

For more articles and White papers, visit  
our website [www.mamportfolios.com](http://www.mamportfolios.com)

## AMERICAN FUNDS REPORT– THE LONG VIEW

(Originally Published in April 2013 Monthly Commentary)



**STEVE MCCARTHY CPA, CFP®,**  
Owner and Principal

Three Lagoon Drive, Suite 155  
Redwood Shores, CA 94065  
650 610-9540 x 303  
[steve@mamportfolios.com](mailto:steve@mamportfolios.com)

***“This report provides a good summary of a number of topics that we have discussed in previous Monthly Commentaries and Quarterly Letters over the last year ”***

*McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio management and Tax Planning.*



**A**ttached to this Monthly Commentary is an 11-page report from American Funds entitled [“Building On a Boom: Energy is Powering the U.S. Renaissance”](#). This report provides a good summary of a number of topics that we have discussed in previous Monthly Commentaries and Quarterly Letters over the last year and are influencing our long-term outlook in our search for investment opportunities. Here are some highlights from the report:

**Energy Boom:** The U.S. is experiencing an energy boom that has very significant economic implications:

- ◆ Over the next 10 years, the U.S. and Canada are probably going to become energy independent.
- ◆ U.S. oil production grew more in 2012 than in any year in the history of the domestic industry.
- ◆ The U.S. Energy Information Administration predicts 2013 will have even greater growth than in 2012.
- ◆ The U.S. is expected to surpass Saudi Arabia in crude production by 2020 according to the International Energy Agency.
- ◆ The report discusses how many truck fleets are converting to run on natural gas.
- ◆ Not discussed in this report, but previously discussed by us is how the U.S. is experiencing somewhat of a manufacturing renaissance due to very low natural gas prices in the U.S. relative to the rest of the world.

### **The Housing Market is Gaining Momentum:**

- ◆ After enduring a four-year depression, the housing industry is now more of a tailwind than a headwind.
- ◆ In addition to a recovery in construction jobs, the benefit of an improving housing market includes state and local government spending.
- ◆ Between pent-up demand, the country's demographic profile, and the multiplier effect, there may be factors now in play that bode well for the nation's economic vitality.

**Consumers May Be Ready to Spend Again:** There is an insightful chart on P. 7 of the report that shows:

## Our Services

### Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

### Financial Planning Services:

- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

Tax Services: Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:

- Tax Return Preparation
- Income Tax Projections
- Tax Minimization Ideas
- Tax Authority Representation

Other Services: MAM has retained several outside experts, whose services are available at no cost to our clients:

- Long Term Care Planning— Allen Hamm of Superior LTC Planning Services, Inc.

- ◆ The average age of consumer durable goods (cars, appliances and other big-ticket items) climbed to 4.6 years in 2011, the highest since 1962.
- ◆ While percentage of disposable personal income spent on big-ticket items recovered to 10.3% in 2012, this is still low relative to spending during the last 60 years.
- ◆ Not discussed is that U.S. consumers have made great strides in reducing their debt during the deleveraging that has occurred since 2008. Consumers are now in better financial shape to start spending again on durable goods and other items.

### **Corporate Dividend Payments Soared to a Record in 2012:**

- ◆ As we have discussed in a previous Monthly Commentary, S&P 500 companies paid out a record amount of dividends in 2012 (17.1% greater than in 2011 and 13.6% greater than the all-time high set in 2008).
- ◆ Analysts expect S&P 500 companies to pay out an even higher amount in 2013.
- ◆ The payout ratio of dividends relative to corporate earnings is only 36%, well below the long-term average of nearly 50%.
- ◆ Many large technology companies now pay a dividend (Apple, Oracle and Cisco, to name a few). In fact, Apple, which just started paying dividends last year, announced last month in its quarterly earnings release a 15% increase in its dividend, which will make it the largest payer of dividends in the world (slightly ahead of Exxon).

### **Youth in the Developing World and Africa are on the Rise:**

- ◆ Many emerging countries have a relatively young population, which is promising for their future economic growth.
- ◆ India alone is expected to have 150 million people enter the workforce during the next decade, which is the current size of the entire U.S. workforce.
- ◆ American Funds is finding some compelling opportunities in Africa with its emerging middle class (we discussed the long-term opportunities in Africa in our February article on Frontier Markets).