

April 2018 Monthly Commentary

May 1, 2018

Stock Market & Portfolio Performance

April 2018: Stocks rose modestly for the month while bond prices slipped. For the first four months of 2018, most stock prices have fallen moderately while bond prices fell due to rising interest rates.

Inside this issue:

Market & Portfolio Performance **1**

Keeping Bear Markets in Perspective **2-3**

Risk of a Global Trade War **3-4**

Schwab to Discontinue In-Branch Check Pickups **4**

Our Services **5**

	Apr 2018	YTD 2018	Description:
Without Dividends:			
S&P 500	0.3%	-1.0%	500 Largest Public U.S. Companies
Russell 2000	0.9%	0.4%	2000 of the smallest U.S. stocks
MSCI EAFE	1.9%	-0.4%	international stock index
U.S. Aggr Bond	-0.7%	-2.2%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-0.3%	-0.8%	non-very conservative MAM portfolios
MAM Conserv	-0.5%	-1.0%	portfolios with 50%+ bond allocation

The returns showed above are unaudited. Past performance is not indicative of future results. Returns for McCarthy Asset Management Portfolios ("MAM Portfolios") are net of management fees and transaction costs, and reflect the reinvestment of dividends. Results represent a composite of clients using a similar investment strategy, individual results will vary.

Returns for the indices are provided solely as a general indication of current market conditions. MAM Portfolios are not invested in a style substantially similar to any index. Indices do not reflect the deduction of management fees or transaction costs or the reinvestment of dividends. Performance for the indices would be lower if these costs were reflected.

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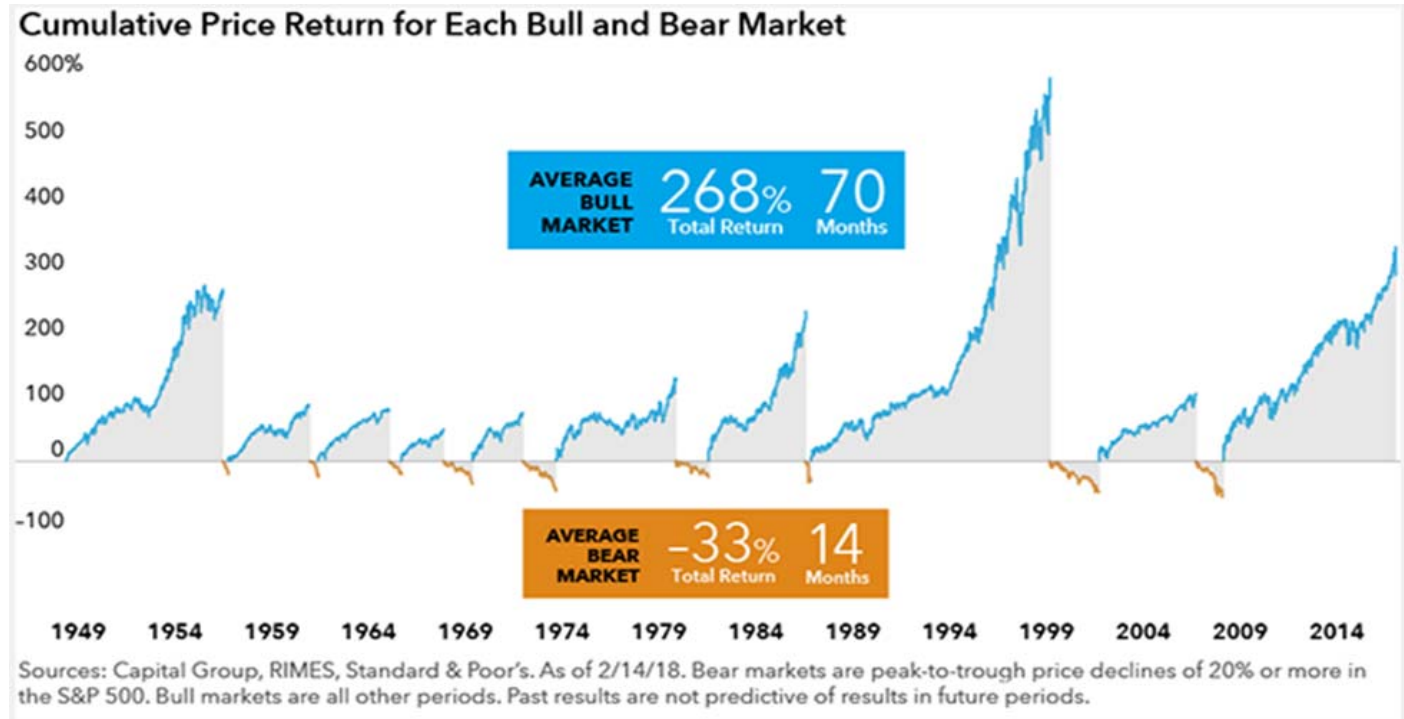


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With the current bull market now in its ninth year, the 10% correction we experienced in February and the accompanying increase in market volatility, it is natural for an investor to wonder when the next bear market will occur. While this timing is very difficult to predict, the following chart from Capital Group/American Funds, helps put this in perspective with a focus on the long-term:

