McCarthy Asset Management, Inc.
Personalized Wealth Management

February 2014 Monthly Commentary

March 1, 2014

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Stock Market & Portfolio Performance

February 2014: Stocks & bonds performed very well for February with the S&P 500 index closing close to its all-time high.

	Feb 2014	YTD 2014	Description:
Without Dividends:			
S&P 500	4.3%	0.6%	500 Largest Public U.S. Companies
NASDAQ	5.0%	3.2%	stocks trading on the Nasdaq
Russell 2000	4.6%	1.7%	2000 of the smallest U.S. stocks
MSCI EAFE	5.4%	1.1%	international stock index
U.S. Aggr Bond	0.5%	2.0%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	3.3%	1.0%	non-very conservative MAM portfolios
MAM Conserv	1.8%	1.4%	portfolios with 50%+ bond allocation

Comment: The long-awaited market correction that appeared to be underway at the end of January quickly evaporated with many of the indices back close to all-time highs. Despite the turnaround, we would not be surprised or concerned were a market correction to reappear.

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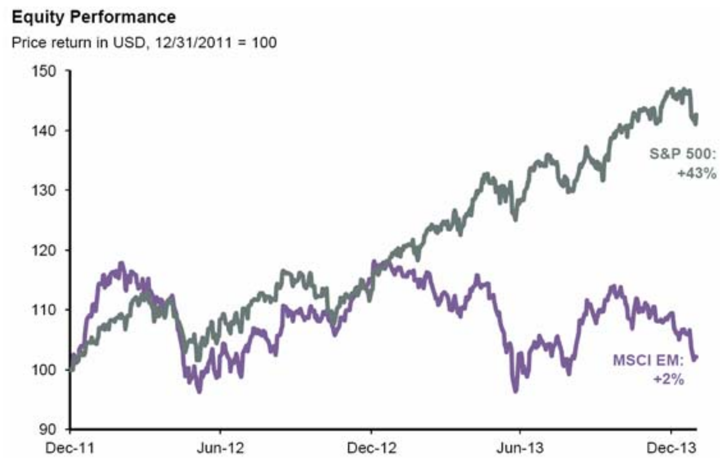
Emerging Market Stocks' Recent Struggles

Some History: Emerging-market stocks are typically viewed as an asset class offering the potential for higher, albeit volatile returns, and as a source of portfolio diversification. As an investable asset class, emerging market stocks are only about 25 years old. In the early years, emerging-market stocks suffered some serious growing pains, including hyperinflation in Brazil, the Mexican peso crisis in 1995, the Asian financial crisis in 1997, and Russia's debt default in 1998. The "growth" story really took off about 13 years ago which resulting in outstanding returns for investors. From 2001 to 2010, the MSCI Emerging Market Index (in U.S. dollars) returned an average of 15.8% a year, compared with the MSCI USA Index's 1.5%.

Recent Performance: Emerging market stocks had a terrible 2013—with the MSCI Emerging Market Index underperforming the S&P 500 Index by a shocking 35%. Unfortunately, the trend seems to be continuing in 2014. For the first two months of 2014, the MSCI EM index was off 3.6%, compared to a 1.1% gain for the International MSCI EAFE index of developed market stocks. The chart to the right compares the performance of the MSCI EM index to the S&P 500 since December of 2011.



Sources: Standard & Poor's, MSCI, J.P. Morgan Asset Management. For illustrative purposes only. Data as of 1/31/2014.

Flows into and out of emerging market funds reflect the poor performance. For the last week ended January 29th, investors redeemed $6.3 billion from emerging market equity funds, the largest outflow on record in dollar terms. Boston-based fund tracker EPFR Global said the outflow was broad based and the biggest in three years as a percentage of assets under management.

What Caused This?: Since the spring of 2013, emerging markets have been hit by a perfect storm of **rising interest rates** in the U.S., fears of a **slowdown in China**, political turmoil, and concerns that emerging market economies haven't **reformed fast enough** to make growth sustainable. Now that the global liquidity wave is receding (i.e. Federal Reserve tapering), the dependency of some emerging market countries on overseas financing has led to a "liquidity squeeze" in their markets, as skittish investors rushed for the door in the face of uncertainty. Countries such as Mexico and South Korea, with benign inflation and stronger current accounts, have more resilient currencies. Countries with significant current account deficits, on the other hand, like Turkey, have seen their currencies depreciate more than 20%.

Our view: Emerging market equities still deserve a position in portfolios over the longer term. This is due to emerging market ties to global growth, which appears to be accelerating, the diversification benefits that emerging market stocks provide to portfolios, and long-term growth opportunities as incomes rise and the middle class grows in emerging market countries. More specifically, we like emerging market stocks because:

Emerging Market Stocks' Recent Struggles– Con't

1. They are now relatively cheap compared to U.S. stocks. For instance, the MSCI EM Index is now trading at less than 9 times projected 12-month earnings, compared with 14 to 15 times for the S&P 500 stocks.

