SilverStar Insights

for your wealth

By Tim Hudson, CFP®, CLU, ChFC, CRPS® 3rd Quarter 2022

In This Issue

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Recession or no recession…that is the question! As history has shown, no one can accurately predict recessions, and there have been times when we may not know we are in a recession until we begin coming out of one. As the unknowns of the economy present themselves over the next several weeks and months, we hope to get some clarity if the Feds can get inflation under control with the right amount of interest rate hikes without smothering economic growth.

We have three webinars on topics including ***Retirement Income Planning, the Economy, and Medicare****. We have rescheduled a timely webinar as we welcome back nationally known economist, Fritz Meyer. Fritz will present a webinar titled,* ***Point of View—The Economy, Markets, and Investment Strategy****.* ***Registration is limited! See more details on pages 5 & 6, and be sure to RSVP today!!!***

Market View

2022 Performance of Capital Markets	
S&P 500 - The S&P 500 (Standard & Poor's Index) is a stock market index containing the stocks 28 500 American corporations with large market capitalization that are considered to be widely held.	**-19.96%**
MSCI EAFE – The MSCI EAFE serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia.	**-19.57%**
Barclays U.S. Aggregate Bond – The Barclays U.S. Aggregate Bond Index is an index of U.S. dollar-denominated, investment-grade U.S. corporate, government and mortgage-backed securities.	**-10.35%**
10-Year Treasury Yield Rate (as of 6/30/22)	**2.98%**

Sources: Morningstar (Performance from 1/1/2022 to 6/30/2022)
Treasury.gov (As of 6/30/2022)

A Rocky First Half. The Wall Street Journal summed up the first six months of the year with a simple but telling headline: "S&P 500 Posts Worst First Half of Year Since 1970."[1] In part, it's a timing issue since the index hit its peak in the first week of 2022 according to the St. Louis Federal Reserve data for the S&P 500. But timing issues aside, stocks have tumbled since hitting all-time highs, and the S&P 500 Index has shed 23.6% from its January 3 peak to its June 16 trough, which officially lands us in a bear market.

The stock market is in a bear market when the broad-based index falls 20% from a prior peak. Since 1957, there have been 13 periods when the S&P 500 has lost 20% or more over six months.[2] That averages out to about one such decline every five years. In other words, it's not that unusual.

1 Akane Otani and Will Horner, "S&P 500 Posts Worst First half of Year Since 1970," WSJ.com, (June 30, 2022).
2 Bob Pisani, "The worst first half since 1970? It's not as bad as it looks." CNBC.com, (June 30, 2022).

While housing prices have soared and bubble talk abounds, bank capital standards are much stronger today, and lending standards have tightened considerably since the housing bust. Moreover, the problem isn't too many homes. It's just the opposite: too few homes in too many locales.

But we can draw parallels to the early 1970s. In 1972, the Consumer Price Index soared from an annual rate of 2.7% in the middle of 1972 to over 12% by the end of 1974, per St. Louis Federal Reserve CPI data.

Nonetheless, while the roots of inflation in the 1970s do not mirror what we see today, we find some similarities, including ultra-easy money in the early 1970s, a lack of fiscal discipline, and soaring oil prices tied to the 1973-74 OPEC oil embargo.

The U.S. is not as dependent on foreign sources today, and much greater fuel efficiency mitigates some of the impacts, but rising food and gasoline prices are playing a role in the rise in the CPI, which hit 8.6% in May (U.S. BLS).

An oil embargo, soaring energy prices, and a sharp rise in interest rates contributed heavily to a recession that began in late 1973 and lasted until early 1975, according to the National Bureau of Economic Research (NBER).

Some commentators believe we are already in a recession. And while there are parallels between then and now, no two periods are exactly alike.

The S&P 500 Index has entered a bear market, which typically signals a recession. Except for the one-day market crash in 1987, we must travel back to 1966, when investors lopped 22% off the S&P 500 Index, but a recession was avoided.

Today, Fed Chief Jerome Powell continues talking about the importance of getting inflation under control. And the Fed seems to be in no mood to veer from its inflation-fighting course, even if it means a recession.[3] As well stated, "***Without a clear top in inflation, it will be difficult to attain any form of market stability in equities or interest rates. Ongoing climbs in inflation threaten consumer behavior and will lead the Fed to higher interest rates.***"[4]

The highest inflation in 40 years has everyone thinking we are in or heading into a recession which could turn into a self-fulling prophecy and has already caused the consumer sentiment as measured by the University of Michigan as well as the NFIB Small Business Optimism Index as measured by the National Federation of Independent Businesses to trend downward.[5]

But a recession is not a foregone conclusion. Although economic growth has slowed, consumer confidence is down, and a decline in Q2 GDP is on the table, job growth has been robust, layoffs are low (though they have ticked higher), and consumers are splurging on travel and other services that were out of reach in the pandemic.

