McCarthy Asset Management, Inc.

Personalized Wealth Management

April 2019 Monthly Commentary

May 1, 2019

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Stock Market & Portfolio Performance

April 2019: The stock market continued to post strong returns in April, with the S&P 500 reaching an all-time high. Bonds were flat for the month.

	Apr 2019	YTD 2019	Description:
Without Dividends:			
S&P 500	4.0%	17.5%	500 Largest Public U.S. Companies
Russell 2000	3.3%	17.9%	2000 of the smallest U.S. stocks
MSCI EAFE	2.5%	11.7%	international stock index
U.S. Aggr Bond	0.0%	3.0%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	1.9%	11.1%	non-very conservative MAM portfolios
MAM Conserv	1.3%	8.4%	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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Change in Fed Policy– Interest Rates to Remain Unchanged

Federal Reserve Chairman Jerome Powell spooked markets last October by communicating that the Fed was a long way from a neutral rate, which the markets interpreted to mean several more interest rate hikes were yet to come. The "neutral" rate is the interest rate that is neither so high that it slows the economy, nor so low that it allows the economy to grow too fast and push up inflation. By December, the Fed had raised its benchmark rate four times in 2018, to a range between 2.25% and 2.5%. At that meeting, most Fed officials penciled in between one and three rate increases for 2019.

After a period of exceptional market volatility late last year—brought on by concerns over slowing global growth, trade tensions and the Fed's policy stance—central bank leaders signaled an about-face early this year. In doing so, it emphasized its flexibility and willingness to factor financial market volatility and overseas developments into rate decisions. This was just the message the market wanted to hear, with stock prices rebounding sharply in the 1st quarter of 2019.

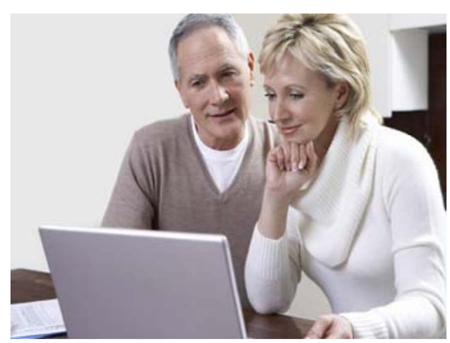
After its most recent meeting in March, Fed Chairman Powell said at a news conference that "The U.S. economy is in a good place and we will use our monetary policy tools to keep it there." Furthermore, the Fed announced it was keeping its benchmark interest rate steady, and a majority of officials at the central bank signaled they might not raise the rate at all this year. The shift in Fed policy has coincided with inflation falling shy of the Fed's 2% target. The Fed believes 2% inflation is consistent with a healthy economy. They see inflation much lower than that as a sign of economic weakness.

In addition to interest rate increases, the Fed has been shrinking its $4 trillion in bond holdings since October of 2017. After its March meeting, the Fed also announced that it would end the reduction in its balance sheet later this year, leaving its bond holdings at a higher level than previously anticipated.

MAM Comments: We attribute much of the turnaround in the stock market this year to the decision by the Fed to stop raising interest rates. It is still possible, however, for the Fed to start raising rates again if global economic growth and/or U.S. inflation start to show signs of rising. While this could spook markets again, we will probably not be too concerned as long as the U.S. economy does not start to overheat.

Preparing for Retirement in 10 Years

A number of MAM clients are approaching the age when they could retire from their work. Like a lot of things in life, making that transition smoothly and successfully is more likely if you take the time to prepare for it. The purpose of this article is to suggest areas to contemplate once you are within ten years of retiring.



How Will You Spend Your Time and Where Will You Live? Will you travel, volunteer or work part-time? Will you move out of state, or will you stay in the same town but downsize to a smaller place? Envisioning retirement may even help you reach your retirement financial goals quicker. A recent survey by the investment manager Capital Group found that workers envisioning retirement were motivated to save nearly one-third more than they might otherwise.

Run the Numbers. Are you on target for a financially-secure retirement? The tool we have for this is called the Retirement Analysis. Ideally, we create this when a client still has some years left before retirement, in case they may need time to accelerate their saving efforts or make other adjustments. We have prepared a Retirement Analysis for over 125 MAM clients. Questions it can help answer include: when you can afford to retire, how much you can safely spend and whether you should sell your home. In those cases where we found clients have more than enough assets to satisfy their spending goals, we create an alternative scenario to determine how much more they can safely spend without endangering their financial security.

Preparing for Retirement in 10 Years- Con't

Accelerate Savings. If you are in your 50's, you are likely entering your peak earnings years. In addition, expenditures may have fallen if you become an empty-nester or finish paying for college for your kids. The additional disposable income provides a great opportunity to accelerate your savings. As discussed in the article "The Power of Working Longer" from our March 2019 Monthly Commentary, while accelerating savings will help, delaying the start of retirement is likely to provide a greater financial benefit.

