

## July 2017 Monthly Commentary

August 1, 2017

### Stock Market & Portfolio Performance

**July 2017:** U.S. and international stocks continued their recent streak of posting good gains while bonds were modestly positive.

#### Inside this issue:

Market & Portfolio Performance **1**

International Equities— Are They Better than U.S. Equities? **2-3**

Medicare Premiums for Higher Income Recipients— Part 1 By Lauree Murphy **3-5**

Our Services **6**

	July 2017	YTD 2017	Description:
Without Dividends:			
S&P 500	1.9%	10.3%	500 Largest Public U.S. Companies
Russell 2000	0.7%	5.0%	2000 of the smallest U.S. stocks
MSCI EAFE	2.9%	15.0%	international stock index
U.S. Aggr Bond	0.4%	2.7%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	1.3%	8.9%	non-very conservative MAM portfolios
MAM Conserv	0.9%	5.2%	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.*

#### Advisor Team

#### McCarthy Asset Management, Inc.

Three Lagoon Drive Suite # 155  
Redwood Shores, CA 94065  
USA



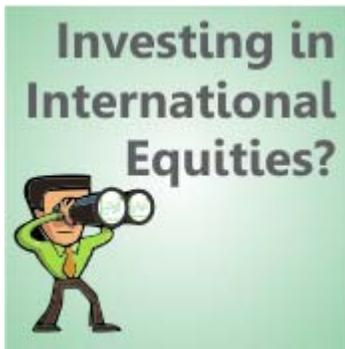
**STEVE McCARTHY**  
CPA, CFP®,  
Owner and Principal  
650 610-9540 x 303  
[steve@mamportfolios.com](mailto:steve@mamportfolios.com)



**LAUREE MURPHY, CFP®, EA**  
Financial Planner  
Tax Specialist  
650 610-9540 x 304  
[lauree@mamportfolios.com](mailto:lauree@mamportfolios.com)

**ANTHONY BERTOLACCI ,**  
EA  
Director of Compliance  
Tax Accountant  
650 610-9540 x 302  
[anthony@mamportfolios.com](mailto:anthony@mamportfolios.com)

**MARILYN BLANCARTE, PACE**  
Executive Assistant  
650 610-9540 x 305  
[marilyn@mamportfolios.com](mailto:marilyn@mamportfolios.com)



We last wrote about the under-performance of foreign stocks relative to U.S. stocks in our September of 2016 Monthly Commentary. In the article titled “International Equities-Down But Not Out”, we included a chart that showed that through 6/30/16, foreign stocks underperformed the S&P 500 for the previous 79 months. This was the longest stretch of underperformance in over 40 years.

In the article, we explained that while there have always been cycles of international stocks underperforming followed by a period of outperforming, we made the case that secular demographic trends indicated a compelling long-term investment opportunity for international equities, especially in emerging markets. In particular, the emergence of a global middle class will drive economic growth in many foreign countries as income levels steadily rise and the number of people living in poverty continues to fall.

Despite our long-term optimism toward international equities, we did not increase their allocation in portfolios last year. We had two primary concerns:

