

August 2016 Monthly Commentary

September 1, 2016

Stock Market & Portfolio Performance

August 2016: Large-cap U.S. equities, foreign equities and bonds posted modest losses for the month while small-cap U.S. equities performed well. Year-to-date, with the exception of international equities, returns have been good.

Inside this issue:

Market & Portfolio Performance	1
Stock Market– A Very Quiet August	2
Fund Profile– Primecap Odyssey Aggressive Growth (POAGX)	2-3
Medicare Open Enrollment Avoid the Pitfalls; Take the Opportunities– by Eileen Hamm	4-5
Our Services	6

	<u>Aug 2016</u>	<u>YTD 2016</u>	<u>Description:</u>
Without Dividends:			
S&P 500	-0.1%	6.2%	500 Largest Public U.S. Companies
Russell 2000	1.6%	9.2%	2000 of the smallest U.S. stocks
MSCI EAFE	-0.2%	-1.8%	international stock index
U.S. Aggr Bond	-0.1%	5.9%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	0.3%	6.2%	non-very conservative MAM portfolios
MAM Conserv	0.2%	6.0%	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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Stock Market— A Very Quiet August

August was a quiet month for the stock market, with very low volatility. For instance, the 30-day period ended August 22nd was the least volatile of any 30-day period in more than two decades. Only five days during that stretch saw the S&P 500 move by more than 0.5% in either direction, the lowest since 1995. Will this low volatility continue?



- August and September are historically two of the weakest months for the S&P 500. Going back to 1980, they are the only two months to have a negative average return. For this year, August yielded mixed results with very low volatility. It remains to be seen how this September will play out.
- The positive performance the last couple of months may be because the market has begun to price in strong odds of a Hillary Clinton victory as her lead in the polls has increased. A Clinton administration would bring more predictability than a Donald Trump administration.
- A number of stock market timing services that I follow have had a positive short-term outlook for the last several months. Part of the reason for their optimism has been an improving trend in “market breadth.” “Market breadth” is a technique that attempts to gauge the direction of the overall market by analyzing the number of companies advancing relative to the number declining. Historically, when the stock market reaches a peak, market breadth deteriorates in advance of a decline in large cap indexes such as the S&P 500. The recent improvement in “market breadth” indicates that this bull market still has room to run.
- The stock market clearly is not cheap. The S&P 500 is now trading at 20.5 times trailing price-to-earnings, well above the historical average of 16.5 times, according to Bloomberg data. While an over-valued market is not enough to trigger a downturn, it does make it likely that future returns will be below historical averages.
- For stocks to continue to rise, U.S. economic growth and corporate earnings growth will likely need to improve.

Fund Profile— Primecap Odyssey Aggressive Growth (POAGX)



Primecap Odyssey Aggressive Growth is one of six funds managed by the Primecap team, whose Vanguard Primecap Fund (VPMCX) has achieved one of the industry’s best track records during the past 30 years. Three of the six funds are offered through Vanguard, although all three are closed to new investors. The remaining three are offered directly by Primecap.

Investment Strategy: The Primecap management team uses a stock-picking strategy very similar to that found at the American Funds, where the founders worked before starting Primecap. That strategy can best be described as patient contrarian growth. The managers look for companies that have grown rapidly in the past and have good potential to continue that growth in the future, but have become temporarily cheap for some reason. They are often willing to wait for a stock to rebound, as long as nothing about it has fundamentally changed. As a result, all three Primecap funds have very low turnover, typically around 10% annually, and favorite stocks can stay in the portfolio for years.

