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SERVING CLIENTS FOR OVER 30 YEARS

Fall 2022

THE GOODMAN REPORT

Tax-Efficient Distribution Planning

By: Hunter Coday
Associate Advisor

As we save and invest over our lives, we help propel ourselves closer to our financial and life goals. As we accumulate more, there will come a time when the accumulation phase slows down and we switch to distributing dollars from our investment accounts. This could be due to retiring and needing to replace your income, supplementing current income that doesn't fully meet your needs, or even covering one-off unexpected expenses. Whenever you find yourself needing cash from your investment portfolio, here are some considerations and planning opportunities to consider.

There are three main types of investment accounts you might have as a part of your portfolio: taxable, tax-deferred, and tax-free. A taxable account is funded with after-tax dollars, and you pay taxes now on investment income like interest, dividends, and capital gains produced from the investments held. This is your typical brokerage account. Tax-deferred accounts allow you to contribute pre-tax dollars, but future withdrawals from the account are taxed at ordinary income tax rates. The investment income generated within a tax-deferred account is sheltered and does not flow through to your return. These tax-deferred accounts include your traditional IRAs and 401(k)s. Finally, tax-free accounts allow you to invest after-tax dollars and withdraw funds tax-free. Most typically, this will be your Roth IRA or you may have a Roth 401(k) as well.

Each one of us will have a different mix of accounts, but as you can tell there are different tax consequences of distributing dollars from each. It's also worth noting that the various retirement accounts have specific rules about taking dollars out before age 59 ½ and penalties could be assessed. If you need cash from one of your accounts, it's important to consider your tax situation for the year and the impact the distribution might make. Factoring in not only your current year's income and taxes, but also your expected income and tax rates in the future is important. Not considering your tax picture when distributing dollars can result in paying more taxes and reduce the money you have available to accomplish your goals.

Having a healthy mix of taxable, tax-free, and tax-deferred accounts, can allow for a tax-efficient distribution strategy. This is especially true when you have prolonged withdrawal periods, such as during retirement. During retirement, income for most people drops off significantly before Social Security and

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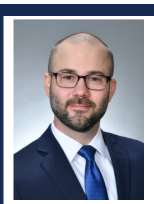

Housing Market Update

By: Ben McCue, CFA
Investment Research Analyst

A slew of recent data suggests the housing market may be cooling off after being red hot for much of the pandemic. Rising mortgage rates, inflation, and significant home price appreciation have all recently pushed some would-be buyers to the sidelines, but there are still reasons to believe that housing demand will remain strong. Let's look at several housing market metrics to try to make sense of it all.

- **Mortgage rates** started the year around 3% and have since risen to between 5% and 6% with the second quarter of 2022 seeing the biggest quarterly increase since 1987 (Fig. 1). That said, a rate in the 5% to 6% range is not terribly far from where rates were less than four years ago in 2018 when existing home sales were around five million annually.
- The shock of a quick rise in rates, rather than the absolute level, has contributed to the decline in **home affordability** to a 60-year low, which has been exacerbated by significant home price appreciation (Fig. 2) and slower growth in household income.
- The **median home sales price** was $440,300 as of the second quarter of 2022, according to the US Census Bureau. That's a 30% increase from 2020, when the median was $329,000.
- **Existing home sales** peaked near 6.5 million annually in late 2021 driven by covid-induced buying but as rates have risen, sales have declined precipitously over the past few months (Fig. 3). Sales have recently fallen back to around 5 million, similar to the level seen in the 2016–2020 timeframe when rates were closer to where they are today.

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- **New home sales** have declined over the past few months due to the interest rate shock. However, homebuilders have struggled to meet demand for new homes indicating there is still a healthy amount of underlying demand.

While many of the aforementioned data points suggest the housing market is cooling, reasons exist to believe demand will remain strong in the near-term including historically low first-time buyers and inventory coupled with the strong desire for homeownership by millennials, the sustained strength of consumer balance sheets, and the ongoing migration of people to sunbelt/low tax states where additional housing will be needed. Additionally, affordability can improve with a combination of more muted price appreciation, rising wages, and peaking mortgage rates, which will eventually come when we see sustained evidence that inflation has peaked.

