Goodman FINANCIAL
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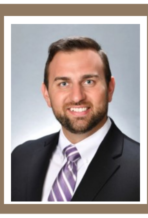
SERVING CLIENTS FOR OVER 30 YEARS

Winter 2022

THE GOODMAN REPORT



Year-End Planning

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

As days shorten and temperatures drop off, fall ushers in a reminder that winter is coming, and year-end is right around the corner. December 31st is a particularly important date because it is the deadline for Roth conversions, Required Minimum Distributions, and Qualified Charitable Distributions for the 2022 tax year. Don't worry though, December 31st isn't the end-all be-all for every planning item as we'll discuss below. Let's jump in!

Roth Conversions

A Roth conversion is an elective, irrevocable action, shifting pre-tax assets into the *tax-free growth* environment of a Roth. The conversion must take place before year-end and the amount converted will count as taxable income for the current tax-year. So, the plan with a Roth conversion is to purposefully pay more taxes than would otherwise be owed? *Yes.* Purposefully paying income taxes today may save taxes over the long run by removing assets that will be subject to Required Minimum Distributions, which in turn could push income into higher tax brackets in the future and a higher Medicare premium bracket. Adding to the tax-free bucket of Roth assets can also have benefits in legacy planning as heirs will receive these assets tax-free.

Required Minimum Distributions

Required Minimum Distributions, or RMDs, are an annual distribution the Internal Revenue Code requires individuals take from their Traditional IRA, SIMPLE IRA, SEP IRA, 401k, 403b, and 457b, beginning the year an account owner turns 72 (previously age 70½ before the SECURE Act was passed in 2019). The distribution amount is calculated by taking the account's prior year ending balance and dividing it by an age-based factor from the IRS. Income tax is owed on the pre-tax portion of the RMD (for most people, this is the entire distribution).

Why is taking your RMD important? There is a 50% tax penalty assessed on the undistributed amount of your RMD. For example, if the RMD is $40,000 for the year and only $10,000 had been distributed, the tax penalty would equal 50% of $30,000, or $15,000 you owe to the IRS – ouch!

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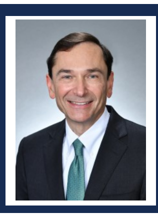
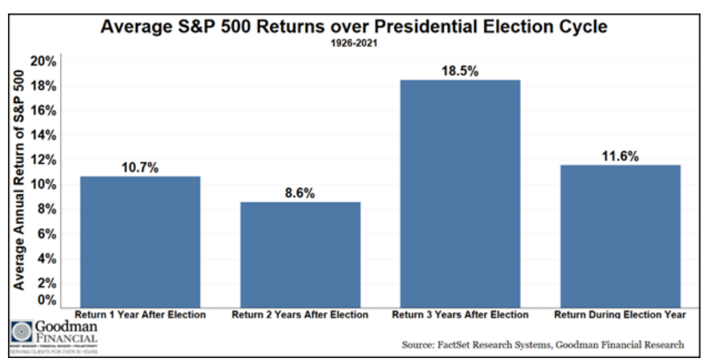


Election & Stocks

By: Chris A. Matlock CPA, CFA
Chief Investment Officer

The midterm elections are now in the rear-view mirror. The Republican party has officially overtaken the House of Representatives (House), while control of the Senate will stay in the hands of the Democratic party. Based on history, it is not at all unusual for the President's party to lose control of either or both the House and Senate in a midterm election. In fact, looking at 13 midterm elections since 1970, the President's party lost an average of 23 House seats and 3 Senate seats in those elections. While this year's pre-election polls widely predicted a similar "red wave" of Republican party House victories, it instead turned out to be more of a "red trickle", thereby defying past history. So now, the incumbent Democratic party has lost control of their two-year long lock on the legislative agenda, even if they still manage to hold the Senate. What we can say is that this upcoming mixed control of the legislative bodies will almost certainly result in



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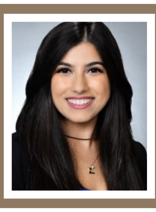
legislative gridlock – something that has similarly occurred many times in the past following midterm elections. History suggests that markets seem to enjoy such times of legislative gridlock and the relief that usually comes from companies and investors not having to deal with or plan for unknown legislative impacts. Finally, we would like to share a principle that we stand by following every election: "Never let our election emotions guide our investing decisions". This is especially important to remember for those of us who are passionate about our politics!

So, you might ask, "what does all this mean for the markets now?" Here, history brings much good news. According to Dow Jones Market Data, the S&P 500 has moved higher in the one-year period following ***every*** (yes, every!) midterm election since 1942 – by an average of 15% over those 20 election years. These results line up nicely with the chart on page 1 that shows the third year of the Presidential election cycle (following midterms) is the best of the four year cycle, and has averaged an 18.5% S&P 500 return for the 24 election cycles since 1926. Of course, 2023 could always be the year that breaks the 80-year streak, though we would not bet on it. No doubt there are many things to be concerned about today, like soaring inflation, rising interest rates, the Ukraine war and a pending recession - all of which would seem to be accounted for to a large degree by the current vicious bear market. But, one would have to think that over the last 20 midterm election years there were similar lofty concerns at those election times as well. And yet, the market was higher every year following midterms. While it might be hard to fathom right now that the market could actually be 15-18% higher over the next year, the odds of it being up vs. being down would appear to be good. Such a view supports our current ongoing strategy to transition out of many of our defensive equity positions into more cyclical and growthier stocks that should benefit to a larger degree in the event of just such a market rally next year. Meanwhile, like it or not, we will almost certainly be forced to turn our attention now to the 2024 presidential election!



