

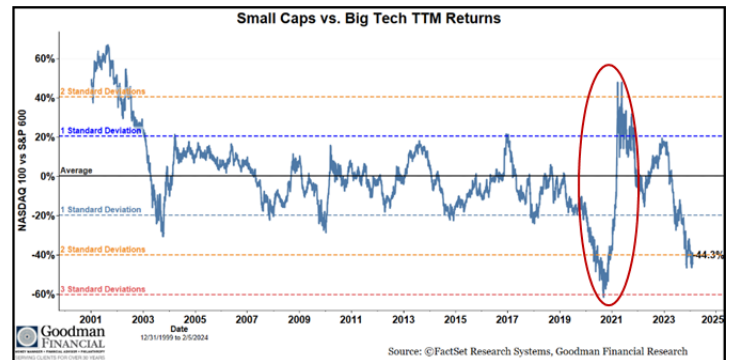


Stretching the Rubber Band Part II

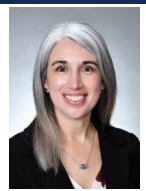
By: Chris A. Matlock, CPA, CFA
Chief Investment Officer

You have likely heard the expression that “history doesn’t always repeat itself, but it often rhymes”. We are currently experiencing such a rhyming event today with the profound out-performance of a handful of mega-cap stocks relative to the rest of the market. We have written on a number of occasions recently about the “Magnificent Seven” (M7) stocks (Amazon, Apple, Google, Meta, Microsoft, NVIDIA and Tesla), which were up more than 100% on average in 2023 and have accounted for a significant portion of S&P 500 returns over that period. This current period reminds us very much of what happened in 2020 when many of those same M7 stocks had similar outperformance relative to the market. In fact, we wrote about this in our *October 2020 Market Commentary*, titled “*Stretching the Rubber Band*”, in which we included a chart that showed just how stretched that outperformance had been. This can be seen in the accompanying currently updated chart,

which compares the NASDAQ 100 Index vs. the S&P 600 Small-cap Index, keeping in mind those M7 stocks mentioned above make up a full 40% weight of the NASDAQ 100 Index.



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Financial Terms from A to Z

By: Diana Castro, CPA, CFP®
Senior Financial Advisor

When it comes to financial planning and investing, the media tries to grab your attention with catchy news bites using buzzy financial terms such as “The Market” and “The Fed.” Here at Goodman Financial (GFC), we use many of the same financial terms during our market commentary and planning meetings. However, we are not doing it for clicks but instead to set the foundation for various topics. Recognizing that our clients and partners come from many different backgrounds, we want to provide a resource guide for some of the most used financial terminology. Whether you are learning the basics yourself or are a seasoned pro looking to share your knowledge, let’s dive in.

Asset allocation – A breakout of assets between cash, fixed income, and equities that equals 100%. It may also include real estate or alternative investments. This is determined based on your risk tolerance and risk capacity (i.e. your ability to take on risk). You may also see this referred to as your portfolio target allocation, especially if you have more than one account.

AUM – Assets under management represent the dollars invested and managed by the financial advisory firm. Fees can be calculated based on AUM.

Beneficiary – A person or entity that will receive property or assets from someone else, generally as part of an inheritance. Beneficiaries should be designated for retirement accounts, life insurance policies and trusts. Property transferring to a beneficiary does not pass through your will as it will be a direct transfer to the named beneficiary. The primary beneficiary is the first option to receive the property. A contingent beneficiary will only receive the property if the primary beneficiary does not receive the property.

Bond – A loan or debt instrument by a corporation or government (national, state or local) to raise money. The investor receives the face value of the bond (also referred to as the par value or redemption value) at the maturity date, and may receive periodic interest payments based on the coupon rate until the bond matures. Bonds are rated based on their quality of credit by one or more reporting agencies such as Standard & Poor’s and Moody’s Investor Service.

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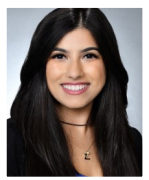
The information, analysis, and opinions expressed herein are for general and educational purposes only. Nothing contained in this commentary is intended to constitute personalized legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. Past performance is not indicative of future results. Information obtained from third party sources are believed to be reliable but not guaranteed. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice.

