SilverStar Insights

for your wealth

SILVERSTAR WEALTH MANAGEMENT
Plan • Invest • Guide

By Tim Hudson, CFP®, CLU, ChFC, CRPS® — 2nd Quarter 2023

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We want to thank EVERYONE who attended Cajun Fest 2023 this past Saturday! We will forward the photos taken during the event to all those who attended!

Tim and Angela's granddaughter, Kynlee, kissing a goat at Cajun Fest

Also, many thanks to the SilverStar Crawfish Cooking Team for cooking 460 pounds of crawfish and serving the clients and staff of Reach Unlimited.

Please register for our **Upcoming Webinar** on **Tuesday, June 27th, "Lifetime Check – Protecting Your Retirement Income," with Cameron Schulte of Jackson National Life.** Please register on our website, www.silverstarwealth.com, under Events.

We are now in our temporary office at 14150 Huffmeister Rd., Suite 200, Office 125 Cypress, TX 77429, until our new office is completed in the Blackhorse Office Condominiums located at Fry and Mound Road, expected in early 2024. Our phone number remains the same.

Market View - Are We There Yet?

2022 Performance of Capital Markets	
S&P 500 - The S&P 500 (Standard & Poor's Index) is a stock market index containing the stocks of 500 American corporations with large market capitalization that are considered to be widely held.	**7.50%**
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.	**8.47%**
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.	**2.96%**
10-Year Treasury Yield Rate (as of 03/31/23)	**3.48%**

Sources: Morningstar (Performance from 1/1/2022 to 03/31/2023)
Treasury.gov (As of 03/31/2023)

Do you recall traveling with your kids with them constantly asking, "Are we there yet?" The impatient financial markets have been asking the Feds that same question regarding when the Federal Reserve Board will stop raising interest rates in their fight with inflation.

The Federal Reserve Board has many tools to affect monetary policy and the economy, including control of interest rates. Their 10th interest rate hike on May 4th, which started in 2022, as shown in Figure 1, brought us to the highest interest rates we have seen in 16 years.

Figure 1. Federal Reserve Board Interest Rate Hikes.

Date	Increase (%)	Level (%)
May 4, 2023	.25	5.00-5.25
March 23, 2023	.25	4.75-5.00
February 2, 2023	.25	4.50-4.75
December 15, 2022	.50	4.25-4.50
November 3, 2022	.75	3.75-4.00
September 22, 2022	.75	3.00-3.25
July 28, 2022	.75	2.25-2.50
June 16, 2022	.75	1.50-1.75
May 5, 2022	.50	0.75-1.00
March 17, 2022	.25	0.25-0.50

Source: FederalReserve.gov

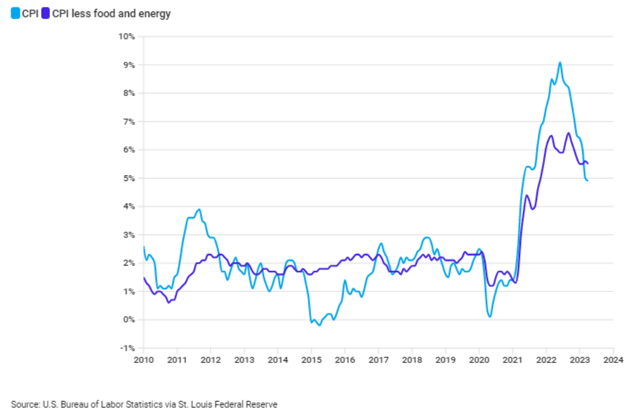
Going from .25% to 5% in 15 months is a considerable increase. Inflation, being a lagging indicator, explains why the Feds were late to start raising interest rates when it first appeared and, the concern of some, they may be late stopping the rate hikes that could tip us into a recession. Many feel that the Feds may hit PAUSE on the rate hikes and monitor for the following three key reasons:

1. The ten rates hikes are having an effect, albeit lagging.
2. The M2 money (cash, checking, savings, and money market accounts), which inflated due to the large Covid stimulus money, is being spent down and may approach normal levels in the 6-12 months by some estimates. The Nobel laureate and famed economist Milton Friedman's monetary theories suggest consumption and inflation will be controlled as the M2 money supply decreases.
3. Although most banks are in much better financial condition than in the past, the recent troubles with regional banks will likely put more restrictions on lending and consumer consumption.