Adjust Your Investments. As you get closer to when you will need to tap into your investments to finance your living costs, it would be prudent to increase the downside protection in your portfolios. Hopefully this was done for those who took untimely retirement at either the start of the dot.com crash (2000) or financial crisis (2008). We have heard stories of individuals who did not do this, and for financial reasons had to go back to work. To avoid the risk of retiring at the outset of a bear market, our strategy is to set aside up to 3 years of portfolio withdrawals in a bond bucket within a client's portfolio(s). We like to start building this safety bucket once a client is within three years of retirement.

Pay Down Debt. Our philosophy is retirement is the time to simplify your financial life. One way to do that is to have all your debts paid off. Doing so will allow you to live on less income.

Open a Health Savings Account. We are big fans of HSA accounts. Creating one will effectively allow you to pay your out-of-pocket medical expenses with pre-tax dollars. Furthermore, building up a sizable balance in your HSA account by the time you retire will provide a reserve to cover medical expenses. The sooner you establish an HSA the better, because once you sign up for Medicare, you are no longer eligible to contribute to one. Distributions from an HSA are allowed, though, during retirement.

Consider Long-Term Care. Long-term care costs aren't covered by Medicare and are very expensive. For those with significant assets, they may be able to self-insure this cost. But for others, long-term care insurance should be considered. A good time to buy long-term care insurance is when you are in your mid-50's. This is when you're still young and healthy enough that the premiums are more affordable. If you want to purchase a policy, we recommend choosing one with a three-year benefit period with inflation protection. Depending on your savings, there may only be a need to purchase a policy that covers part of your potential long-term care costs.

We have engaged the services of Allen Hamm, who will prepare at no cost to clients, a Long-Term Care Plan. The Plan addresses how you expect to cover the need for long-term care. While Allen does sell long-term care insurance, there is no obligation to buy a policy from him.

MAM Comments: These are all important issues to address as you plan for retirement. Please let us know if you would like to discuss how they pertain to your situation.

This article was written based on an article in Kiplinger's Personal Finance magazine's February 2019 edition.

"My Social Security Account"- The best offense is a good defense.

By Lauree Murphy

If you have been procrastinating about setting up an online account with the Social Security Administration, wait no longer. Defend yourself from Social Security fraud by registering for an account.

One benefit to setting up your online account is the ability to verify that the earnings tracked by Social Security are accurate. Currently, benefits through 2018 should be posted to your account. Additionally, you can find out how much your benefit is projected to be at your full retirement age, and also compare the impact that your age in which you start collecting Social Security has on your benefits.

“My Social Security Account” - The best offense is a good defense.– Con’t

By Lauree Murphy

Just as importantly, you may prevent someone else from claiming your benefits by setting up an online account. During the last year, we have heard from two clients who had someone fraudulently apply for their benefits. If you are 62 or older and you are not yet claiming benefits, you are a prime target. In 2018, the Social Security Administration identified 63,000 fraudulent online benefit applications. That’s up from only 89 in 2015. The problem is that fraudsters may have your information from data breaches, such as those seen with insurance giant Anthem and credit bureau Equifax. With this information, fraudsters have the ability to impersonate you and possibly start collecting your benefits.

Another risk is the exponential growth in Social Security imposter scams, in which fraudsters claiming to be Social Security staffers contact victims—often via robocalls—and try to extract money or personal details. According to the Federal Trade Commission, more than 35,000 people reported such scams in 2018, which was a significant increase from 3,200 reported instances a year earlier. If you receive a call from someone claiming to be from Social Security, hang up and call 1-800-772-1213 and speak to a real Social Security representative.

Social Security is taking steps to strengthen its security:

- It is requiring longer passwords and implementing two factor authentication. That means when you try to log in, they will send a code to either your phone or email address to verify it’s you.
- Social Security will now allow you to opt into “extra security.” You do this under the security settings section, once you have logged into *my account*. The extra security option asks for info from a financial source like your W-2 or a credit card. Within 5-10 business days, they will mail you an upgrade code and it will allow you to add other information to your extra security.
- You can also block electronic access to your Social Security record at www.socialsecurity.gov/blockaccess. This will prevent anyone, including yourself, from viewing or changing your information online or by using the automated telephone service. If you later change your mind, you need to contact Social Security and ask to unblock it.

Although the Social Security Administration is working on improving security, we all need to be on guard and check our data routinely. Here is a link to the website to set up your account: www.ssa.gov/myaccount. We recommend you create an account and log in periodically to check for suspicious activity.

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.