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| ***SilverStar Insights***  ***for your wealth*** | |
| By Tim Hudson, CFP®,CLU, ChFC, CRPS®  2nd Quarter 2022 | |

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| **In This Issue**   * Market View * Office News * Wealth Navigator Tips * The Value of Investing in Taxable Accounts * Humor Matters * A group of people posing for a photo    Description automatically generatedUpcoming Webinar   SilverStar Wealth  Management, Inc.  Located within Cy-Fair FCU  13525 Skinner Rd.  Cypress, TX 77429  **Contact Us:**  (281) 477-3847  Staff@SilverStarWealth.com  [www.SilverStarWealth.com](http://www.SilverStarWealth.com) | 2022 started with continued rising inflation with the Feds stated commitment to begin raising interest rates to bring inflation back down to a “normal rate.” This coupled with Covid-19 lockdowns in China and Russia’s invasion of Ukraine leads some to fear where our economy may be headed.  As the first quarter returns indicate, there was no place to hide…even bonds got hammered.  *Join us for a 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 page 6 and 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. | **-4.60%** | | **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. | **-5.91%** | | **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. | **-5.93%** | | **10-Year Treasury Yield Rate** (as of 12/31/21) | **2.32%** |       Sources: Morningstar (Performance from 1/1/2022 to 3/31/2022)  Treasury.gov (As of 3/31/2022)    The economy is reacting to several headlines in the first few months of this year. We have the China Covid-19 shutdown and Putin’s war in Ukraine putting even more pressure on the supply bottlenecks and fear of a wider war, which is compounding the inflation concern here is the U.S. and abroad.  The 10-year Treasury yield rose from 1.52% on 12/31/21 to 2.32% on 3/31/22 in response to the Fed’s commitment to raise interest rates to combat rising inflation. The Feds raised rates 25 basis points in March and 50 basis points in May. Chairman, Jerome Powell signaled that more rate hikes are on the table at future meetings while stating the “labor market and consumer demand are strong enough to prevent a downturn.”[[1]](#footnote-1) Powell is correct regarding the labor market with “the economy adding 428,000 new jobs in “April marking the 12th monthly gain above 400,000”[[2]](#footnote-2) which is a |

bright spot for the economy despite the recently announced -1.4% Gross Domestic Product (GDP) for the first quarter of 2022. With two consecutive negative quarters defining a recession, there are mixed opinions on whether we are about to enter a recession.

A valid point mention by Chairman Powell, and supported by many, is the fact that the consumer is in the driver’s seat regarding what happens. The large influx of liquidity from the Covid stimulus money is still in the hands of consumers who have low debt and rising wages allowing them to be in position to make purchases.

Housing demand and prices are still very strong despite rising interest rates due to housing inventory remaining low with only 843,000 existing single-family homes available compared to a long-term average of 2.1 million homes.[[3]](#footnote-3)

With inflation heating up and economic growth cooling, some fear we may be heading into a period of stagflation—a period when inflation rises, and economic growth slows. Many of us may recall the period of stagflation in the 70’s and 80’s, with long gas lines and very high inflation and interest rates.

It is important to view the differences from that period of stagflation to now. As Kara Murphy, Chief Investment Officer, of Kestra Financial points out, there are three key differences from then and now:

1. The U.S. is not as dependent on oil imports as we were back then, and newer vehicles are 3 times more fuel-efficient today.
2. Interest rates were very high around 15% back then making home affordably difficult compared to today’s much lower rates of around 5%.
3. The flexibility and productivity of the American worker today is far greater today.[[4]](#footnote-4)

Additionally, we cannot forget the excess cash the consumer has on the sidelines due to the Covid stimulus.

Edward Yardeni, a veteran Wall Street guru, is optimistic that the U.S. could avoid a recession this year and the S&P 500 may rebound to new highs next year despite being down about down about 16% this year. His view is based on rising corporate earnings forecast, a strong US dollar, consumers being in good financial shape, and a tight labor market.[[5]](#footnote-5)

Time will tell what the consumer does.

## Office News:

A person smiling for the camera

Description automatically generated with low confidenceJamie Borman is our newest addition to the SilverStar team. She is originally from Omaha, Nebraska and has been a part of the Financial Industry for more than 11 years. During which time, she spent more than 9 years with an Independent Broker Dealer and an additional 2 years with Northwestern Mutual in Client Services and Marketing roles. She is best known for her conscientious work ethic and warm, friendly demeanor.

She is married, has two children Gabby and Cooper, and a Shiba Inu/Schipperke mix dog named Daisy. Jamie and her husband, Matt, enjoy traveling to warm destinations, visiting family in Nebraska, cheering on the Cornhuskers and watching their children take part in the Bridgeland High School and Salyards Middle School Choirs.