All three of these issues will help slow the economy and inflationary pressures.

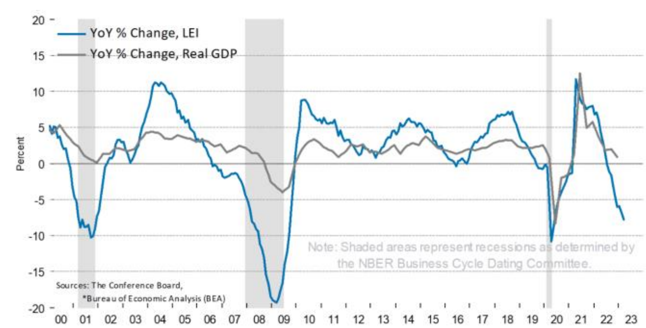
Figure 2 reflects slowing inflation is heading in the right direction, but for some items, such as shelter (housing) inflation, remains high and will likely take more time to deflate.

Figure 2. Annual Consumer Price Index (CPI) from 2010 to 2023.



Some bad news continues to show the Conference Board of Leading Economic Index® in negative territory, which usually precedes a recession, as shown in Figure 3. Many economists predict that we may enter a recession. Goldman Sachs' Chief Economist, Jan Hatzius, puts the likelihood of a recession in the next 12 months at 35% compared to the 65% his firm estimates is the consensus.[1]

Figure 3. U.S. Leading Economic Index®



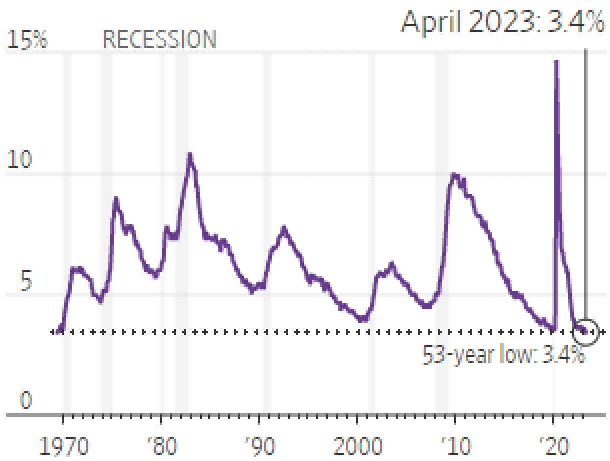
The ten components of ***The Conference Board Leading Economic Index®*** for the U.S. include: Average weekly hours in manufacturing; Average weekly initial claims for unemployment insurance; Manufacturers' new orders for consumer goods and materials; ISM® Index of New Orders; Manufacturers' new orders for nondefense capital goods excluding aircraft orders; Building permits for new private housing units; S&P 500® Index of Stock Prices; Leading Credit Index™; Interest rate spread (10-year Treasury bonds less federal funds rate); Average consumer expectations for business.

Source: conference-board.org

1 Bob Henderson, "Recession Worries Overdone, says Goldman Economist," WSJ.com, (May 12, 2023).

Despite some recent big tech layoffs, unemployment is at the lowest rate since 1969, with employers adding 253,000 new jobs in April, bringing the unemployment rate to 3.4% as shown in Figure 4.[2]

Figure 4. Unemployment Rate



Note: Seasonally adjusted
Source: Labor Department

Recent corporate earnings are mixed this quarter but may slow in the coming months if the economy continues to cool down.

There is still good news in the economy. Oil is coming down along with inflation in general, and consumers and businesses both have strong balance sheets due to the strong M2 money supply and the recent period of historically low-interest rates.