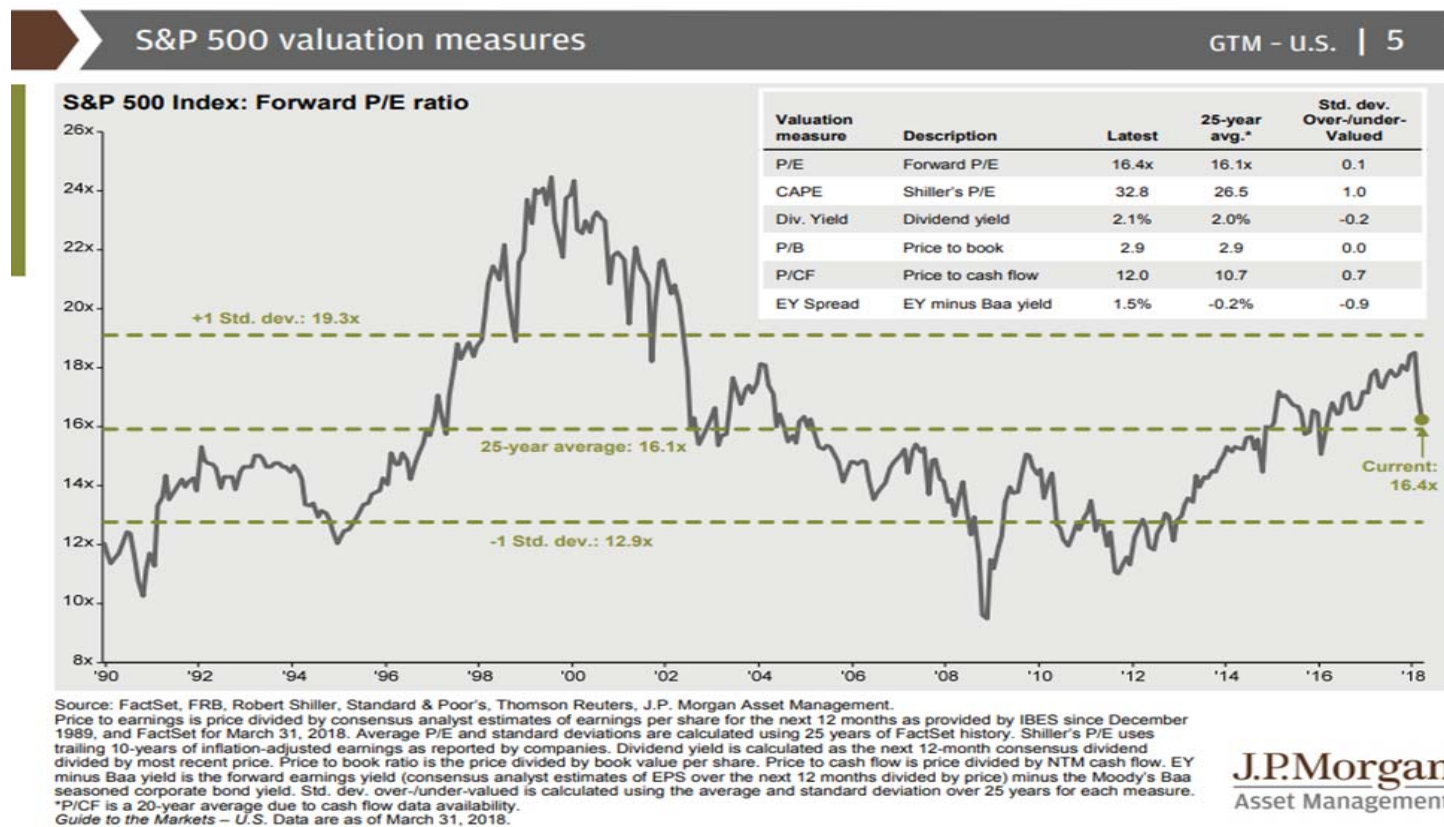


Here is what Capital Group had to say about the chart: *“Recent volatility may have caused some investors to panic and head for the exits, but a long-term focus can help put bear markets into perspective. Since 1949 there have been nine periods of 20%-or-greater declines in the S&P 500. And while the average 33% decline of these cycles can be painful to endure, missing out on part of the average bull market’s 268% return could be even worse. The much shorter duration of bear markets—14 months on average—is also a reason why trying to time investment decisions can be difficult and is usually ill-advised. Rather than indiscriminate selling, investors who are nervous about heightened volatility may want to consider flexible equity funds with a history of resilience during downturns. Investors should also re-examine their bond exposure for excess risk, as diversification from equities is one of the primary roles of fixed income in a balanced portfolio.”*

Is this the start of a bear market? We continue to think the answer is “no” and that the bull market still has some life left. Prior to the February market downturn, market volatility had been extremely low for the last year. Investors may have forgotten that volatility in stock prices is the norm for the investment environment. Importantly, there hasn’t been evidence that global economic or earnings fundamentals have started to deteriorate. To the contrary, corporate earnings are growing rapidly. In addition, indicators that measure industrial production, employment, personal consumption expenditures and most importantly, the index of leading economic indicators, have continued to show healthy growth. Given that most bear markets are accompanied by an economic recession, the low likelihood of a recession in the next year is reassuring.