Figure 1

Figure 2

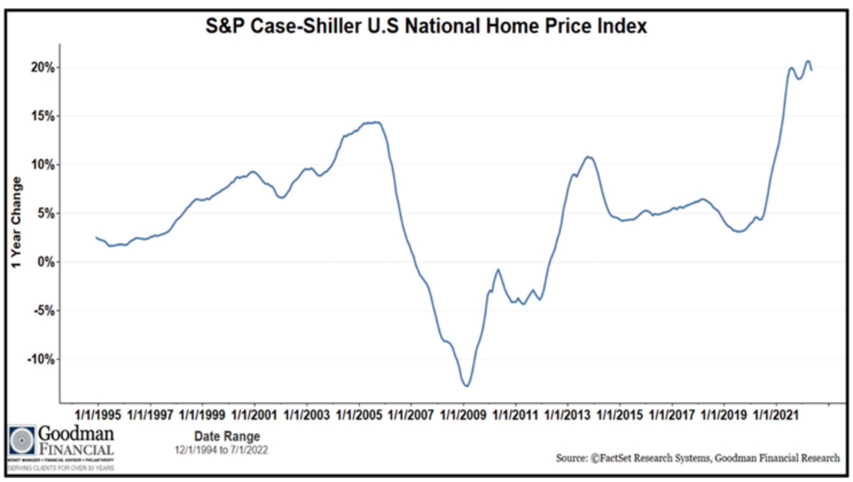
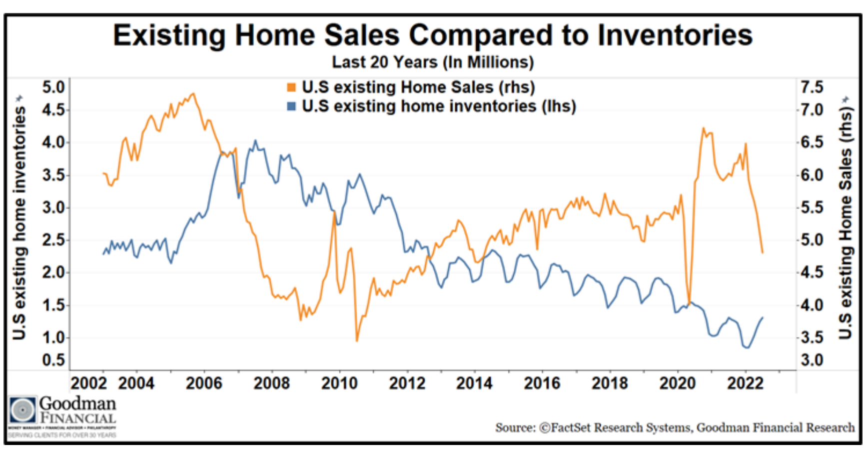


Figure 3



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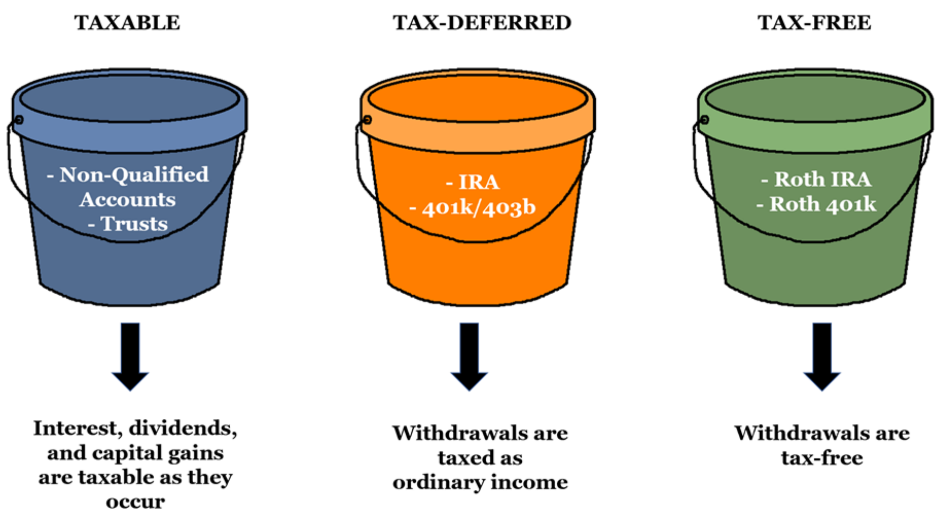
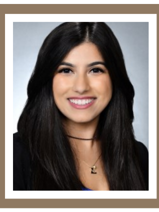


Required Minimum Distributions (RMDs) begin. During these periods, it may make sense to lean on the taxable account for cash needs to keep your taxable income low. By taking distributions from your taxable account first, it may allow you to take advantage of Roth conversions at lower tax rates, where you can convert a portion of your tax-deferred portfolio to tax-free. Implementing Roth conversions at lower tax rates can help the tax-efficiency of your portfolio, as tax-deferred retirement accounts (IRAs, 401(k)s, etc.) will be subject to RMDs starting at age 72, when taxable distributions will be required from the account regardless of your tax situation. By acting before age 72 and creating a distribution strategy specific to your goals, you can significantly improve the tax efficiency of your portfolio once RMDs begin.