The coming months ahead may tell us if the Feds are where they need to be in interest rates and if we are headed for a soft landing or recession, but the employment numbers would have to change for a recession. Like U.S. Treasury Secretary Janet Yellen recently stated, "You don't have a recession when you have the lowest unemployment rate in more than 50 years," but we know that "unemployment often reaches a cyclical low point right before a recession materializes."[3]

So, stay tuned and review your well-thought-out plan to avoid emotional decisions.

The Real Value in Roth Accounts and 8 ways to Fund Them

In 1789, Benjamin Franklin wrote, "Our new Constitution is now established, everything seems to promise it will be durable; but, in this world, nothing is certain except death and taxes."[4] Death is still certain, but for the wise investors who understand Roth accounts and how to fund them, taxes can be eliminated if the rules are followed.

Many people make the common mistake of accumulating most of their investments for retirement in pre-tax (tax-deductible) IRA and other retirement plan accounts, only to create a tax nightmare when the taxable Required Minimum Distributions (RMDs) are required to begin. Some major reasons for this costly oversight are some people are only focused on saving taxes TODAY and lose sight of the bigger, long-term picture, and may not fully understand the real value of Roth accounts and how they work.

There are certainly times when people should use pre-tax accounts, but we should always consider using Roth accounts when the opportunity arises because of 5 key benefits of Roth accounts:

1. **Tax-deferred Growth.** Just like pre-tax accounts, the funds within the Roth accounts accumulate tax deferred. Tax-deferred growth allows for your money to grow faster. In essence, you are earning returns on money that would otherwise go to pay taxes annually.

2. **Qualified Distributions are 100% Tax-Free.** Unlike pre-tax retirement accounts such as Traditional IRAs and 401K plans, where distributions are always taxable, *qualified distributions* from Roth accounts are 100% tax-free if two conditions are met; the owner is over 59 ½, dies, or becomes disabled, AND the account has been established for 5 years.

2 Sarah Chaney Cambon, "Robust Hiring in April Shows U.S. Job Market Remains Hot in Cooling Economy," WSJ.com, (May 5, 2023).
3 Marcus Lu, "The Surprising Link between Unemployment and Recessions," WEForum.org, (May 13, 2023).
4 Source: ConsitutionCenter.org

The five-year clock begins January 1st for the year the first contribution was made or the conversion year. *Example*, if someone made a Roth IRA contribution in March of 2023 for the tax year 2022, then January 1, 2022, will be the start date.

3. **Access to Contributions at any Age.** A unique feature of Roth IRAs is that contributions can be accessed at any age without taxes or penalties, allowing for versatile access to funds. Earnings distributed from Roth accounts that are not Qualified Distributions will be subject to taxes and penalties.

   Access to tax-free *Qualified Distributions* during retirement can be very beneficial when funds are needed without unattractive tax consequences such as increased Social Security taxes or higher Medicare premiums.

4. **No Required Minimum Distributions (RMDs).** Roth IRAs have never had RMDs, and now the new Setting Every Community Up for Retirement (SECURE) ACT 2.0, Roth 401K plans will no longer have RMDs for owners age 70½ to 75 depending on the year you were born.

5. **Roth Accounts can provide some Unique Estate and Tax Planning Considerations.** When someone plans to leave assets to family or charity, an important consideration is tax planning. If someone has pre-tax and post-tax (Roth) accounts, as well as after-tax non-retirement accounts, may present some attractive options for the account owners to decide which type of account(s) to use for their retirement income and which account(s) to pass on to beneficiaries with everyone's tax brackets in mind.

With the many benefits of Roth Accounts discussed, it is surprising that only about 10% of taxpayers own Roth IRAs.[5] Below are 8 ways to start funding Roth accounts.

1. **Annual Roth IRA Contributions.** If you or your spouse has earned income for the year, you may be eligible to make a Roth IRA contribution of $6,500 (plus a $1,000 catch-up contribution for those age 50 and older) who have "earned income" for that year.