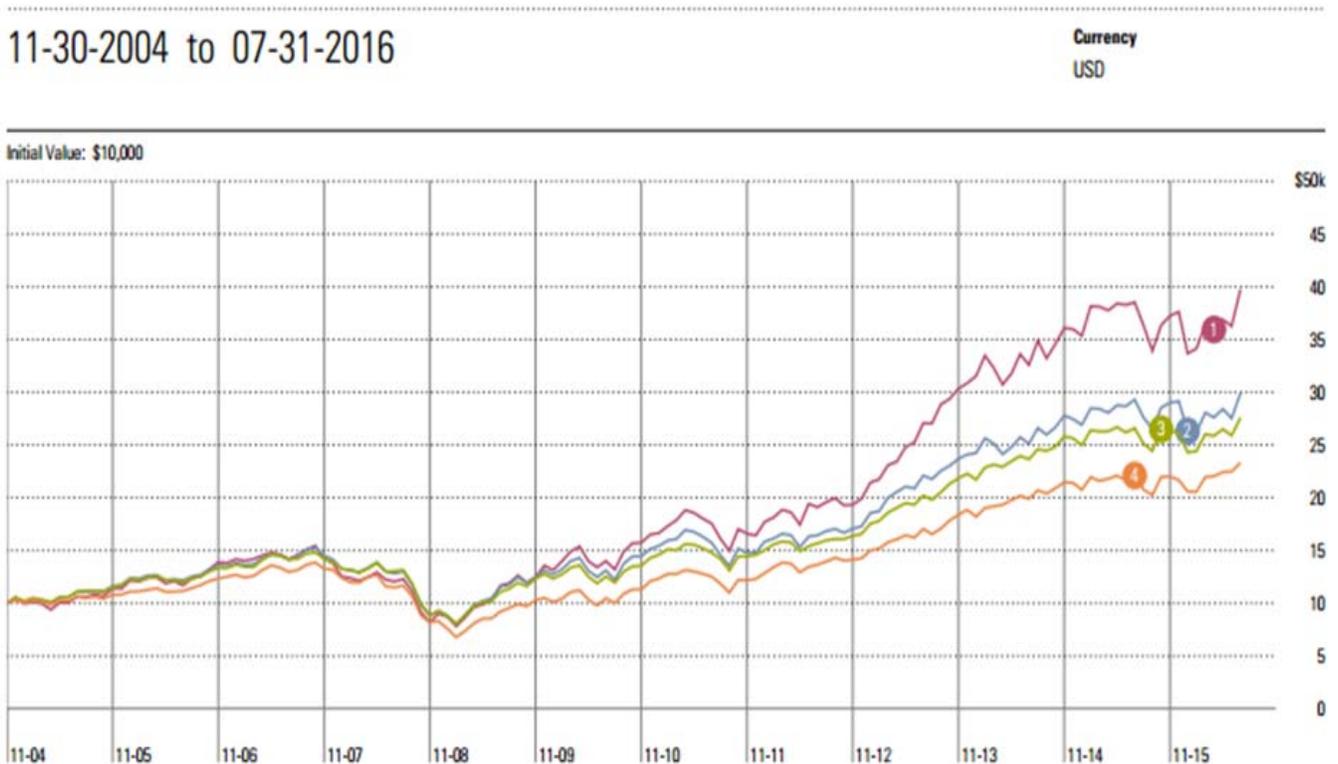
Each of the five portfolio managers independently runs a sleeve of assets, allowing them to follow convictions within this broad strategy, and they don’t hesitate to make significant sector and industry bets in areas where they see a lot of potential. In recent years, technology, biotech and airline stocks have been the managers’ favorites.

Fund Profile– Primecap Odyssey Aggressive Growth (POAGX)- Con't

Performance of Primecap Aggressive Growth: This approach has worked very well over time, helping Primecap Aggressive Growth (“the Fund”) to the best returns in the mid-growth category since its inception in late 2004. It has trailed the category only in two calendar years (2007 and 2010) and has ranked in the top 10% seven times, including each year from 2012 through 2015. The Fund’s excellent record and low expenses earn it a Morningstar Rating of “Gold”. While it is closed to new investors, since MAM already has a position in it, we can add new clients into it. I have attached the most recent Morningstar report on the Fund to the email of this Monthly Commentary.

Other Primecap Funds: Primecap offers two other funds, Primecap Odyssey Growth (POGRX) and Primecap Odyssey Stock (POSKX) which we utilize for more conservative MAM clients. As can be seen from the graph below, while the track records of both of these funds are good (outperforming the S&P 500 since their inception), they are not as excellent as that of Primecap Aggressive Growth. Because they are less aggressive, though, they are more suitable for conservative portfolios. Like the Aggressive Growth Fund, these two also have a Morningstar Rating of “Gold”.

Performance of All Primecap Funds: The chart below depicts the performance of all three Primecap funds relative to the Vanguard 500 Index since their inception in 1/30/04 through 7/31/16:



Investment	Cumulative Return %	Annualized Return %	Amount at End of Period \$
① PRIMECAP Odyssey Aggressive Growth (USD, POAGX)	297.50	12.56	39,749.96
② PRIMECAP Odyssey Growth (USD, POGRX)	199.07	9.85	29,907.02
③ PRIMECAP Odyssey Stock (USD, POSKX)	175.94	9.09	27,594.33
④ Vanguard 500 Index Inv (USD, VFINX)	133.25	7.53	23,324.52

Performance Disclosure

The performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate; thus an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than return data quoted herein. For performance data current to the most recent month-end, please visit <http://advisor.morningstar.com/familyinfo.asp>.

