July 2016 Monthly Commentary

August 1, 2016

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Stock Market & Portfolio Performance

July 2016: U.S. and foreign stocks posted strong gains for the month, while bonds were modestly positive.

	July 2016	YTD 2016	Description:
Without Dividends:			
S&P 500	3.6%	6.3%	500 Largest Public U.S. Companies
Russell 2000	5.9%	7.4%	2000 of the smallest U.S. stocks
MSCI EAFE	5.0%	-1.6%	international stock index
U.S. Aggr Bond	0.6%	6.0%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	2.6%	5.9%	non-very conservative MAM portfolios
MAM Conserv	1.5%	5.8%	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

Lauree Murphy, CFP®, EA
Financial Planner
Tax Specialist
650 610-9540 x 304
lauree@mamportfolios.com

ANTHONY BERTOLACCI , EA
Director of Compliance
Tax Accountant
650 610-9540 x 302
anthony@mamportfolios.com

MARILYN BLANCARTE
Executive Assistant
650 610-9540 x 305
marilyn@mamportfolios.com

Stock Market Update– Will The Bull Market Continue?

So far, 2016 has been an interesting year for stocks. Before the start, I thought we would have decent returns given my expectations for the U.S. economy to continue on its slow growth path. The first couple of weeks of January, however, were brutal with the S&P 500 falling nearly 10% as commodity prices collapsed and global economic growth appeared to be slowing. While stocks recovered from those losses, the Brexit vote (with the U.K. voting to leave the European Union) in late June caused a two-day drop of 5.3% in the S&P 500. Surprisingly, stocks quickly recovered with the S&P 500 ending July near all-time highs.

Although the path ahead is likely to be bumpy, further small gains could be supported by continued modest growth in the U.S. economy and the resumption of corporate earnings growth, which is expected in the current quarter. Meanwhile, investors have remained fairly negative in their attitude toward stocks based on the weekly investor surveys from the American Association of Individual Investors. The market volatility this year shows how difficult it is to predict the short-term performance of the stock market.

My expectation for longer-term returns (which are easier to predict) is for relatively modest average annual gains of between 4% and 7% (with lots of volatility from year to year). While returns of this magnitude are not great, I think they will be favorable relative to most other investment choices (bonds, CDs, money market accounts, etc.).

Portfolio Adjustments: For the first time in many years, I am leaving the asset allocation of portfolios unchanged for the summer portfolio repositioning. My reasoning is that while I am cautiously optimistic on the short-term outlook for stocks, I am also aware of the old age of the current bull market (now in its 7th year) and the uncertainty created by the Presidential election.

The only exception for not making portfolio adjustments is for those portfolios that are taking regular distributions, such as for IRA holders over age 70 ½ who have required minimum distributions. For these portfolios, last month we replenished the "safety bucket" to cover an additional six months of distributions (bringing it back up to 3 years). This 3-year safety bucket is very important in that we won't need to sell equities for up to three years to cover regular distributions. Typically, the stock market fully recovers from a bear market within three years (and even did so with the 2008 Financial Crisis).

Update on Fed Interest Rate Hikes

We last wrote about the likelihood of the Federal Reserve raising interest rates in the March 2015 Commentary. In that article, we discussed the probable impact of a rate increase on the prices of bonds (generally bad) and stocks (not necessarily bad as long as rates remain low). At the time, we speculated that by around September of 2015, the Federal Reserve would implement its first increase in interest rates in nine years. It turns out that the Fed waited until December to raise short-term rates to a range of 0.25% to 0.50%.

At the time of the December rate increase, the Fed predicted that short-term rates will rise by about 1% a year for the next three years. While that may seem like rapid increases, it would leave the Federal funds rate at around 3.3% by the end of 2018. This compares to the mid-2000's when the Fed's rate increases topped out at 5.25%.

Since last December, the Fed has not announced another rate increase. At the conclusion of its recent June meeting, Fed officials lowered their projected rate increases amid signs that persistently slow economic growth and low inflation are forcing the central bank to rethink how fast it can move rates higher. It now appears that there may be only one interest rate increase of 0.25% in 2016, and the Fed expectations for 2017 and 2018 now call for three rate increases each year, down from four. The Fed also lowered its long-run outlook for the Fed Funds rate to 3% from 3.3%.

Natixis Global Survey– What Investors Want

Natixis is a large investment company which owns twenty specialized investment firms, including Harris Associates (i.e. the Oakmark Funds) and Loomis Sayles. Natixis recently released the results of its fifth-annual Global Survey of Individual Investors ("the Survey"). The 2016 Survey offers a look at the expectations of 7,100 investors (each with a minimum of $200k in investable assets) in 22 countries. It also offers a clear view of the challenges for investors and the behaviors that may keep them from achieving their goals. The results of the Survey identified three key issues facing investors:

- **Misinformation, confusion and conflicts abound.** Inundated with market information, short-term performance numbers and proclamations about the right way to invest, individual investors are challenged to separate fact from fiction. Investors say they need average returns of 9.5% above inflation, yet say they value safety over investment performance. Clearly, these are incompatible goals. In addition, investors admit they lack clear financial goals and a financial plan to drive decisions.

- **Retirement lacking clear definition.** On average, the investors surveyed were saving 12% annually toward retirement, in the hope of replacing about 64% of current income to live comfortably in retirement. Studies have shown, however, that replacing 70% to 80% of income is more likely what will be needed.

- **Seeking help.** Individuals believe professional help is necessary, but they are looking for a collaborative relationship that goes beyond advice to help them become better informed and more confident investors. What is needed are financial professionals who put investors first, and prioritize achieving long-term goals ahead of attaining short-term performance.

More than performance, investors want knowledge. Investors said they want to become smarter and better informed about how investing and the markets work. Half of the investors surveyed said enhancing their investment knowledge would better enable them to achieve their long-term goals. They see professionals as partners who can help them to attain this goal.

Investors want to avoid emotional investing. A majority of the investors surveyed said they struggle to avoid making emotional decisions when markets are volatile and that they want help overcoming those fears. One in four investors said they want education that will help them become a better and more confident investor—a desire that is consistent regardless of age, affluence or whether the investor currently has a relationship with a financial advisor.

How MAM helps clients achieve their financial goals. I found the results of the Survey to be enlightening. Investors want to be better educated so they can avoid allowing emotional decision-making from harming their investment performance. In addition, they want a long-term financial plan. In addition to managing investments, we are doing the following for clients:

- **Client Education-** I have always felt that educating our clients about the stock market will help make them better investors. The Monthly Commentary has been a very important way that we provide that education. The following are a sample of articles that we have written to help educate our clients. (To see the article, either click on the name below or find them under the White Papers link on www.mamportfolios.com.)

    ◊ Focusing on the Long-Term Reduces Investment Risk

    ◊ Key Steps for Building a Successful Retirement Portfolio

Natixis Global Survey– What Investors Want- Con't

- ◊ The Sustainable Withdrawal Rate- Is the 4 Percent Rule Still a Good Estimate?
- ◊ Wisdom of Investing with Crowds

- **Financial Plan- Retirement Analysis-** Over the last few years, we have prepared a Retirement Analysis for over fifty MAM clients. The purpose of it is to help determine whether a client is on course for a financially-secure retirement (whether they are still working or already retired). If it turns out that they are not on target to reach their goals, then we come up with recommendations to improve the likelihood of them achieving success.

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

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 Medicare Webcast that is being planned for this September.