   Earned income is defined as income from working as an employee or as a self-employed person, not income from rental, pension, or investments. ***Even children with earned income (chore money or part-time jobs) can make contributions.*** It would be wise to document their earnings annually if they are being paid for chores. ***Funding Roth IRAs at a young age can create tremendous wealth over a child's lifetime and teach them an important wealth planning lesson.***

   If your child or grandchild has earned income but cannot afford to fund Roth IRAs, and you expect to leave them an inheritance, you might consider gifting them the amount they need to make Roth contributions. Now remember, gifts are gifts with no strings attached, but a donor could ask to see the year-end statement of the Roth account to verify contributions are being made, and no funds were distributed before making next year's gift.

   What better way than to transfer wealth tax-efficiently from one generation to another while still being around to teach and experience good wealth-building habits, rather than leaving sizable wealth to a generation that may not have the skills, habits, or experience to manage wealth wisely.

   Contributions limits are phased out for Married Filing Jointly starting at $218,000 Modified Adjusted Gross Income (MAGI) and totally phased out at $228,000 MAGI. The phase-out for Singles begins at $138,000 MAGI and is totally phased out at $153,000 MAGI.

   If your income is too high to make annual contributions, you might consider

5 https://www.taxpolicycenter.org

increasing your pre-tax 401K contributions if that will bring your MAGI down to possibly permit Roth IRA contributions. If not, then consider option 2 below.

2. **Backdoor Roth IRA Contributions.** For those who are not permitted to make Roth IRA contributions due to high MAGI, consider making contributions to non-deductible Traditional IRAs that do not have any phaseouts like Roth IRAs. Anyone with earned income can make a traditional IRA contribution regardless of their income, but the contribution may not be deductible based on Traditional IRA Deductible Contribution phaseouts. That's OK though because when you withdraw from or convert non-deductible Traditional IRAs to Roth IRAs, you do not pay taxes on those contributions because the contribution was not tax-deductible (pre-tax).

   For example: If you only had a non-deductible IRA where you made total contributions of $50,000 over the years and the value grew to $100,000, if you were to convert 100% to a Roth IRA you would only pay taxes on $50,000 but have $100,000 in the new Roth IRA. Be aware that pro-rata rules apply when you own other tax-deductible (pre-tax) IRA accounts.

3. **Roth IRA Conversions.** Any person at any age, with or without income, may convert tax-deductible (pre-tax) Traditional IRAs to Roth IRAs if the person is willing to pay income taxes on the amount converted in that particular year. The ideal time to do Roth conversions are in years with low-income tax rates which are typically early retirement years for those who wisely invest in non-retirement, after-tax investments that can allow for lower taxable retirement income before Social Security and RMDs.

4. **401K After-Tax Rollover to Roth IRA.** Some company retirement plans, such as 401(k)s, allow for after-tax contributions so that when the employee leaves the company, does an in-service distribution, or retires, they can roll over the after-tax balance to a separate Roth IRA from the pre-tax balance. This needs to be done at the time of the rollover, not afterward, and keeps the accounting clean and promotes the ability to fund Roth IRAs.

5. **Inherited 401(k) After-Tax Rollover to Inherited Roth IRA.** Like number 4 above, beneficiaries can also roll over after-tax balances to an Inherited Roth IRA.

6. **401(k) and 403(b) Roth Contributions.** For company retirement plans who offer Roth Contributions, a plan participant needs to decide if pre-tax contributions or after-tax Roth contributions are in their best interests. It may be wise to take advantage of both depending on a person's current tax situation and view of future tax rates. For 2023, the combined total limit is $22,500 plus a $7,500 catch-up for those age 50 and over.

7. **Solo Roth 401(k).** Self-employed have many options for funding retirement accounts, including a Solo 401(k) plan that can allow for Roth contributions as well.

8. **Conversion of 529 College Savings Plan to a Roth IRA.** 529 plans are a great way to save for educational expenses, and now with the new Setting Every Community Up for Retirement (SECURE) Act 2.0, excess funds left in 529 plans can be rolled DIRECTLY into a Roth IRA for the child (beneficiary) provided the child is eligible for Roth contributions, and the 529 plan has been established for 15 years. A lifetime total of $35,000 can be rolled over from 529 plans at a maximum of $7,500 per year if the child has earned income of that amount.