Focus on Philanthropy

By: Mashal Lakhani, MBA
Marketing & Communications Manager

At Goodman Financial we are committed to philanthropy and giving back to the community. We refer to this commitment as "Doing Good Things for Good People."

A longstanding tradition here is the annual $1,000 grant allocation funded by the firm for each employee to donate to any charity of their choosing. We were excited to keep this tradition alive by donating a total of $21,000 to non-profit organizations.

Our team members selected 25 organizations that each received a donation. This Thanksgiving, we are delighted to support our local and international communities once again. We are proud to live by our commitment to philanthropy and look forward to continuing to do so.

2022 GFC Team Grant Recipients

- Coreluv International
- Christian Community Service Center
- The Children's Assessment Center Foundation
- Citizens for Animal Protection
- Dillon International, South Korea Program
- Aga Khan Foundation
- Limbs for Life
- Dress for Success Houston
- Covenant House Texas
- Mosaic In Action
- Active Minds
- Sheldrick Wildlife Trust
- Bear Source Houston
- Pregnancy Assistance Center North
- Houston Threads
- Houston Pets Alive
- Friends of BARC
- Accountants Confidential Assistance Network (ACAN)
- Houston SPCA
- Houston Welcomes Refugees
- Brazoria County Dream
- Friends for Life
- Kairos Prison Ministry
- St. Jude Children's Research Hospital
- Paws for Heroes

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Some people below the age of 72 are also subject to RMDs. Owners of Beneficiary IRAs, or Inherited IRAs, where the decedent passed away *before* January 1, 2020, and the life expectancy distribution method was chosen, also must take annual RMDs. For those who have an Inherited IRA where the decedent passed away after December 31, 2019, annual RMDs are currently not required, and the account must be liquidated within 10 years. Going forward, the IRS is going to issue final regulations as to whether annual RMDs will need to be taken each year in addition to having the account liquidated in 10 years. These new regulations would apply no earlier than the 2023 distribution year. Lastly, if the decedent owed an RMD in the year they passed, the heirs are responsible for taking that RMD.

Qualified Charitable Distributions

For those 70½ or older and charitably inclined, December 31st is the last day to make Qualified Charitable Distributions, or QCDs, from an IRA. QCDs are an incredibly tax efficient way to give to charity without having to itemize because the QCD is wholly nontaxable if the money goes directly from the IRA to a qualifying charity. In contrast, if a normal distribution is taken, that distribution would be taxed as income and less money would be available for donation.

	Normal Distribution	QCD
Gross Amount	$10,000	$10,000
Taxes Owed on Distribution*	$2,200	$0
Amount to Charity	$7,800	$10,000

*Assumes distribution is completely taxed at the 22% marginal tax rate.

Helpful hints: QCDs can count toward satisfying the annual RMD of those 72 and older. QCDs are also limited to $100,000 a year per individual.

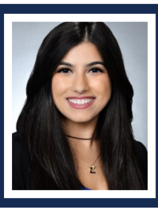
Less-Time-Sensitive Planning Items

Now that we know what needs to be done before year-end, here are some planning items that don't need to be completed by December 31st:

1. Fourth quarter estimated tax payments are not due until January 17, 2023. Generally, individuals who need to make such payments to avoid underpayment penalties, have not withheld enough out of their income throughout the year, or have large capital gains, to name a few common scenarios.
2. If you are eligible and would like to contribute to a Traditional IRA or Roth IRA, you have until the tax filing deadline of April 18, 2023. The same deadline applies to eligible Health Savings Account contributions for those covered by a high deductible health plan, not enrolled in Medicare, and not maxed out on contributions for 2022. If you are a business owner with a SEP IRA, the contribution deadline may be pushed back to October 16, 2023, if an extension is filed.

In Summation

These are a few of the strategies and considerations that we think about and implement for our clients before the New Year and time runs out. If any of these topics have been top of mind this season, the best approach to find out how they may fit into your situation is to touch base with your financial advisor and CPA before acting.



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 Tax Planning presentation from our Senior Financial Advisors, Wade D. Egmon, CPA, CFP® and Morgann Zimmer, CFP®, attendees were also able to enjoy an evening of wine, hors d'oeuvres, and engaging conversation.

The Tax Planning presentation provided an overview of tax planning, covered specific tax strategies, and reviewed planning opportunities in light of recent legislation.

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!

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The Goodman Report

Inside This Issue:

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

Houston Business Journal - Best Places to Work

We did it again! Goodman Financial has been named one of Houston's Best Places to Work for 2022! Over the past 20 years, Houston Business Journal has been surveying and recognizing companies in the Houston area with the most satisfied employees, ranked by the results of employee surveys. This program measures a wide range of research-validated workplace factors that impact employee engagement and satisfaction. A few weeks ago, 108 finalists were named and the official rankings were revealed at a luncheon on October 28, 2022 at the Marriott Marquis. Goodman Financial scored over 95 percent through anonymous employee responses. The compiled score is based on company culture, employee benefits, work schedule flexibility, advancement opportunities, and more. Goodman Financial strongly believes that a thriving company culture and happy employees make for better service to our clients.

By valuing our employees and their hard work, we strive to always create a positive and engaging work environment. Lastly, a huge thank you to our team for making our workplace so special!