The glimmer of hope is that we are seeing some decline in some commodity prices, such as copper and oil, from their recent highs with some supply chain issues improving in China.

Furthermore, Moody's Analytics argues that plenty of stimulus cash remains in bank accounts, which could support consumer spending, and typical signs of rising loan delinquencies have yet to materialize.

Final thoughts

We won't try to pinpoint a stock market bottom, and today's economic fundamentals have created stiff headwinds for equities.

We know market pullbacks and bear markets are inevitable, and we recognize they can create unwanted angst. However, we also know that an unexpected, favorable shift in the economic fundamentals could fuel a sharp rally since sentiment today is quite negative and the markets are forward-looking.

As we have seen from over 200 years of stock market history, bear markets inevitably run their course, and a new bull market begins.

We saw the market rebound after the 2008 financial crisis. The Covid lockdowns led to a swift

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3 Nick Timiraos, "Why Consumers' Inflation Psychology Is Stoking Anxiety at the Fed." WSJ.com, (July 5, 2022).
4 "Market Stability Monitor," Alphalytics Research, (July 2022).
5 "Higher for Longer," Webinar, City National Rochdale, Webinar, (June 2022).

bear market but a quick recovery. We also saw stocks rally from the lows of the 1974 bear market.

The good news today is that the consumer is much less leveraged than in the past, with much more spending capacity. This suggest as many believe, that if we are facing a recession, it will likely be a mild one.

We know times like these can be difficult. We are only a phone call away if you have questions or would like to talk.

Retirement Income Design Considerations

Planning for accumulating retirement assets is much easier than planning for the decumulation—retirement income planning.

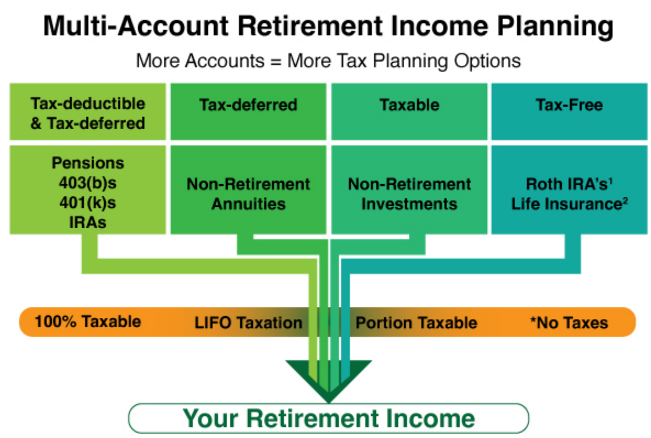
When we were younger, we just elected a percentage to set aside for our retirement, and if we were smart, we worked with an advisor to help us plan to accumulate sufficient assets and in the suitable types of accounts for tax planning purposes.

Retiring requires additional and more comprehensive strategies for planning and designing our retirement income based on numerous considerations, including the ones below.

- **Sufficient retirement assets.** The fear of running out of money during retirement is the number one fear for most Americans. Good pre-retirement planning and good retirement income design using these key considerations can help avoid that risk.

- **Multi-bucket accounts.** Many people falsely believe the only way to save for retirement is through tax-deductible (pre-taxed) retirement accounts and accumulate most of their assets in these pre-taxed retirement accounts, they do not have many tax planning options and will have to share distributions from these accounts with the IRS at future unknown tax rates. On the other hand, those who plan well and grow retirement assets in various other account types such as Roth IRAs, individual, and joint accounts where after-tax contributions are made, are faced with a good problem which leads to the next consideration.
- **Which account to tap first for retirement income for tax efficiency.** Having retirement assets in various account types, as illustrated in Table 1, may present some attractive tax-efficient ways to design your retirement income with various tax planning options, including Roth IRA conversions.

Table 1. Multi-Account Retirement Income Planning



1. Roth IRA distributions are qualified if you held the account for at least five years, AND the distribution is made after age 59 ½.

2. Life insurance death benefits and cash value policy loans are received income tax-free if structured properly.

Additionally, if leaving your remaining estate to your children or a charity is important to you, this will dictate the need to integrate tax and estate planning in your retirement income design to decide which account to use for retirement income and which account may be used as a legacy asset depending on the tax rates of the owners, beneficiaries, or entities.

