McCarthy Asset Management, Inc.
Personalized Wealth Management

January 2019 Monthly Commentary

Feb. 1, 2019

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Stock Market & Portfolio Performance

January 2019: After a very rough fourth quarter of 2018, the stock market experienced a strong recovery in January. Bonds posted modest for the month.

	Jan 2019	FY 2018	Description:
Without Dividends:			
S&P 500	7.9%	-6.2%	500 Largest Public U.S. Companies
Russell 2000	11.2%	-12.2%	2000 of the smallest U.S. stocks
MSCI EAFE	6.5%	-16.1%	international stock index
U.S. Aggr Bond	1.1%	0.0%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	5.7%	-4.7%	non-very conservative MAM portfolios
MAM Conserv	4.2%	-3.6%	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 Recovery– Is this Sustainable?

After experiencing a sharp selloff in December, stocks staged a strong recovery in January. Is this recovery temporary, or the start of something more sustainable? While we were fairly confident that December's correction was likely to be temporary, our short-term outlook is for a gradual recovery in stock prices accompanied by volatility.

What triggered the stock market recovery this past month? We believe the primary reasons were:

- A very strong December employment report. With 312,000 jobs created, concerns receded that the economy was slipping into a recession.
- The Federal Reserve indicating that it may slow its pace of federal funds rate increases. The expectation is that the Fed will now pause for the time being. Our feeling is that if the economy continues to perform well, it may raise rates twice in 2019, with the first raise occurring in May or June.
- Some progress being reported in resolving the trade dispute between the U.S. and China.
- Bargain hunting on behalf of investors. The fourth quarter selloff caused stocks prices to fall to reasonable levels. At the end of 2018, the S&P 500 was trading at about 14.5 times expected 2019 earnings of $170 per share, below the average of 16.2 times over the past 50 years.

What Now? With so many outstanding issues, we think volatility will remain relatively high. Stocks could sink or soar based on the outcome of negotiations between the U.S. and China over trade this winter and the run-up to Brexit in March. The extensive political dysfunction in Washington increases concerns for uncertainty. The main driver, though, is likely to be the performance of the U.S. economy. While growth does appear to be slowing, we still see low risk of a recession starting in the next year.

MAM Action: We are not making any portfolio changes at this time. We see reasons for caution, however, as we are likely to be late in the current economic cycle. Therefore, we continue to closely monitor the economy for possible signs of an approaching recession. As we indicated in previous Monthly Commentaries, historically, the worst performance for the stock market is the six months leading up to the start of a recession.

Is Your Homeowner's Insurance Coverage Adequate? (by Lauree Murphy)

It was a rough time here in Northern California in the Fall of 2018. While the smoky air was certainly uncomfortable in the Bay Area, imagine how difficult things were for those people who were directly impacted by the fires. Many fire victims from the 2017 and 2018 wildfires found themselves underinsured due to inadequate insurance payouts and the high cost of rebuilding. Insurers place the responsibility on homeowners to periodically check their policies for increases in replacement costs.

In 2017, I had a small fire in my kitchen caused by a faulty dishwasher. It destroyed the dishwasher and part of the countertop. Luckily, we were in the next room and caught it quickly. If we had not been, things could have been much worse. This event heightened my awareness about how quickly all your possessions can go up in flames. After listening to a seminar presented by an insurance agent at the NORCAL Financial Planning Association Conference, I decided to review my insurance policy with my agent. If you have not reviewed your policy with your agent in a while, I suggest you do so.

Is Your Homeowner's Insurance Coverage Adequate? (by Lauree Murphy) – cont'd

Find the declarations page of your homeowner's insurance, as well as the detailed pages that come with your renewal and review the following:

Dwelling Coverage- *Make sure the coverage is based on replacement cost, not actual cash value.* Actual cash value will pay based on the depreciated value of the home. Replacement cost is without depreciation. Divide the coverage by the number of square feet in your home. Example: your dwelling coverage is $550,000 and your home is 2,000 square feet, then your coverage is $275/ square foot. Compare that to how much it would cost to rebuild your home*. If you have a high-end home with custom finishes, is that taken into account?* A high-end home may cost $800+ a square foot. An ordinary home might be half or a third of that. To get some idea of the replacement cost, you can take a free survey at http://www.building-cost.net. While taking the survey, be sure to account for any customized items in your home. The survey may be a good starting point for your discussion with your agent. Some insurance companies that specialize in insuring high-end homes will send a person to inspect the home. An actual inspection will produce a more accurate estimate.