Keeping Bear Markets in Perspective-Con't

Stock prices are now more reasonably valued. Earnings for the first quarter of 2018 for the S&P 500 companies are expected to grow nearly 20% from the prior year. Combined with the drop in stock prices since the end of January, equities have become more reasonably valued. Per Thomson Reuters IBES, the 12-month forward price-earnings ratio for the S&P 500 has declined from a 16-year high of 18.6 times adjusted earnings at the end of January to 16.4 times at the end of March. As can be seen in the J.P. Morgan chart below, this is only slightly above the 25-average of 16.1 times earnings.



Risk of a Global Trade War



Foreign trade was a major theme during the 2016 presidential election, and as 2018 began, President Trump started to roll out limited tariffs, beginning with washing machines and solar panels in late January. On March 1, tariffs of 25% and 10% were announced on steel and aluminum imports, respectively. Affected countries were given an opportunity to make a case for an exception, several of which were granted before tariffs officially went into effect on March 23.

The biggest concern is a trade war with China. The opening salvo was on March 22, when \$50 billion in tariffs on Chinese imports were announced by the Trump administration. China responded with proposed tariffs on roughly \$50 billion of U.S. imports, followed by the President announcing he's looking into the possibility of tariffs on an additional \$100 billion of Chinese goods.

An all-out trade war would be troubling for both the U.S. and Chinese economies. However, it is important to note that at this point, most of the tough talk on trade from both sides is just that—talk. These are “proposed” measures, with the tariffs not going into effect for at least several weeks. It is possible that Trump proposed the tariffs as a negotiation ploy. In fact, both China and the U.S. have indicated willingness for a dialogue to diffuse the trade-war tensions.

Risk of a Global Trade War– Con't

This may also be the case for other trade agreements with Trump threatening tariffs as a ploy to get better and fairer trade deals in place. For example, for all the concern about the possibility of abandoning the North American Free Trade Agreement (NAFTA), The Wall Street Journal reported on April 4 that President Trump is pushing for a deal announcement in the near future, with many of the sticking points having been agreed to.

Impact on MAM portfolios: At this point, we are not overly concerned about these proposed tariffs. We will continue to monitor events, though, to see if it looks likely that major tariffs will be imposed with a likely significant negative impact on global trade.

Schwab to Discontinue In-Branch Check Pickups

Effective June 1st, Schwab will no longer allow clients to pick up checks at their branches. Schwab explained this “as part of an effort to modernize and streamline Schwab branch products and services”. While we can see how it will reduce the workload for their branch personnel, it eliminates a quick and convenient way for clients to withdraw cash from their Schwab portfolios.



Here are the remaining “convenient and secure methods to access and transfer money” (quotes are in Schwab words):

- **Add checks to an account-** This is a very quick, simple way to access cash. If you don't already have a checkbook for your Schwab account and would like to obtain one, please contact Marilyn (Marilyn@mamportfolios.com).
- **Request for Schwab to mail you a check-** Delivered by standard mail with average time to receive of one week, or delivered overnight for a fee. Schwab will only make the check payable to the account holder, unless a signed authorization form is provided for an alternate payee. (For instance, for Trust accounts, the check will be made payable to the name of the Trust.)
- **Enroll in Schwab MoneyLink®** to transfer funds between a Schwab account(s) and an external account(s) on a one-time or recurring basis. Please contact Marilyn if you would like to have a MoneyLink® set up for one or more of your Schwab accounts. Allow up to three weeks for set-up to be complete. Also, unless the transfer is between accounts with the same registration, Schwab will need approval for each one-time disbursement.
- **Schedule a wire transfer** to send money securely to a third party. Schwab requires a signed Letter of Authorization with the wire instructions, and charges \$25 for each transfer (although clients with household balances of \$100,000 or more are eligible to receive three free domestic wire transfers per quarter).
- **Enroll in new IRA Check Writing** to take distributions from a Schwab IRA. Because no Federal or state income taxes will be withheld from the distributions, we prefer for clients to not utilize this option.

Sincerely,

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Our Services

McCarthy Asset Management, Inc. (MAM) is an independent, privately owned Registered Investment Advisor firm. We provide clients with the peace of mind that comes from knowing professionals are managing their financial affairs. The services we offer include:

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.
- Social Security Planning is an analysis of the best strategy for when and how to start claiming Social Security benefits.

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 outside experts, whose services are available at no cost to our clients:

- Long Term Care Planning– Allen Hamm of Superior LTC Planning Services, Inc.
- Medicare Advisory Program (MAP) - Eileen Hamm

Reminders/Updates

Please let us know if there are any topics you would like to have us cover or any questions answered in a future Monthly Commentary.



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