Medicare Open Enrollment

Avoid the Pitfalls; Take the Opportunities— by Eileen Hamm

If you're like most people, the information you receive about Medicare through the mail, from insurance agents, or talking with friends, family, and co-workers is confusing! And the abundance of conflicting information can leave you anxious, worrying that you'll do the wrong thing like missing a key enrollment period or incurring hefty penalties.

DO ANY OF THESE SOUND FAMILIAR TO YOU?

- ◇ Joe says I should wait until Open Enrollment in the fall to enroll
- ◇ A brochure I received in the mail says I HAVE to enroll in Medicare at age 65
- ◇ My neighbor says if I have health insurance through my employer, I don't need to enroll in Medicare
- ◇ My cousin says I don't need to enroll in Medicare Part D if I'm not on any medications now, and that I can enroll in a Part D at any time
- ◇ My best friend says to just enroll in a cheap plan now since I'm healthy, that I can always change to a better plan during Open Enrollment

One area of confusion for many people is the various enrollment periods for Medicare. Very few people are clear on which enrollment period is for what situation, and what the implications are if you miss the relevant enrollment period.

Because Medicare Open Enrollment is approaching, we decided this would be a good time to provide you with the information you need regarding this enrollment period.

Medicare Open Enrollment occurs every year from October 15th through December 7th. The term "Open Enrollment" seems to imply that anyone can enroll in Medicare at this time. In reality, Open Enrollment is for making *CHANGES* to your existing Medicare coverage—primarily your Medicare Advantage Plan (or Medicare Part C plan), or your Medicare Part D prescription drug plan. Here is what you can do:

- ⇒ Switch from one Medicare Advantage plan to another Medicare Advantage plan
- ⇒ Enroll in a Medicare Part D prescription drug plan
- ⇒ Switch from one Medicare Part D prescription drug plan to another
- ⇒ Switch from an Original Medicare supplement plan to a Medicare Advantage plan

When you do make a change in your coverage, the new plan will be effective January 1st.

You can NOT change from a Medicare Advantage plan to an Original Medicare supplement plan during Open Enrollment. You can only do this from January 1st through February 14th every year. And if you've been on your Medicare Advantage plan for 12 months or longer, you MAY NOT QUALIFY for an Original Medicare supplement plan if you have health issues. This is one reason the decisions you make when you first become Medicare eligible are so important- you may not be able to make changes in the future.



Medicare Open Enrollment– Con't

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Why would you want to make changes to your coverage? In most cases people change their plans due to an increase in the premium of their current plan, or an increase in the copay amounts. But another reason you might want to change from one Advantage plan to another is the network of providers may have changed. For example, if the group of doctors you are currently seeing decides to drop out of your plan's network. This also applies to Medicare Part D plans- the copays may go up for your medications, or perhaps you are on new medications which are very expensive on your current plan; or the pharmacy you like is no longer in the plan's network.

To make a change in your Medicare coverage, you simply enroll in the Medicare Advantage plan or Part D Prescription plan you want, and you will automatically be dropped from your current plan.

Eileen Hamm: So who *should* you listen to? McCarthy Asset Management, Inc. has retained the services of my firm as an expert who specializes in this area of planning. I have the experience and knowledge to provide you with the advice, guidance, and recommendations that will get you through the confusing world of Medicare. My firm does not sell any Medicare products; my advice is objective with no underlying pressure to "sell you." MAM, Inc. pays my firm a retainer fee, as a value-added benefit to you for being a client so there's NO charge to you. **If you'd like to take advantage of this service, contact Steve or Lauree and they will make an introduction.**



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Webinar: I will be offering a live webinar (via computer and phone) for the clients of MAM, Inc. on Tuesday, September 13th, at 6 pm. Along with discussing Medicare Open Enrollment, I will explain the various other enrollment periods and will be open to answering your questions following the presentation. Please let Steve or Lauree know if you would like to attend and they will provide you with the information necessary to join in.

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 you or a friend are interested in attending our September 13th Medicare Webcast.



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