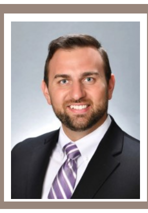
Goodman Financial
MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY
SERVING CLIENTS FOR OVER 30 YEARS

Summer 2023

THE GOODMAN REPORT



Protecting Your Nest Egg

By: Abrin Berkemeyer, CFP®, AIF®
Senior Associate Advisor

As the summer heat rolls in and Spring ends, we wrap up a time of year known for new beginnings. One longstanding symbol of Spring and rebirth has been the egg. In finance, the reference to an egg takes a slightly different connotation, where a sum of money, referred to as a “nest egg,” is saved for a future purpose. Typically, that future purpose is retirement and to leave a legacy, both a new start in their own right. Eggs, however, are fragile, and there are many risks that can impact your nest egg such as inflation, market volatility, longevity, and more. So, how large should your nest egg be? And what can be done to protect your assets against these risks?

How much?
The answer to the first question is… it depends! The amount of assets needed at retirement to achieve one’s goals is going to *depend* on what those goals are. Each set of goals is going to be as unique as the individual who wants to achieve them. Having a financial plan in place can help you identify which goals are most important and how large your nest egg should be to achieve them. One can imagine a plan without a specific legacy goal may require less funding than a plan in which leaving a multi-million-dollar legacy to heirs is desired (all else being equal). The amount one needs to spend to sustain their lifestyle each year versus how much income they have during retirement also plays a critical role in determining how much of a nest egg one should have. The more reliant one is on their nest egg in retirement, the more they may need to comfortably achieve their spending goals over time.

During the asset accumulation stage, it can be beneficial to build up both pre-tax and after-tax savings. Pre-tax savings have the advantage of lowering your tax liability today and growth is tax-deferred until money is withdrawn from the account – the disadvantage being withdrawals are taxed as income. If your marginal income tax rate is expected to be lower in retirement than while you are working, it makes sense to maximize your pre-tax

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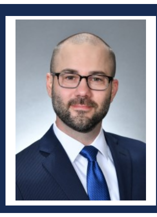

Exploring Fixed Income Investments and What to Do with Cash

By: Ben McCue, CFA
Investment Research Analyst

The changing landscape of interest rates and the opportunities it presents for cash and fixed income investments is a topic that has been on the minds of many investors. For much of the past decade, interest rates have remained historically low, prompting investors to seek alternative avenues for generating returns. The stock market experienced a remarkable bull run, while yields on fixed income and interest-earning products, such as government bonds, fell to near-zero levels that offered little appeal to many. Consequently, owning equities seemed to be the only viable option.

However, the onset of the Covid pandemic brought about a significant shift. Inflation soared to 40-year highs in the United States and Europe, prompting central banks to respond with the most substantial interest rate increases seen in decades. While higher rates may increase borrowing costs for some, they also present an opportunity for investors to benefit from higher yields.

Fixed Income Options
We have been hearing from many clients that they still have cash sitting in their accounts, leftover from the days when many non-equity investments were not earning anything substantial. It's not uncommon for investors to feel unfamiliar with individual bonds and other fixed income investments, and we understand this situation can be frustrating. As seen in the accompanying table on page 3, many of these formerly low-yielding investments are now offering a reasonable return. To shed light on your cash and fixed income options, let's briefly explore some common types of fixed income investments:

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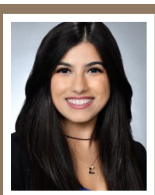
savings today, saving more in taxes today than you expect to pay when you withdraw the money in the future. After-tax savings can also be beneficial in retirement where money may be accessed with fewer tax implications. Roth accounts are funded with after-tax dollars and grow tax-free, withdrawals from these accounts are also tax-free – that can be a powerful tool. After-tax savings may also be made into a brokerage account. However, in such an account, interest, dividends, and capital gains are taxed in the year they are received. The capital gains for investments held more than a year are taxed at preferential long-term capital gains rates which are lower than ordinary income tax rates. By accumulating pre-tax savings and after-tax savings, tax liability during retirement can be managed year to year depending on which accounts money is withdrawn from, but more on that later.