- **Social Security Options.** The age a person selects their Social Security can affect their lifetime amount by up to several hundreds of thousands of dollars as well as cause some tax issues if the person is still working. It is usually suggested that the higher income spouse defer their Social Security up to age 70 since it will result in an 8% increase per year (to age 70) for the applicant and surviving spouse. ***Please do not apply for Social Security before we prepare a careful analysis of all Social Security options.***

- **Guaranteed income sources.** The more guaranteed income (pensions, Social Security, annuity income riders) a retiree has, the less impact a financial or economic downturn can have on their retirement income. If a retiree desires more guaranteed income, then the key is to find the right annuity income rider with the right annuity company and to identify the right amount of assets to use since we should never put all our assets in annuities because we will still have liquidity needs for emergencies and purchases, in addition to the income needs certain annuity riders can provide. Be sure to work with your trusted advisor so you fully understand the income riders and how they work along with the fees.

- **Health Care in Retirement.** Those retiring before Medicare age of 65 will require health coverage unless provided for by spousal or retirement plan coverages. This expense of health care can be very significant and needs to be planned for. If working beyond age 65, be sure to verify with the benefits department of the company if notifying Medicare is required. If required and Medicare is not notified, it can result in a significant increase in future Medicare premiums due to a lifetime penalty.

  We also must navigate the Medicare IRMAA (Income-Related Monthly Adjustment Amount) cliff with good tax planning since current year Medicare premiums are determined by MAGI (Modified Adjusted Gross Income) with a 2-year lookback period.

- **Account for Inflation.** A significant risk for many retirees is inflation. Many people are going broke safely because their returns on CDs and bond funds are not keeping pace with the high inflation rates we are experiencing today. We cannot invest like our grandparents did when they had lower inflation and higher interest rates. To stay ahead of inflation, we must grow, protect, and distribute our assets in tax-efficient accounts with proper asset allocation, diversification, and location, according to one's risk tolerance, time horizon, and needs.

- **Asset Allocation.** Asset allocation is adding non-correlated asset classes to a portfolio that may not be perfectly correlated to each other, like a recipe may call for salt and sugar. If one asset class is down, the other may not be, or not as much.

- **Asset Diversification**. Asset diversification is often confused with asset allocation, but it is different in that you want different companies within each asset class to help reduce the business risk of the companies held.

- **Asset Location.** Asset location is crucial for tax planning reasons. As an example, we know that Long-term Capital Gains and Qualified Dividends are taxed from the lowest rate of 0% up to a maximum of 20%, depending on one's taxable income. However, bond interest is taxed at one's highest marginal income tax bracket, up to 37%. Good tax planning within one's risk tolerance would suggest we put more bonds in IRAs since 100% of those distributions are taxed at one's highest marginal tax rates, while having more stocks in individual, joint, and some trust accounts that may allow for more favorable Long-term Capital Gain and Qualified Dividend tax treatment.

- **Market risk mitigation.** Using various risk-mitigation strategies offered by some portfolio managers, in addition to good asset allocation and diversification, may help reduce the amount of portfolio losses in severe market downturns.

All the above considerations are important to reduce risk in retirement income plans. Beginning with a well-thought-out retirement income plan created along with your advisor is critical. There is always risk. Risk in doing something and risk in doing nothing. Risk cannot be eliminated, but good planning can help to reduce risk. Forward Thinking is Good Planning!

Wealth Navigator Tips: *Raising Your Wealth Navigator Website IQ*

Budgeting, the Easy Way

With rising energy costs and food prices, are you searching for ways to reduce your monthly outflows? Experts agree that keeping track of every dollar spent is a great way to control your household expenses. **But did you know that your Wealth Navigator site offers a way to create an Auto Budget based on your actual spending data?**

Your Wealth Navigator site allows you to securely connect your bank accounts and credit accounts using your already established log-in information. Once connected, your account transaction history will appear under the Spending tab of your Wealth Navigator website. FYI, this information is private, and only you or other household members with permission will have access to this data.

Once inside the Spending Tab, navigate to the Budgets tab. Wealth Navigator has two ways to create a Budget; a Single Budget or create an Auto-Budget. The Single Budget is the manual option and requires more data entry but is more customizable to meet your specific expense category needs. The Auto-Budget will automatically create a budget for you based on your previous 6 months' spending history. To ensure the accuracy of the data in your budget, please review the auto-budget categories and budget amounts. To learn more about the Budget features and other applications, please visit the Wealth Navigator Training under Resources at www.silverstarwealth.com.