If you're wanting to take a distribution to make a charitable contribution, there are additional planning tools at your disposal. For those age 70 ½ or above, you can contribute directly from your traditional IRA to a charity, known as a QCD, or Qualified Charitable Distribution. Unlike normal IRA distributions, the amount sent to the charity is not a taxable distribution, and you can give up to $100,000 per year. Alternatively, another strategy would be donating appreciated stock from your taxable account to a charity. This allows you to avoid any capital gains that would have been recognized from the sale of the stock and still meet your charitable goals. For those who are already donating to charity, these strategies give you a nice tax benefit by simply modifying how you give.

Distribution planning is important, whether just for a one-off expense or for a prolonged period. Making sure you have a thoughtful, tax-efficient plan can improve your financial plan and tax picture for today and the future.



Client Appreciation Social & Education Event

By: Mashal Lakhani, MBA
Marketing & Communications Manager

Last month, Goodman Financial hosted another quarterly client appreciation event! Along with an informative Financial Markets Update presentation from our Chief Investment Officer, Chris A. Matlock, CPA, CFA, attendees were also able to enjoy an evening of wine, hors d'oeuvres, and engaging conversation.

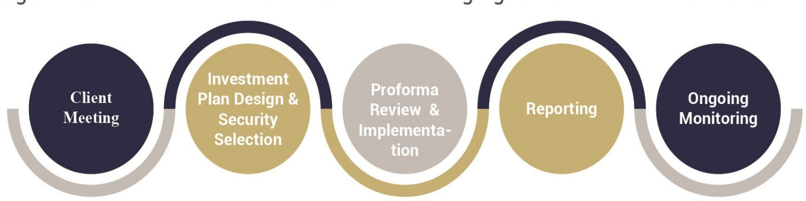
The Financial Markets Update presentation provided an overview of the current financial market as well as what the future may hold.

Guests were able to spend one-on-one time with our team members, ask questions, and get to know our Financial Advisory Team and Investment Committee better. Along with getting to know everyone, attendees were also able to network with fellow clients and friends of the firm.

We will continue to host client appreciation and social events throughout the year. Stay tuned for our next event! Till then, please feel free to reach out to your financial advisor with any suggested topics you wish to learn more about!

OUR INVESTMENT PROCESS

Investing is more than just the selection of securities.
It is defining a framework for each client and then managing the investments within that framework.



This firm is not a CPA firm.

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SERVING CLIENTS FOR OVER 30 YEARS

5177 Richmond Avenue, Suite 700
Houston, Texas 77056

Phone: 713-599-1777
Fax: 713-599-1811
Toll Free: 877-599-1778
Email: info@goodmanfinancial.com
Website: www.goodmanfinancial.com

The Goodman Report

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- **Complimentary CPE Course Schedule**

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

Complimentary CPE Courses in Coordination with TXCPA Houston

SEPTEMBER 2022

Thursday, September 22, 2022 (11:30am – 1:30pm)
Market Update
Tax & Investment Planning, Ages 55-72 (2 CPE hours)

Thursday, September 29, 2022 (8am – 11am)
Equity Compensation: Taxation and Planning
Tax Efficient Investing (3 CPE hours)

OCTOBER 2022

Tuesday, October 11, 2022 (8am – 11am)
Financial Planning & Investing 101
Reality Based Investing (3 CPE hours)

Tuesday, October 18, 2022 (8am – 4pm)
Financial Planning A to Z (8 CPE hours)

NOVEMBER 2022

Thursday, November 3, 2022 (10am – 2pm)
Financial Planning Roadmap – Course Correction
Charitable Gifting & Giving Strategies (4 CPE hours)

Tuesday, November 15, 2022 (11:30am – 1:30pm)
Tax Efficient Investing (2 CPE hours)

DECEMBER 2022

Thursday, December 1, 2022 (11:30am – 1:30pm)
Market Update
Tax & Investment Planning, Ages 55-72 (2 CPE hours)

Thursday, December 8, 2022 (8am – 11am)
Equity Compensation: Taxation and Planning
Financial Planning & Investing 101 (3 CPE hours)

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