Risks?

One major risk in retirement is the ability of your portfolio to have investment returns large enough to sustain future withdrawal needs without taking on too much risk. Asset allocation plays a critical role in determining what expected future returns may be, and is typically a mix of stocks, bonds, and cash. An allocation too heavily invested in bonds and cash can run into new risks such as the ability to keep up with inflation and taxes, both of which deteriorate buying power. If we look at longevity in conjunction with inflation, retirement can last decades and, if we assume an average 3.00% inflation rate, the cost of goods and services would double every 24 years. So how can we protect against inflation and taxes? We can introduce stocks into the asset allocation. However, we don't want to over-allocate in this area either because that introduces other risks. An allocation too heavily invested in stocks may be assuming too much market risk. Compared to bonds and cash, stocks have been an historically more volatile asset class with higher highs and lower lows. Despite the down periods of the market, stock investments typically earn more than bonds or cash over long time periods. These larger returns can add long-term sustainability to a portfolio that may need to be relied on for decades in retirement. Protecting a nest egg quite clearly becomes a balancing act, requiring a proper asset allocation that matches your objectives, risk tolerance, and timeframe derived through proper long-term planning and discussion.

Wrapping Up

Once you have the proper asset allocation for your portfolio and are retired, proper withdrawal planning can also add to the longevity of a portfolio. By withdrawing spending needs from pre-tax and after-tax accounts in the same tax year, you can spread out your tax liability over time. This can lead to lower lifetime taxes paid when compared to a strategy where after-tax accounts are spent down before pre-tax accounts, resulting in lower tax years early on, followed by higher tax liability years when just the pre-tax accounts are left. Having after-tax assets later in life can also allow you to tax-efficiently pay for large unknown expenses, such as long-term care, with lower income tax implications. If you find yourself with only pre-tax assets in retirement, a Roth conversion strategy may also be a prudent way to spread out tax liability over time and lower the expected lifetime taxes. Proper tax-efficient withdrawal planning in addition to diversification of asset allocation can be apt solutions worthy of further discussion to address the risks of inflation, market movements, taxes, and longevity. So, whether you want to understand how different risks can affect your nest egg over time or are wondering if your nest egg is large enough, consulting with your advisor can help you address these questions head on. As short-term external circumstances change, reviewing your overall long-term strategy with your advisor can also help bring peace of mind that your nest egg has not cracked – and those are the conversations we are here for.



Goodman Financial Interview with Houston Business Journal

By: Mashal Lakhani, MBA
Marketing & Communications Manager

Our very own, Steve Goodman, CPA, CFP®, recently sat down with Chandler France at the Houston Business Journal to discuss Goodman Financial's growth strategy, future goals, and continued commitment to "both its clients and employees for multiple generations". Scan the QR code to learn more about our growing firm.

SCAN ME

Continued from page 1 (Exploring Fixed Income Investments...)

Yields on Common Fixed Income Investments

	Current Yield*	Two Years Ago**
Money Market Mutual Fund (SWVXX)	4.91%	0.03%
U.S. Treasury Bill (3-month)	5.32%	0.05%
U.S. Treasury Bill (1-year)	5.19%	0.07%
U.S. Treasury Bond (3-5 year)	4.02%	0.67%
Corporate bond (3-5 year, A-rated)	5.56%	1.17%
Corporate bond(3-5 year, BBB-rated)	5.68%	1.53%

SWVXX: Schwab Value Advantage Money Fund *Sources: FactSet, Schwab Advisor Center*
**As of June 5, 2023. **As of June 30, 2021.*