Retirement accounts, including the pre-tax and after-tax Roth accounts, should be considered, in addition to non-retirement after-tax accounts for our retirement planning.

Each of these three types of accounts offers different tax planning opportunities, but it is

very hard to argue against the Roth accounts offering potentially tax-free distributions when they are available.

Wealth Navigator Tips

I forgot my password! Can I reset it?
Yes, you can! Even in the middle of the night, when you cannot call us! Here are the steps to reset your password for your Wealth Navigator site.

- First, go to the log-in screen for your Wealth Navigator site. www.silverstarwealth.com
  Click on "Client Login" in the top right-hand corner of the screen

- Next, click on "Wealth Management Navigator" on the left side, a new box will appear, and you can click **"Forgot Password"** underneath the blue "Sign In" button. Enter your Username and e-mail address associated with your account (These may be the same) then click Continue.

- Next, answer your Security Question (This was set up when you first logged in to the Wealth Navigator site) then click Continue.

  Note: After 3 failed attempts, your account will be locked for 10 minutes. You can try again after 10 minutes or contact us at the office if during business hours ☺

- Upon successfully verifying your identity, the system will generate an e-mail that includes a link to reset your password.

- Open your email and find the Reset Your Password message. It will originate from notification@emoneyadvisor.com. Check your spam/junk folder if you do not see it.

- Open the message and click on the Password Reset Link. A new box will appear and ask you to choose and enter your new password twice.
- The new password must have the following characteristics to be valid.

  -Contains at least 8 characters.
  -Contains lowercase letters.
  -Contains uppercase letters.
  -Contains numbers.
  -Contains special characters.
  -Is not one of your 3 previous passwords.
  -Does not contain username, first name or last name.

We have also attached the step-by-step instructions on our website, go to **Resources** tab pulldown menu, select "Wealth Navigator Training" and click on "Resetting your Password."

You are always more than welcome to call us at the office, and we are happy to send you the reset password e-mail. But, for those times when it is after hours, during weekends or holidays, it's comforting to know you can do it yourself!

Humor Matters

Late one night Jack takes a shortcut through the cemetry. Hearing a tapping sound he becomes scared and quickens his pace. The tapping gets louder and Jack is now scared out of his wits.
Then he notices a man chiselling a tombstone.
"Thank goodness!" Jack says to the man. "You gave me a fright of my life. Why are you working so late?"
"They spelt my name wrong."*

Thanks to Frank and Rosemary T. for sending us this joke. Source: Laughing Librarian.

Please send us your best joke and if we use it, we will send you a gift certificate to your favorite restaurant.

Words of Wisdom

"The stock market is a device to transfer money from the impatient to the patient."
-Warren Buffet

Upcoming Webinars

Jackson National Presents: Lifetime Check – Protecting Your Retirement Income

Tuesday, June 27th, 2023
6:00 pm to 7:00 pm
Presented by Cameron Schulte, Regional Vice President, Jackson National Life and Tim Hudson, CFP®, CLU, ChFC
A replay will be sent to those who RSVP!

LIMITED REGISTRATIONS. RSVP TODAY and Invite a Friend at www.SilverStarWealth.com under Upcoming Events.

During this webinar, learn how to transition from career earnings to a Lifetime Check by using Jackson Protected Income.

Please call us if you would like to schedule a review of your portfolio and/or update your financial plan to review your estimated guaranteed retirement income and discuss ways to increase it so you are not as dependent on the performance of financial markets in retirement.

The SilverStar Team

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This material is intended for informational purposes only and is not intended to be a substitute for specific individualized tax or legal advice, as individual situations may vary. Please consult with a tax advisor before making any decisions regarding Roth IRA contributions or conversions.
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.
Click here to view Form CRS: www.kestrafinancial.com/disclosures

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Jackson National Presents: Lifetime Check – Protecting Your Retirement Income