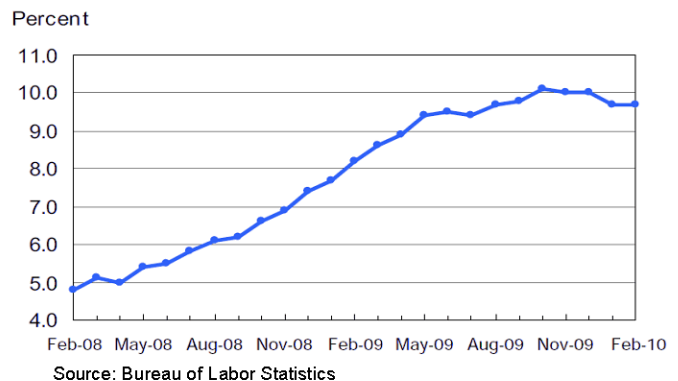
By Jeanie Weathington, CFP®
Director of Research

As expected, the market has been volatile as the economy shows mixed signs of recovery. While there have been days of 100+ point drops in the market, except for one day in early February, the Dow Jones Industrial Average has stayed above 10,000 for the past three months. This volatility in the market is expected to continue as the economy faces ongoing headwinds, although a more positive, upward trend is anticipated as the economy solidifies its recovery.

An unknown that will continue to have an impact on the markets and overall recovery is the unemployment situation. Lowering the number of people unemployed will help support the economic recovery by having a positive impact on consumer spending. There is some glimmer of hope as the unemployment rate dropped to 9.7% in January, its lowest level since August, and remained steady in February. Additionally, temporary help has shown four months of gains and hours worked has increased, indicators that usually rise before new hiring. Although unemployment is predicted to stay high for at least the next couple of years, these num-

bers provide support that there is some meaningful improvement in the labor market.

Unemployment Rate Seasonally Adjusted February 2008 - February 2010



Consumer spending has increased four straight months, most recently up 0.5% in January and 0.3% in December. Although the pace has not been fast, it does show improvement, which provides support for an ongoing economic recovery.

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Estate Planning for Everyone

By Wade Egmon, CPA, CFP®
Client Service Manager

Many people view estate planning as something that only applies to the ultra wealthy. While the value of one's estate is most relevant to estate tax planning, there are many other areas of estate planning that should be considered by everyone, including:

- Ensuring that your assets are transferred to your desired heirs upon your death
- Providing prompt and, in some cases, private distribution of your estate while limiting court, attorney, and other administrative expenses
- Reducing or eliminating the likelihood of disputes over the distribution of your estate
- Easing the burden of administration on family members and friends
- Arranging for care and support of minor children
- Ensuring that your financial and healthcare desires are honored should you become incapacitated

To help address these areas, below are the estate planning and ancillary documents that we recommend every client have in place and review periodically.

Will: Most people are familiar with this document. A will controls the distribution of your personal property and other assets to your heirs and/or desired charitable beneficiaries. For parents with minor children, a will can also establish a guardian for children upon the death of the parents. If you die without a will (known as dying intestate), state law will govern the distribution of your assets without regard to your wishes or your heirs' needs. Note, HIPAA provisions should be included in the will to allow the executor the ability to retrieve medical documents from health care providers after death.

IMPORTANT NOTE - A will does not control the distribution of assets that are jointly titled or assets that have named beneficiaries. Therefore, it is very important that you review the titling of assets and the beneficiary designations in conjunction with a will review to ensure that these documents work in sync with each other to distribute property upon your death as you desire. Please call us if you have questions about the titling or current beneficiaries of your investment accounts.

Durable Power of Attorney (POA): This document allows you to designate a person, known as an attorney-in-fact or agent, to make financial decisions on your behalf. The "durable" power allows the POA to remain in effect if you become incapacitated. If there is no durable power, the POA is void at the time that you become incapacitated. The Durable POA can be a "springing" power that only takes affect upon the occurrence of some event, typically in the event of incapacity. If you have a Durable POA in place, review the document to ensure that the agent and the powers given to that person are consistent with your wishes. Additionally, it is wise to have a successor agent designated in case the original agent is unwilling or unable to carry out the responsibilities. This document should include HIPAA provisions to ensure that doctors can transmit medical information to your agent.