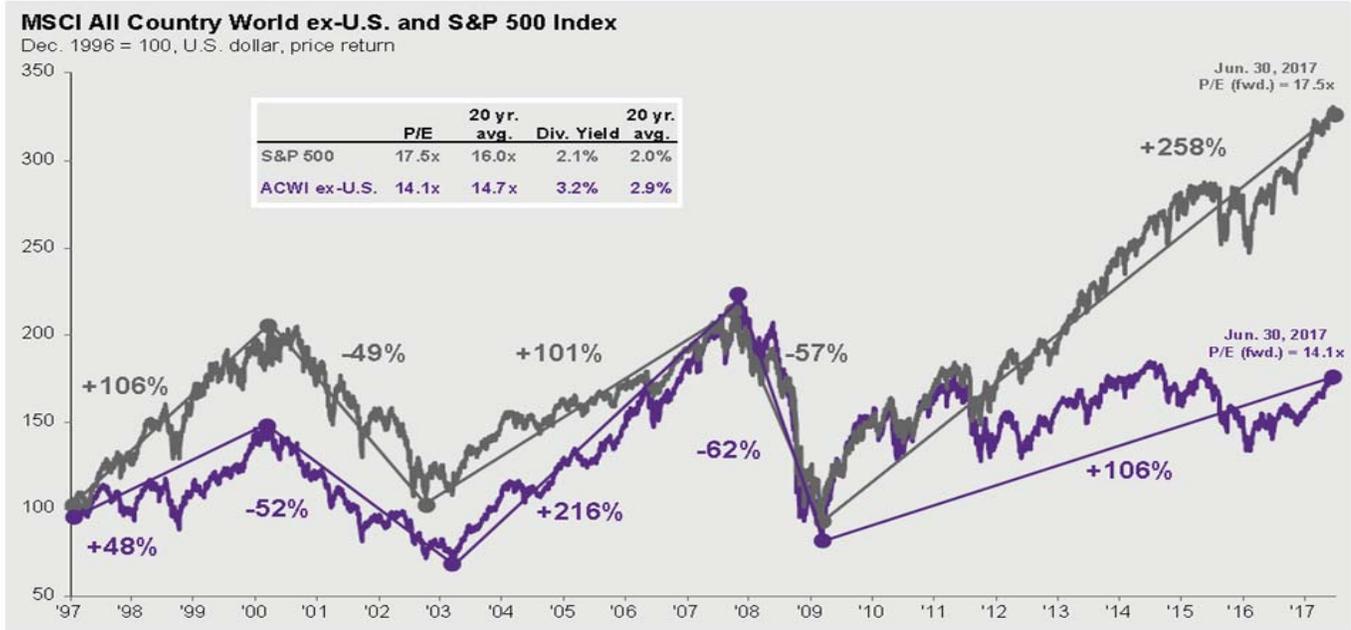
- 1) The U.S. dollar continuing to rise relative to other currencies as the Fed had embarked on a path to gradually raise interest rates. At least so far in 2017, this has not been the case as the U.S. dollar has slumped relative to most major foreign currencies.
- 2) The risk that anti-European Union forces would gain ground in 2017 elections. However, the resounding win by Emmanuel Macron in France seems to have dramatically changed the tone in Europe for the better. Macron’s rise has been meteoric. A relative unknown a year ago, he was elected president of France in May and is now viewed as one of the most dynamic leaders in the world. He has forged an early, strong alliance with Chancellor Angela Merkel of Germany, bringing the Eurozone’s two central countries in close alignment. This raises the prospects of solving some of Europe’s lingering problems.

Given that these two concerns have been alleviated, in June we increased our portfolio allocation to international stocks. So far in 2017, foreign stocks have outperformed U.S. stocks. Is this the start of an extended period of outperformance? We think that this could be for a number of reasons:

- 1) **Foreign stocks have lagged for years.** As can be seen in the J.P. Morgan chart on the next page, between early 2009 and June 30, 2017, the S&P 500 rose 258% while the MSCI All Country World ex-U.S. index rose only 106%.
- 2) **Foreign stocks are relatively cheap.** Also as shown on the J.P. Morgan chart on the next page, as of June 30, 2017, they traded at a 14.1 times projected earnings for the next 12 months, compared to a 20-year average of 14.7 times. Meanwhile, the S&P 500 traded for a 17.5 times projected earnings, compared to a 20-year average of 16.0 times. Furthermore, the average dividend yield of stocks in the foreign index is 3.2% compared to a 2.9% 20-year average and 2.1% dividend yield for the S&P 500.
- 3) **Possibly Better Earnings Growth.** As good as U.S. corporate earnings were for the first quarter of 2017, Europe’s corporate earnings were even better. According to J.P. Morgan, first-quarter earnings per share at Europe’s big companies were on average up 23% year-over-year, compared to 14% growth for companies in the S&P 500. The Eurozone economy has grown a little faster than the U.S. since the end of 2014, and in the first quarter expanded twice as quickly. Unemployment in the Eurozone, while still high at 9.3%, is at its lowest level in eight years. Furthermore, European banks have reported positive loan demand growth, which bodes well for increased consumer spending.
- 4) **Risks Still Exist.** One risk is that the U.S. dollar will rise relative to foreign currencies as the Fed gradually raises the discount rate and unwinds its balance sheet. A rising U.S. dollar will hurt U.S. investors’ foreign holdings. Also, Italy may hold a Presidential election later this year, carrying the risk that an anti-European Union candidate could win.

# International Equities– Are They Better than U.S. Equities?- Con't

## U.S. and international equities at inflection points GTM - U.S. | 42



Source: MSCI, Standard & Poor's, FactSet, J.P. Morgan Asset Management.  
Forward price to earnings ratio is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next twelve months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns. Dividend yield is calculated as consensus estimates of dividends for the next twelve months, divided by most recent price, as provided by FactSet Market Aggregates.  
Guide to the Markets - U.S. Data are as of June 30, 2017.



**Bottom Line:** Most MAM portfolios currently hold a foreign stock allocation of between 13% and 18%. If we become more confident that we have entered into an extended period of foreign stocks outperforming, we will likely further increase the international stock allocation with the next repositioning later this year.