Kasey & Jamie

Humor Matters

A tour guide was showing a tourist around Washington, D.C. The guide pointed out the place where George Washington supposedly threw a silver dollar across the Potomac River.
"That's impossible," said the tourist. "No one could throw a coin that far!" "You have to remember," answered the guide. "A dollar went a lot farther in those days."

Upcoming Webinars:

How Tax Planning Changes Through Four Stages of Retirement

Thursday, August 11, 2022
6:00 pm to 7:00 pm
Presented by Tim Hudson, CFP®, CLU, ChFC
A replay will be sent to those who RSVP!
LIMITED REGISTRATIONS. RSVP TODAY at www.SilverStarWealth.com under Upcoming Events.

Retirees often don't understand how taxes work in retirement. But they're keenly concerned about the size of their tax bill each year. Learn what's involved in creating a retirement tax strategy.

In retirement, your tax rate may vary widely over the years based on the timing and order in which you use different sources of money to pay for your living expenses. You want to apply the tax code in an organized and efficient way.

You need a retirement tax strategy that will:

- Identify the types of taxes you will face at various stages
- Address how taxes impact Social Security and Medicare
- Plan when to tap different accounts so you don't overpay taxes

Attend this webinar to learn:

- The critical tax question you must answer BEFORE retirement
- The surprises that often make retirement more expensive
- What the Social Security "tax trap" is and how you can avoid it
- Why tapping assets in the wrong order can trigger higher Medicare premiums
- Why you need to manage taxes even before you retire
- The four stages of retirement and important tax actions in each stage, including tricky IRA challenges
- Mistakes to avoid when it comes to your investment portfolio, health care, and estate planning

Point of View -- the Economy, Markets, and Investment Strategy

Thursday, August 25, 2022
6:00 pm to 7:00 pm

Nationally known economist Fritz Meyer will present his thoughts on the current data in the economy.

A replay will be sent to those who RSVP!

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"Forecasts are a dime-a-dozen. Talk to 20 Wall Street gurus and you'll get 20 different spins." Join Fritz Meyer's presentation to see clear, concise pictures focused on key data.

Fritz Meyer is an independent economist and market analyst and former Invesco primary economic and markets analyst. He has been a frequent guest on CNBC, Bloomberg TV and Fox Business Network and has often been quoted in business publications. Mr. Meyer most recently spent 15 years with Invesco and his investment career spans the last 35 years. He has managed large-cap equity mutual funds and multi-cap equity and fixed-income client portfolios.
Fritz earned his A.B. degree from Dartmouth College with a distinction in economics and his Master of Business Administration degree from the Amos Tuck School at Dartmouth College.

Managing Health Care Expenses in Retirement - Get to Know Medicare

Thursday, September 22, 2022
6:00 pm – 7:00 pm

A replay will be sent to those who RSVP!

LIMITED REGISTRATIONS. RSVP TODAY at www.SilverStarWealth.com under Upcoming Events.

Guest speaker, Denise Burleigh with Insurance of All Ages, LLC will join us in presenting your many options for Medicare

In this webinar you will learn:

- How Medicare enrollment periods work—and what you need to do to avoid late-enrollment penalties
- How much you can expect to pay in health care costs after going onto Medicare
- How Medicare works with private insurance to provide comprehensive coverage
- Why most people pay too much for private insurance and how you can avoid excess costs
- Do I need Medicare if I work past age 65?

Please call us if you would like to schedule a risk/portfolio review and/or to update your plan.

The SilverStar Team

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Investing involves risk including the potential loss of principal. No investment strategy, including diversification, asset allocation and rebalancing, can guarantee a profit or protect against loss.
Although the information has been gathered from sources believed to be reliable, it cannot be guaranteed. Federal tax laws are complex and subject to change.
This material may contain forward looking statements and projections. There are no guarantees that these results will be achieved. It is our goal to help investors by identifying changing market conditions, however, investors should be aware that no investment advisor can accurately predict all of the changes that may occur in the economy or the stock market.
The opinions expressed in this commentary are those of the author and may not necessarily reflect those held by Kestra Investment Services, LLC or Kestra Advisory Services, LLC.
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Register for upcoming webinars:

1. **How Tax Planning Changes Through Four Stages of Retirement**
2. **Point of View--the Economy. Markets, and Investment Strategy**
3. **Managing Health Care Expenses in Retirement - Get to Know Medicare**