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

**WHAT SHOULD I UPLOAD TO MY VAULT?**

Your Vault is a secure, easy way to store, organize, and access all your most important documents, like legal documents, medical records, insurance policies, tax information, I.D.s, and more for 24/7 access from anywhere.

It is also a great way for us to send and receive items to and from you securely in your “Shared Documents” folder.

Learn more about using your Vault and other features on your personalized Wealth Navigator website by visiting: [www.SilverStarWealth.com](http://www.SilverStarWealth.com). ‘Wealth Navigator Training’ documents are located under the ‘Resources’ tab.

*Kasey & Jamie*

## The Value of Investing in Taxable Accounts:

**Many people invest for their retirement years through various tax-deductible/pre-tax (Pay Later) retirement plans such as 401(k)s, 403(b)s, IRAs, and annuities. These accounts are great for reducing taxes today but because they grow tax-deferred, many people may be faced with a tax bomb in retirement when they start taxable distributions at future unknown tax rates. The after-tax, taxable (Pay Now) accounts can be a valuable addition for tax planning later in your retirement years to provide tax-efficient distributions and income. Gains and income are only taxed in the year earned, thereby reducing the amount taxable when distributed.**

Investors have many choices in the types of accounts to invest in. One of the most valuable for future tax planning, behind the Roth account, is the after-tax/taxable account. Contributions to taxable accounts are made with after-tax dollars and are not tax deferred. Owners are taxed on the interest, dividends, and realized gains in the year received or realized within the account. The owner will receive a tax form 1099 yearly, regardless if funds were distributed or not. However, current tax law allows for preferred taxation rates for qualified dividends and long-term capital gains (held for at least one year). The preferred tax rates may allow for more tax-efficient growth over the years and when funds are distributed, the owner will not be taxed on the portion of the account already taxed in the previous years which can allow for more tax-efficient distributions and income. Reducing taxable income in later retirement years may allow for various income tax planning considerations when the account owner may be in a lower marginal tax bracket.

There are several advantages of taxable accounts that benefit the owner(s) of the account as well as the beneficiaries.

**First**, long-term capital gains (held for at least one year) and qualified dividends are taxed at lower rates (0%, 15%, or 20%), than marginal income tax brackets.

**Second**, being taxed on the interest, gains, and dividends as the account grows, increases the cost basis of the account so when distributions are made later, only the new realized interest, gains, and dividends for that particular year are

taxed, thereby, potentially reducing one’s overall marginal income tax bracket. This is useful in early retirement to provide tax-efficient income and to allow for potential Roth IRA conversions at lower tax rates.

**Third**, beneficiaries are allowed a stepped-up cost basis upon the death of an owner of a taxable account.

***Example:*** Betty invested in a taxable account with an initial cost of $1 and later passed away. On the date of her death, her taxable account was valued at $100. Her beneficiaries get a stepped-up cost basis to $100 value as of the date of death and if they sell the holdings in the account later for $110, they will pay only $10 in capital gain, since their new stepped-up cost basis is $100.

Retirement accounts and annuities also offer tax deferral until distributions are made allowing for the compounding of the funds that would otherwise be used to pay taxes. Having contributions that are tax-deductible and growing tax-deferred seems very appealing until you realize how much tax you may owe in the end.

**Table 1. Multi-Account Retirement Income Planning**

Diagram

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1. Roth IRA distributions are qualified if you held the account for at least 5 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.

This future tax risk coupled with Required Minimum Distributions (RMDs) requires careful consideration of each person’s situation and objectives and should motivate investors to consider after-tax contributions Roth (non-tax deductible) to their retirement plans, if available, as well as taxable accounts (individual, Joint, or Trust) that may allow for attractive tax planning options in our later years.

***Pre-tax only Example***:

If someone has only tax-deductible/pre-tax IRAs and 401(k)s and earns $100,000 per year income and plans to retire with living expenses of $100,000, they cannot reduce their marginal income tax rates because the pre-tax IRA distributions for income will be 100% taxable just like their pre-retirement income keeping them in the same marginal income tax bracket.

***Pre-Tax and After-tax Example***:

If someone has both pre-tax IRA accounts as well as after-tax/taxable accounts, they may be able to take distributions from their tax-efficient taxable accounts and possibly drop their marginal income tax bracket down to lower brackets that may provide numerous tax planning strategies including possibly being able to covert some the pre-tax IRAs to Roth IRAs at lower income tax rates. The optimal time to do so may be in early retirement when the 100% taxable salaries stop and before starting Social Security, since up to 85% of benefits may be taxable, and before age 72 when Required Minimum Distributions begin.