## Medicare Premiums for Higher Income Recipients– Part 1 By Lauree Murphy

Most Americans age 65 and older are enrolled in Medicare. The majority of them have Medicare Part B premiums deducted from their Social Security payment. Each fall, Medicare determines the premium based on the recipient's previous year's tax return. The new rate takes effect January 1<sup>st</sup> of the following year. So for 2017, the Medicare premium is based on the individual's 2015 tax return.

All Medicare Part B premiums are subsidized to some degree. Premiums are calculated based on a percentage of the cost. Those with a higher income pay a higher premium for Medicare Part B (medical insurance) and Part D (prescription drug) coverage. Adjustments are made on a sliding scale based on modified adjusted gross income. Modified adjusted gross income is total adjusted gross income plus tax exempt income. The table below shows how the premiums increase based on income.



# Medicare Premiums for Higher Income Recipients– Part 1

## By Lauree Murphy– Con't

### Medicare Part B Premiums for 2017

Filing Single MAGI in 2015:	Married Filing Joint MAGI in 2015:	Percent of Cost Covered by Monthly Part B Premiums	Part B Monthly Payment
Those covered by hold harmless provision	Those covered by hold harmless provision		\$109.00
\$85,000 or less	\$170,000 or less	25%	\$134.00
\$85,001- \$107,000	\$170,001- \$214,000	35%	\$187.50
\$107,001- \$160,000	\$214,001- \$320,000	50%	\$267.90
\$160,001- \$214,000	\$320,001- \$428,000	65%	\$348.30
Above \$214,000	Above \$428,000	80%	\$428.60

### Hold Harmless Provision

The cost of healthcare has been increasing at a rate higher than inflation. Medicare premiums are recalculated each year based on current costs. In years when there is no Social Security cost of living increase (such as 2016), a rise in Medicare premiums would decrease the recipient's Social Security take-home amount. The hold harmless provision protects those people at the lowest income levels from experiencing a decrease in their net Social Security payment. For this group, Medicare can't raise the premium more than the year's Social Security cost of living increase. The hold harmless provision does not apply to higher income Social Security recipients.

### Changes are on the way for 2018 premiums.

In 2018, the table used by Medicare to calculate the premiums has been changed. This will mean higher premiums for some income levels. While the new premiums for 2018 have not yet been determined, the percentage and income levels are set. The table below shows how much you would pay using 2017 rates:

Filing Single MAGI in 2016:	Married Filing Joint MAGI in 2016:	Percent of Cost Covered by Monthly Part B Premiums	Part B Monthly Payment For 2018
Those covered by hold harmless provision	Those covered by hold harmless provision		<b>2018: To Be Determined</b> (2017: \$109.00)
\$85,000 or less	\$170,000 or less	25%	<b>2018: To Be Determined</b> (\$134.00 for 2017)
\$85,001- \$107,000	\$170,001- \$214,000	35%	<b>2018: To Be Determined</b> (2017: \$187.50)
\$107,001- \$133,500	\$214,001- \$267,000	50%	<b>2018: To Be Determined</b> (2017: \$267.90)
\$133,501- \$160,000	\$267,001- \$320,000	65%	<b>2018 To Be Determined</b> (2017: \$348.30)
Above \$160,000	Above \$320,000	80%	<b>2018: To Be Determined</b> (2017: \$428.60)

# Medicare Premiums for Higher Income Recipients– Part 1

## By Lauree Murphy– Con't

### Higher Costs at Lower Incomes

Taxpayers filing as single in 2016 with modified adjusted gross income over \$133,500, as well as those filing married in 2016 with modified adjusted gross income over \$267,000 are going to see a significant increase in their Medicare premiums in 2018. This will be a double hit for married couples that are both on Medicare.

### Swings in Income

What happens when your income spikes up for a year? For example, you sell real estate or stock and have a large gain. Circumstances like these trigger your Medicare premiums to go up two years later. Some increases you just have to live with. If your income drops back down the following year, Medicare will reduce the premium accordingly two years thereafter.

In some “life changing” situations that would reduce your premium, rather than wait two years, you can appeal to Medicare to reduce your premium sooner. You must provide an explanation and document the new information. Life changing situations include marriage, divorce, death of a spouse, or loss of income because of retirement or a reduction in your work schedule.

*Next month, we will discuss a tax planning strategy which may help lower your Medicare Part B premium*

Sincerely,

*Stephen P McCarthy, CPA, CFP®*,

## McCarthy Asset Management, Inc.

Three Lagoon Drive Suite # 155  
Redwood Shores, CA 94065  
USA

Phone: 650-610-9540  
Fax: 610-9541  
E-mail: [Steve@mamportfolios.com](mailto:Steve@mamportfolios.com)



## 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 have any topics or questions you would like to have us address in a future Monthly Commentary.*



Discover the difference with a  
Registered Investment Advisor.