- **Government Bonds:** These bonds, such as U.S. Treasury bonds, are issued by stable governments and are generally considered low-risk investments. They provide regular interest payments and return the principal amount at maturity.
- **Corporate Bonds:** Corporations issue these debt securities to raise capital. Although corporate bonds offer higher yields compared to government bonds, they come with some risk of default.
- **High-Yield Bonds:** Also known as "junk bonds," these bonds are issued by companies with lower credit ratings. They offer higher yields but carry a higher risk of default.
- **Municipal Bonds:** Issued by state and local governments, municipal bonds provide tax advantages for investors, making them a good option for individuals in higher tax brackets. Their yields are typically lower than corporate bonds.
- **Certificates of Deposit (CDs):** CDs are time deposits offered by banks, providing fixed interest rates and maturity dates. They are FDIC-insured and offer a guaranteed return on investment.
- **Money Market Mutual Funds:** Usually offered by major investment firms like Fidelity, Schwab, and Vanguard. Money market mutual funds offer daily liquidity but generally carry lower yields than bonds and are not FDIC-insured like CDs.
- **Fixed Income Mutual Funds/ETFs:** These investment vehicles pool money from multiple investors to invest in a diversified portfolio of fixed income securities, providing access to a variety of fixed income instruments.

GFC Fixed Income Strategy

At Goodman Financial, we have developed a fixed income strategy that focuses on purchasing individual bonds in a laddered portfolio and holding them until maturity. This strategy allows us to create a more predictable stream of income and manage risk from changing interest rates. Additionally, most excess cash in our clients' accounts is held in a money market mutual fund rather than a brokerage sweep account, ensuring optimal cash management.

With our extensive experience of over 30 years in fixed income investing, we have successfully steered clear of the pitfalls often associated with bond funds. There are several reasons why we prefer owning a ladder of individual bonds over bond funds:

- **Customization:** Individual bonds allow us to tailor your portfolio to meet your specific investment needs. You have control over selecting bonds with specific maturity dates, coupon rates, and credit quality that align with your investment objectives and risk tolerance.
- **Fixed Income Stream:** When you own individual bonds, you know the exact amount of interest income you will receive from each bond until maturity. This is particularly valuable for investors who rely on fixed income streams for regular cash flow needs.
- **Principal Preservation:** Holding individual bonds until maturity ensures that you will receive the full face value (principal) of the bond at maturity, assuming the issuer does not default. This can provide a sense of security and predictability regarding the return of your initial investment.
- **Tactical Opportunities:** Owning individual bonds provides you with the flexibility to take advantage of specific investment opportunities or market conditions. For example, you may identify undervalued bonds or bonds issued by companies in which you have strong confidence, which may not be reflected in the broader bond market.

While bond funds offer advantages such as diversification, professional management, and liquidity, the choice between owning individual bonds or bond funds ultimately depends on your personal preferences, investment goals, risk tolerance, and available resources for managing and monitoring individual bond holdings. We strongly advise consulting with a financial advisor to determine which option is more suitable for your specific circumstances.

At Goodman Financial, our dedicated team of financial advisors is here to guide you through this ever-evolving investment landscape. We strive to provide you with the knowledge, expertise, and personalized service necessary to make informed investment decisions.

Goodman Financial

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The Goodman Report

Inside This Issue:

Check out our website
www.GoodmanFinancial.com
for past newsletter articles and more content!

Welcome Antonio Castillo

Goodman Financial is continuing to add credentialed and diverse professionals to our team. We are proud to announce our newest addition: Antonio Castillo! As an Associate Advisor, Antonio oversees the day-to-day relationship with his clients, addressing their financial advisory needs, participating in client meetings, and servicing their accounts. Prior to joining Goodman Financial, Antonio was a financial planner providing clients with retirement scenario analysis, cash flow needs analysis, tax efficient strategies, and distribution planning. Antonio has over 25 year of experience in Corporate management and is working towards his CFP® Certification.

During his free time, Antonio is an avid traveler. In fact, he has travelled to over 50 countries so far! Born and raised in Spain, it remains his favorite destination spot till this day. His favorite words to live by are, “the journey is the reward”. We’re excited that Antonio’s journey has led him to our team!

Antonio Castillo

Associate Advisor