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The blue line in the chart shows the trailing twelve months (TTM) performance differential between the two indexes over the past 23 years. You can see that the two indexes usually perform within 10% or so of each other on a TTM basis, and only occasionally reach a 20% performance difference.

As highlighted in the chart, we saw a condition in October 2020 where the NASDAQ 100 Index had outperformed small-cap stocks over the preceding year by a whopping 60%! This was so extraordinary that it also represented a three standard deviation event at the time, something that has only a 0.026% chance of occurring. We wrote at the time that “the current condition could be likened to a tightly wound rubber band set to snap back, increasing the odds of small and mid-cap stocks outperforming those mega-cap stocks over the coming year”. As seen, the rubber band did indeed snap back hard, as small-cap stocks subsequently came roaring back, and meaningfully outperformed the NASDAQ 100 Index during the following couple of years.

We see a similar stretching of the rubber band once again today, where the NASDAQ 100 Index has outperformed the S&P 600 Index by over 40% on a TTM basis through February 5, 2024. While not as dramatic as that seen in October 2020, the current level of small-cap underperformance exceeds a two standard deviation event, which hasn’t occurred over the past twenty years excepting the late 2020 episode. While the rubber band could always continue to stretch further (i.e., mega-cap stocks produce further outperformance relative to small and mid-caps stocks), we see no reason to believe small and mid-cap stocks won’t once again snap back and begin to soon outperform their mega-cap counterparts. If correct, this would provide a nice tailwind for GFC equity portfolios.



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. During our team’s Thanksgiving potluck, each team member announces to which charity they wish to allocate their \$1,000 annual charity grant, coming

together to learn about each other’s philanthropic priorities. We were excited to keep this tradition alive by donating a total of \$23,000 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.

2023 GFC Team Grant Recipients

- Active Minds
- American Cancer Society
- American Friends of Magen David Adom
- American Heart Association
- Bethlehem Ministries
- Christian Community Service Center
- Citizens for Animal Protection
- Doctors without Borders
- Dress for Success
- EMERGE Fellowship
- HeartCry Missionary Society
- Helping A Hero
- Hope Mommies - Houston Chapter
- Houston Food Bank
- Houston Pets Alive
- Houston Threads
- Kairos Prison Ministry
- Lingap
- Mosaic in Action
- National MS Society
- PTSD Foundation of America – Camp Hope
- Rescued Pets Movement
- St. Jude Children's Research Hospital
- St. Thomas High School in Houston
- The Arc of Katy

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BPS – Basis points are used as a unit of measurement for interest rates and changes in value or rates of financial instruments. 100 bps is equivalent to 1% and 1 basis point represents 0.01%. You may hear this pronounced “bips.”

Custodian – The financial institution used by your financial advisor to hold the clients’ securities (equities, bonds, and cash), and handle account related services such as providing monthly statements and annual tax reports such as 1099s. For GFC clients, our primary custodians are Charles Schwab and Fidelity.

Dow Jones – The Dow Jones Industrial Average (“DJIA” or “the Dow”) was created in 1896 to be a proxy for the broader U.S. economy. It is a price-weighted benchmark index (i.e., the higher a stock’s price, the higher the index weight) that tracks 30 large, publicly traded companies found on the New York Stock Exchange and the Nasdaq.

Equity – Ownership in a company represented by shares, generally via common stock, that entitles the shareholder to dividends and potential capital gains.

ETFs – Exchange-traded funds are similar to stocks in that they are bought and sold on a stock exchange and the price fluctuates throughout the day. There are a variety of ETFs, which contain different types of investments such as stocks, commodities, and bonds.

FDIC – The Federal Deposit Insurance Corporation is an independent agency created by Congress.

FDIC deposit insurance – In the event of an insured bank failure, the FDIC deposit insurance will automatically cover at least \$250,000 in traditional deposit accounts such as checking, savings and certificate of deposits (CDs) per depositor, per ownership category. Visit [fdic.gov](https://www.fdic.gov) to determine the amount of FDIC insurance coverage you may be entitled to.

Fed – The Federal Reserve System (“the Fed”) was created by Congress in 1913. As the central bank of the U.S., its main duties are as follows. It sets the federal funds rate, which is what banks use to charge other financial institutions with overnight loans. It is responsible for the nation’s monetary policy and regulating banks. It operates through three entities: the Board of Governors (7 members), 12 Federal Reserve Banks and the FOMC.