2. Individual investors, who have a consistent, terrible long-term track record of buying and selling stocks at the wrong time, have recently been heavy sellers of emerging market stocks.

3. "Emerging market" economies are not a fad. They account for a large and growing percentage of the global economy. According to the International Monetary Fund, they now account for about 40% of the world's gross output when measured in U.S. dollars—up from less than 25% a decade ago.

4. Emerging markets generally are under-represented in the "global" equity indexes. Bank of America estimates emerging market stocks account for just 10% or so of the world's stock market by value.

What we are doing: While we are not currently adding to or reducing our small emerging market position (generally around 5% of portfolios), we may add to our positions later this year or establish a position in frontier markets. (For our discussion of frontier markets, see our February 2013 Monthly Commentary by clicking here.)

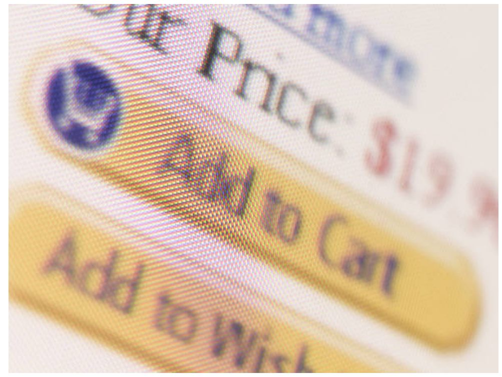
Attendance at a Private Wealth Management Summit

Last December I attended a 2 ½ day Marcus Evans wealth management conference that was held in Las Vegas. There were over 80 principals from wealth management firms and 74 sponsors (in the fields of real estate, hedge funds, venture capital, and others). It was very interesting. Probably all of the wealth management firms in attendance manage assets greater than MAM's $160 million (and many were in excess of $1 billion), and a number were family offices that mange money for multi-generations of wealthy families. The format was educational sessions followed by 1 on 1 meetings with the sponsors (25 minute meetings that were like a form of "speed dating").

One of the takeaways for me was that many of the wealth management firms who manage assets for very wealthy clients use the kind investments offered by these sponsors to help diversify their portfolios. While the investments are illiquid, they attempt to provide good returns that have low correlation to the returns of the stock market.

Subsequent to the conference, I personally invested with three of the sponsors: two real estate deals (both of which strive to generate generous annual cash distributions) and one venture capital deal. I want to become familiar and confident with these sponsors before I offer any of them to clients. Since I expect it will take time (more than a year) to gain such confidence, I probably won't discuss any of these until at least 2015.

Use Tax– The Tax You Probably Forgot To Report



"For 2011 and 2012, I included an explanation of "use tax" in the letter that I sent out with the tax organizers. I didn't include it in the letter sent with the 2013 tax organizers because nothing had changed from the previous two years. Given that already this tax season a few clients have asked what the "use tax" page in the tax organizer is for, I thought I should discuss it in this Monthly Commentary.

Think you got a great deal not paying sales tax on your online purchases last year? In most states, there's a pesky tax called "use tax" that you are supposed to pay in lieu of sales tax if you buy stuff out of state or online.

Rather than the laborious task of keeping track of online, out-of-state purchases where sales tax was not collected, many of the states allow for purchases of items of $1,000 or less the use of a table that calculates the tax based on the taxpayer's adjusted gross income. Click here for a PDF of a use tax table from the California State Board of Equalization. For instance for taxpayers with adjusted gross income of $200,000, the use tax for 2013 based on the CA lookup table is $61. This tax can be included with the taxpayers' 2013 state tax return.

California's use tax collection efforts have had limited success so far. In the 2011 processing year, 74,737 taxpayers paid $11.3 million in use tax, according to Board of Equalization statistics. For 2012, when the look-up tables became better known, 131,226 taxpayers (less than 1% of the total 15.8 million taxpayers) paid $21.1 million in use tax. Clearly, many taxpayers are still ignoring use tax.

If you do decide to report use tax purchases and would like to use the look-up table, please indicate so on the 3rd to the last page of the tax organizer.

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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.**

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.**
- **Medicare Advisory Program (MAP) - Allen Hamm**
- **The Savvy Life® Classes, Workshops , and One-on-One Consultations**

Reminders

I want to remind those tax clients who have not yet provided us with their 2013 tax information to please do so as soon as possible. We have set a deadline of March 20th for receiving your tax packet if you want us to complete your returns on time. Thanks!

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