Extended Replacement Cost- This is calculated as a percent of the dwelling coverage. Your dwelling coverage may not be enough, especially when there is a major fire affecting many homes. *The forces of supply and demand will make it costlier to replace your home. The extended replacement cost can help with that.* Multiply the dwelling coverage by the extended replacement cost percent. Add that to the dwelling coverage. Example: your dwelling coverage is $550,000 and your extended replacement cost is 50%. Your coverage then is $825,000. ($550,000 x .5= $275,000, then $550,000 +$275,000= $825,000)

Personal Property- This covers the items inside your home including: furniture, appliances, clothes, and household items. It's usually a percentage of the dwelling cost. *It's a great idea to take videos or pictures of the inside of your home to use if needed.* Store these outside your home or in the cloud. Additionally, Allstate Digital Locker App is available on your phone for free. You don't need to be an Allstate customer to use the App. I tried this App and found it very useful and easy to use. Other insurance companies may have something similar. If you have a claim for personal property, you need to submit a list of everything you own. Pictures will make it much easier to remember your household goods.

Scheduled personal property coverage- If you have: jewelry, art, collections, sports equipment (like golf clubs), musical equipment, expensive equipment (like cameras), these are covered at very minimal amounts under your standard personal property. Therefore, they should be itemized and insured separately. Check with your agent to see exactly what is and what isn't covered as personal property.

Home Business- If you are running a business from your home, you should purchase a rider for home office equipment protection.

Loss of Use or Additional Living Expenses- If you can't live in your home while it is being repaired, you want to be sure you have adequate coverage for the cost to live elsewhere over some period of time.

Other Questions to Ask:

Will I be covered if I have a sewer line back up?

If my home is destroyed and I decide I don't want to rebuild, is there a cash out option?

Other Coverages:

If you have Earthquake insurance, you will want the same dwelling coverage as your homeowner's base coverage. The deductible is much higher for Earthquake insurance. If your damage is greater than the deductible, you will probably be out of the house for a while, so it makes sense to have adequate loss of use coverage.

Is Your Homeowner's Insurance Coverage Adequate? (by Lauree Murphy)- Con't

Homeowner's insurance does not cover floods. If you live in an area near the ocean, bay, or in a low-lying area, you might want to consider flood insurance.

If you find you need to increase your coverage, it will increase your premiums. Consider a higher deductible. That will take some of the sting out of the increased costs, while leaving you better covered if the worst should happen. Be careful if you decide to shop insurance companies. A cheaper insurance company is not necessarily better. You want to make sure you have the coverage you need. You can usually save money by insuring your home and autos with the same insurance company. Be sure to ask your agent if there are other discounts you might qualify for.

Check out the details of your insurance policy on the CA department of insurance website. Choose the Homeowner's Coverage Comparison Tool:

http://www.insurance.ca.gov/01-consumers/105-type/5-residential/index.cfm

Disclaimer- I do not sell insurance or have an insurance license. The information in this article is intended to help you get a conversation going with your property insurance agent.

Does My Rental Property Qualify for the New 20% Qualified Business Deduction?

The Tax Cuts and Jobs Act, which was signed into law on December 22, 2017, added a new 20% of business income deduction (also known as "the Section 199A deduction") for certain businesses. The determination of who qualifies for the deduction is rather complicated. Furthermore, it has been unclear if rental property owners would qualify. Last month, the Treasury Dept released a proposed revenue procedure in Notice 2019-7 to provide a safe harbor for determining if a rental activity is a trade or business for the purpose of the Section 199A deduction. The news is not good.

Safe Harbor: To use the safe harbor, the rental property owner is required to do each of the following:

1. Maintain separate books and records for each rental activity (or the combined enterprise if multiple properties are aggregated together).

2. Demonstrate that 250 hours or more of "rental services" per year for the activity (or combined enterprise) were performed by the owners, employees or independent contractors with respect to the property or enterprise.

3. Maintain contemporaneous records (meaning "records created at the time of the activity"), including time reports or similar documents regarding 1) hours of all services performed, 2) description of all services performed, 3) dates of which services were performed and 4) who performed the services. For these purposes, rental services include advertising to rent, negotiating and executing leases, verifying tenant applications, collection of rent, daily operation and maintenance, management of the real estate, purchase of materials, and supervision of employees and independent contractors.

Does My Rental Property Qualify for the New 20% Qualified Business Deduction?– cont'd

Statement Required: To claim the Section 199A deduction, a property owner must include a statement attached to his/her tax return indicating that the requirements in this revenue procedure have been satisfied. The statement, which must be signed by the taxpayer, states that "Under penalties of perjury, I declare that I have examined the statement, and, to the best of my knowledge and belief, the statement contains all the relevant facts relating to the revenue procedure, and such facts are true, correct, and complete."

In Summary: While the release of this proposed revenue procedure is timely given that tax season is about to start, we are disappointed with the strict requirements the Treasury has laid out. We expect that most rental property owners will not qualify, particularly given the requirement of a minimum of 250 hours spent during the year related to the rental property.

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

ADV Part II: You were provided a copy of our ADV Part II when you became a MAM client. As a Registered Investment Advisor, we file this document with the Securities and Exchange Commission. Along with other items, it contains information regarding our fees and our educational backgrounds. Each year, the SEC requires us to offer clients the opportunity to receive a copy of our most recent ADV Part II. **Please let us know if you would like to receive a copy.**

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