Durable Health Care Power of Attorney (HCPOA): This document is similar to the Durable POA. It allows your selected agent or attorney-in-fact to make health care decisions (instead of financial decisions) on your behalf. Like the Durable POA, the Durable HCPOA allows the document to remain in effect upon your incapacity and it can be a springing power that only takes affect upon the occurrence of some event. Again, it is wise to have a successor agent designated in case the original agent is unwilling or unable to carry out the responsibilities. This document should also include HIPAA provisions to ensure that doctors can transmit medical information to your agent.

Advance Health Care Directive (Living Will): This document informs your family and health care providers about medical treatment and life-prolonging procedures desired in the event that you become permanently incapacitated and unable to communicate. This document should include HIPAA provisions to ensure that doctors can transmit medical information to your agent.

If you have these documents in place, we recommend that they be reviewed every 3-5 years or when a life changing event occurs (e.g., marriage, death, or birth in the family) to ensure that they are consistent with your wishes. If you do not have these documents, Goodman Financial can recommend an estate planning attorney to you to assist you in the document preparation. In either case, we will be happy to work with your outside counsel to make sure your planning needs are met.



Retirement: Distribution Planning and Employer Stock

By Ed Roth, CFA, CPA, CFP®, Vice-President, Investment Advisory Services

Congratulations, you are about to retire and begin enjoying your favorite leisure activities! For many, this is the time to open an IRA account and rollover the entire 401(k) balance. However, doing that may result in a missed opportunity. Let me explain.

Many 401(k) plans include employer stock. When this is the case, a planning strategy referred to as Net Unrealized Appreciation, or NUA, should be evaluated *before retirement* and the subsequent transfer of your 401(k) to an IRA. The primary benefits of the NUA strategy are lower tax rates on a portion of your retirement income and increased flexibility in the timing and source of future retirement income. Of course, our friends at the IRS have a few prerequisites before this is permitted. However, if you qualify and the strategy is right for you, then the benefits can be substantial.

Recall that IRA distributions are taxed at rates up to 35%. With NUA planning, income from a retirement distribution may be taxed at a rate as low as 15%. The key consideration to NUA planning is the relative cost and current value of employer stock in your retirement plan. Essentially, the greater the difference between the two, the greater the benefit. Our comprehensive NUA planning determines the costs and benefits for you and includes a recommendation for an appropriate course of action. We recognize that each client's situation is different, and our recommendations are personalized for you.

If you plan to retire in the next couple of years and have employer stock in a 401(k), ESOP, pension, or other employer plan, you should consider NUA planning and Goodman Financial as a resource to assist you in making the right decision.

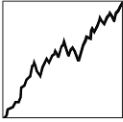
Net Unrealized Appreciation (NUA) Hypothetical Example

Event	Taxation						
At Distribution							
Assume \$55 /share market value of stock when distributed and cost basis is \$10 /share	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="background-color: #800000; color: white; padding: 5px; text-align: center;">\$10 /share cost Basis</td> <td style="background-color: #800000; color: white; padding: 5px; text-align: center;">Non-taxable for portion attributable to After-tax contributions.</td> </tr> <tr> <td style="background-color: #008000; color: white; padding: 5px; text-align: center;">\$45 / share is NUA</td> <td style="background-color: #008000; color: white; padding: 5px; text-align: center;">Taxable as ordinary income for portion attributable to Before-tax contributions.</td> </tr> <tr> <td></td> <td style="background-color: #008000; color: white; padding: 5px; text-align: center;">Immediately qualifies for Long-Term Capital Gain tax rate, currently 15%, when sold. <u>However, it is not taxable at time of distribution.</u></td> </tr> </table>	\$10 /share cost Basis	Non-taxable for portion attributable to After-tax contributions.	\$45 / share is NUA	Taxable as ordinary income for portion attributable to Before-tax contributions.		Immediately qualifies for Long-Term Capital Gain tax rate, currently 15%, when sold. <u>However, it is not taxable at time of distribution.</u>
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Sell Stock After NUA Distribution							
Assume stock increase in value and is sold for \$100 in the future.	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="background-color: #00bfff; color: white; padding: 5px; text-align: center;">\$45/Share Growth After Distribution (\$100-\$55)</td> <td style="background-color: #00bfff; color: white; padding: 5px; text-align: center;">Additional appreciation is taxed at long-term capital gains rates if held more than 1 year. If held less than a year, then taxed at short-term capital gains rates.</td> </tr> </table>	\$45/Share Growth After Distribution (\$100-\$55)	Additional appreciation is taxed at long-term capital gains rates if held more than 1 year. If held less than a year, then taxed at short-term capital gains rates.				
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(Culture of Compliance continued from page 1)