Below is a table that illustrates the various taxation of these accounts. It is important to note that these accounts can utilize the same investment (CD, mutual fund, brokerage account, managed account, and annuities in most cases). It is the account title (Individual, Joint, IRA, Roth IRA, trust, etc.) that determines the taxation of the account.

**Table 2. Account Taxation Table**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Account** | **Contributions** | **2022 IRS Contribution Limit** | **Tax-Deferred** | **Distribution Taxation** | **Stepped-Up Cost Basis at Death** | **Required**  **Minimum**  **Distributions**  **(RMDs)1** |
| **Pre-tax** 401(k), 403(b), 457 | Tax-deductible/  Pre-tax | <50 $20,500  50+ $27,000 | Yes | 100% Taxable at the highest marginal tax bracket | No | Yes |
| **After-tax Roth** 401(k), 403(b), 457 | Non-tax deductible/  After-tax | <50 $20,500  50+ $27,000 | Yes | Qualified distributions are tax-free2 | No | Yes |
| **Traditional** IRA | Tax-deductible/  Pre-tax  Or  Non-tax deductible/  After-tax | <50 $6,000  50+ $7,000 | Yes | Tax-deductible IRAs are 100% taxable.  Or  Non-tax-deductible IRAs are non-taxable and prorated among all IRAs. | No | Yes |
| **Roth IRA** | After-tax | <50 $6,000  50+ $,7000 | Yes | Qualified distributions are tax-free2 | No | No |
| **Annuity** | Pre-tax or After-tax | None | Yes | Pre-tax is 100% taxable After-tax is LIFO (last in-first out) or prorated | No | No |
| **Taxable**  Examples:  Individual  Joint  Trust | After-tax | None | No | Earnings and gains are taxed when realized. Qualified Dividends and Long-term Capital Gains get preferred | Yes | No |

1. Required Minimum Distributions (RMDs) are required to begin at age 72 (age 70 ½ for those who were 70 ½ on January 1, 2020). RMDs are not required from 401(K) plans if the participant is still employed with that 401(k)-company sponsor. Roth IRAs DO NOT have RMDs, but Roth 401(k) plans DO.
2. Qualified distributions from Roth accounts must meet two criteria; 1) Participant must be over age 59 ½ AND 2) the account must have been established for 5 years.

All the account types listed above provide various tax benefits and add can add value depending on each person’s situation and objectives. Having diverse types of accounts, including taxable accounts may help us grow and distribute our wealth tax-efficiently while providing more tax planning options.

The challenge for many is the gratification of immediate tax savings with the tax-deductible/pre-tax accounts that is hard to pass up, which can lead to potential tax bombs later when RMDs are required at future unknown tax rates.

***In conclusion, think of it this way—pre-tax and tax-deferred accounts provide tax savings on the seeds/dollar contributions, but the harvest/distributions from these plans will be 100% taxable. Remember that qualified Roth distributions can be 100% tax-free, and taxable accounts are only taxable on the realized interest, dividends, and gains not previously taxed.***

**Remember, Forward-thinking is good planning!**

## Humor Matters



**Hello Dear,**

**I was just robbed at the Shell station in Houston. I’m OK. After my hands stopped shaking, I managed to call the Sheriff. They calmed me down quickly and asked me if I knew who did it. I said yes, it was pump number 9.**

## Upcoming Webinar:

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

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

**Thursday, June 2, 2022, 6:00pm-7:00pm**

**A replay will be sent to those who RSVP!**

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

***“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.

*Please call us if you would like to schedule a risk/portfolio review and discuss your options to address the higher inflation and rising interest rates we are experiencing.*

*The SilverStar Team*

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*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.*

*Click here to view Form CRS:* [*www.kestrafinancial.com/disclosures*](http://www.kestrafinancial.com/disclosures)

1. Megan Henney, “US Economy Sees Healthy Job Growth in April as Payrolls Jump by 428,000,” Foxbusiness.com, (May 6, 2022). [↑](#footnote-ref-1)
2. Josh Mitchell, “Rapid Pace of U.S. Job Growth Stretched into April,” WSJ.com, (May 6, 2022). [↑](#footnote-ref-2)
3. Jordan Jackson, “What’s Going on with the Housing Market?,” JPMorgan.com, (4/22/22). [↑](#footnote-ref-3)
4. Kara Murphy, “Money with Murphy,” Kestra Financial, Email (5/3/22). [↑](#footnote-ref-4)
5. Brian Evans, “Veteran Bull Edward Yardeni Sees S&P 500 Rebounding to a Record High Next Year with the Economy Avoiding a Recession,” Yahoo Finance, (May 9, 2022). [↑](#footnote-ref-5)