FOMC – The Federal Open Market Committee is the Fed’s monetary policymaking body composed of 12 members (7 from the Board of Governors and 5 of the 12 Reserve Bank Presidents). It buys and sells government securities to influence bank reserves.

Goodman Financial – A 24-person firm serving clients for over 35 years, passionate about “Doing Good, Helping People and Providing Peace of Mind.”

IRMAA – Income-Related Monthly Adjustment Amount is an additional amount paid for Medicare Parts B and D along with your premiums. It is based on your modified adjusted gross income (“AGI”) from your tax return two years prior (2022 tax returns will be used for 2024 thresholds).

Market cap – Market capitalization is calculated by multiplying the number of outstanding shares of stock by the current market price of a single share. Large cap stocks are generally defined as \$25 billion and up, mid cap as \$5-\$25 billion, and small cap as \$400 million-\$5 billion.

Nasdaq – A global stock marketplace that handles electronic securities trading. It is generally known for companies in the technology and innovation space, which are considered more growth-oriented (ex. Apple, Google, Microsoft).

Nasdaq 100 – An index of the biggest 100 non-financial companies by market cap that are listed on the Nasdaq stock exchange. Currently, technology stocks make up the majority of this index.

New York Stock Exchange – The NYSE is another stock market exchange, and it has a physical trading floor, though most trading takes place electronically. It is the oldest American exchange that still exists, and generally lists mature, traditional companies.

QCD – A qualified charitable distribution allows individuals who are 70.5 years old or older to donate directly to charities from a traditional IRA instead of taking taxable distributions. QCDs can count toward your RMD. In 2024, the maximum QCD is \$105,000 per individual donor.

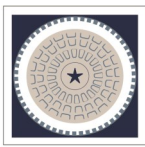
RMD – A required minimum distribution is the amount of the annual withdrawal from various tax-deferred retirement accounts such as an IRA and 401(k) based on the prior December 31 balance. For your own accounts, RMDs start once the owner reaches age 73 after December 31, 2022 (75 if you are born on or after January 1, 1960). RMDs may be required by the beneficiary of inherited tax-deferred accounts regardless of the age of the beneficiary.

S&P 500 – A market-cap weighted index composed of the common stock of 500 leading companies in leading industries of the U.S. economy created by Standard and Poor’s in 1957. It is commonly referred to as “the market” due to the diversity of the companies.

SIPC – The Securities Investor Protection Corporation protects against the loss of cash and securities held by customers in a SIPC member brokerage firm, in the event that it becomes financially troubled. It applies when a brokerage firm undergoes a liquidation to replace missing stocks and securities. It does not protect against market volatility.

Trusted contacts – A trusted individual, who is at least 18 years old, who can be reached to confirm your contact information, health status, authorized parties’ information, or unusual account activity or other red flags. This individual is not able to act on your behalf or authorize transactions. You can add trusted contacts to your account at the custodian and with GFC.

Z Score – A statistical measure of a data point from the mean of a data set. This is included since the article promised terms from A-Z.



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The Goodman Report

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



Welcome Paul Palmer

Goodman Financial is continuing to add credentialed, experienced professionals to our team. We are proud to announce our newest addition: Paul Palmer! As a Senior Financial Advisor, Paul oversees client relationships and assists other team members with the more complex financial advisory issues. Prior to joining Goodman Financial, Paul worked for Mobil Oil in the 80's before moving to Houston to pursue his passion in the financial services industry with CIGNA Financial Services. In 1993, Paul started his own firm, *Cypress Advisory Services*, focused on providing comprehensive financial planning to families across the Houston area. His firm later expanded in 2006 and became *The Advocates*. Paul has almost 40 years of experience in financial planning with special expertise in risk management and estate planning.

During his free time, Paul enjoys spending time with his family, including his wife of 40 years, Heather, his two sons, and four grandchildren. As an avid outdoorsman, Paul enjoys fishing,

ranching, woodworking, gardening, and visiting his favorite place, Crested Butte, in Colorado! His personal motto, "don't wait for opportunity, create it" is a testament to Paul's character. Paul's known for being honest, funny, and caring. We're excited to have him join our team!



Paul E. Palmer, CFP®
Senior Financial Advisor