get to the third item that we get to the core of what we are typically engaged to do, and that is to *manage our client's investments*' within each asset class (i.e., managing portfolios of individual stocks and bonds).

Doing these things, and doing them right, gets back to the *Culture of Compliance*. Since day one, we have been a fee-only firm, seeking to avoid the conflicts of interest inherent in the more popular commission based financial advisory model. Even more important, we are organized to be in compliance with regulatory standards and to respect the wishes, needs, and demands of the clients. Our ability to maintain such a culture stems in large part from the CPA background common with most of our leadership. Initially it was just me, but now we have four CPAs (Steve Goodman, James Lucas, Ed Roth, and Wade Egmon) providing service to clients. We all come from an education and culture that focuses on laws, details, and doing what is right for the client. We each have a healthy skepticism that helps to protect our clients from those situations and investments that would do them harm. Accounts are reconciled daily and every client statement is reviewed monthly and then subjected to an additional level of review each quarter. These are not just casual reviews, but ones completed with a sign-off and date documenting each review. It is in this *Culture of Compliance* that we protect and enhance the value of our clients' assets.



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The Goodman Report

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(Market Update continued from page 1)

While consumer spending has been tempered by high unemployment rates, manufacturing has been a strong catalyst in the economic recovery. The index of national factory activity from the Institute for Supply Management is at the second highest level since late 2005. Additionally, GDP rose at an annual rate of 5.9% in the fourth quarter, the fastest pace in six years.

There are some negatives impeding the recovery. U.S. construction spending fell in January for the third straight month to its lowest level since June 2003. January home sales dropped to a seven-month low. Consumer sentiment is weak, and real disposable income fell 0.6% in January, the largest decline in seven months. Fluctuations in the market are expected to follow the news until a clear sign of recovery is seen.

The Greece debt crisis has been a drag on the world markets due to concern that it will spread to other vulnerable European countries and require a bailout from the European Union. The spending cuts required to help Greece and other European countries out of their budget deficits are also raising concerns about longer term worldwide economic growth prospects. Additionally, there is uncertainty surrounding Britain's election, which could impact its ability to revive its own weak economy. These concerns are hurting the euro and the British pound but helping the dollar as the dollar regains support as a safe haven.

At its March meeting, the Federal Reserve Board kept the Fed rate, the key target rate for consumer and business loans, at 0%-0.25%, where it has been since December 2008. The Fed reiterated that it was still months away from raising the Fed rate. Inflation has been muted and is not believed to pose a threat any time soon. In mid-February, however, the Federal Reserve did raise the discount rate, the rate it charges banks for direct loans from the Fed, a quarter-point to 0.75%. This move was taken as a sign that the Fed is willing to cut back on support that was provided during the economic crisis. Additionally, Chairman Ben Bernanke was reappointed to a second term at the end of January and Vice Chairman Donald Kohn recently announced that he was retiring when his term expires in June. President Obama will be selecting Kohn's successor, subject to confirmation by the Senate, along with filling two other vacancies on the Board.

Oil prices have been in the \$70 to \$80 range for most of the last eight months. Although oil prices are expected to remain relatively stable during the year, a short-term increase is expected as the peak spring and summer driving seasons approach.