McCarthy Asset Management, Inc.
Personalized Wealth Management

March 2015 Monthly Commentary

April 1, 2015

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Stock Market & Portfolio Performance

1st Qtr 2015: Despite a weak March, stocks posted decent gains for the first quarter of 2015. International and small-cap U.S. stocks lead the way, with bonds also performing well.

	Mar 2015	1st Qtr 2015	Description:
Without Dividends:			
S&P 500	-1.8%	0.4%	500 Largest Public U.S. Companies
NASDAQ	-1.3%	3.5%	stocks trading on the Nasdaq
Russell 2000	1.6%	4.0%	2000 of the smallest U.S. stocks
MSCI EAFE	-2.0%	4.2%	international stock index
U.S. Aggr Bond	0.5%	1.6%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-0.7%	1.5%	non-very conservative MAM portfolios
MAM Conserv	-0.4%	1.0%	portfolios with 50%+ bond allocation

Comment: As mentioned last month, in the short-run, continued stock market gains may be challenging as corporate earnings growth has slowed.

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Stock Market Update; Words of Wisdom from Warren Buffett

For the first quarter of 2015, the US stock market saw a lot of action, but little actual movement. Near the end of March, the stock market went 28 consecutive trading days without back-to-back up days—a streak so rare, it has happened only twice before since World War II—in May 1970 and April 1994. Weaker economic data, combined with uncertainty around Fed policy, has hurt investor optimism. We would not be surprised to see continued heighted volatility with little actual momentum being generated. Here are a few more comments:

- A consolidation of gains seen over the last six years would actually be a good thing and may help forestall a more severe correction.
- Current expectations are for S&P 500 earnings to decline in both the first and second quarters of 2015. The sharp rise in the US dollar is hurting American exporters and weak oil prices are hurting energy companies.
- As we have written about many times, we are not market timers, particularly with short-term movements in stock prices. More importantly, we don't currently see heighten risks for the US economy to fall back into a recession or for stocks to enter a new bear market (i.e. a drop of 20% or more).
- As discussed in recent Monthly Commentaries, the one adjustment we are contemplating for the next portfolio repositioning (by around mid-year), is to increase the international equity exposure in portfolios.

Words of Wisdom from Warren Buffett: Warren Buffett is arguably the greatest investor over the last 50 years. Buffett's annual letter to his Berkshire Hathaway Inc. shareholders is one of the most widely read corporate reports in business. His most recent annual letter, the 50th, was released in March. Here are pearls of wisdom from it:

"Our investment results have been helped by a terrific tailwind. During the 1964-2014 period, the S&P 500 rose from 84 to 2,059, which, with reinvested dividends, generated the overall return of 11,196%. Concurrently, the purchasing power of the dollar declined a staggering 87%. That decrease means that it now takes $1 to buy what could be bought for 13 cents in 1965 (as measured by the Consumer Price Index).

The unconventional, but inescapable, conclusion to be drawn from the past fifty years is that it has been far safer to invest in a diversified collection of American businesses than to invest in securities—Treasuries, for example—whose values have been tied to American currency. That was also true in the preceding half-century, a period including the Great Depression and two world wars. Investors should heed this history. To one degree or another it is almost certain to be repeated during the next century.

Stock prices will always be far more volatile than cash-equivalent holdings. Over the long term, however, currency-denominated instruments are riskier investments—far riskier investments—than widely-diversified stock portfolios that are bought over time and that are owned in a manner invoking only token fees and commissions. That lesson has not customarily been taught in business schools, where volatility is almost universally used as a proxy for risk. Though this pedagogic assumption makes for easy teaching, it is dead wrong: Volatility is far from synonymous with risk. Popular formulas that equate the two terms lead students, investors and CEOs astray.

It is true, of course, that owning equities for a day or a week or a year is far riskier (in both nominal and purchasing-power terms) than leaving funds in cash-equivalents. That is relevant to certain investors—say, investment banks—whose viability can be threatened by declines in asset prices and which might be forced to sell securities during depressed markets. Additionally, any party that might have meaningful near-term needs for funds should keep appropriate sums in Treasuries or insured bank deposits.

Stock Market Update; Words of Wisdom from Warren Buffett– Con't

For the great majority of investors, however, who can—and should—invest with a multi-decade horizon, quotational declines are unimportant. Their focus should remain fixed on attaining significant gains in purchasing power over their investing lifetime. For them, a diversified equity portfolio, bought over time, will prove far less risky than dollar-based securities.

If the investor, instead, fears price volatility, erroneously viewing it as a measure of risk, he may, ironically, end up doing some very risky things. Recall, if you will, the pundits who six years ago bemoaned falling stock prices and advised investing in "safe" Treasury bills or bank certificates of deposit. People who heeded this sermon are now earning a pittance on sums they had previously expected would finance a pleasant retirement. (The S&P 500 was then below 700; now it is about 2,100.) If not for their fear of meaningless price volatility, these investors could have assured themselves of a good income for life by simply buying a very low-cost index fund whose dividends would trend upward over the years and whose principal would grow as well (with many ups and downs, to be sure)."

Warren's message is to invest in a diversified portfolio for the long-term and don't worry about the short-term gyrations of the market. (Many investors do react to short-term market movements, which is why the average investor so dramatically underperforms the market averages.) For those clients who are receiving periodic distributions from their portfolios (i.e. retirees), we set aside an additional three years of distributions in bond funds. This way we don't need to sell equities for up to three years to fund distributions (historically, the stock market fully recovers from a bear market within three years).

Update on Fed Interest Rate Hikes

We last wrote about the impact of the Federal Reserve increasing interest rates in the December 2014 MAM Commentary. In that article we discussed the likely impact on the prices of bonds (generally bad) and stocks (not necessarily bad as long as rates remain low). At the time, it seemed the Fed would start raising rates by the middle of 2015.

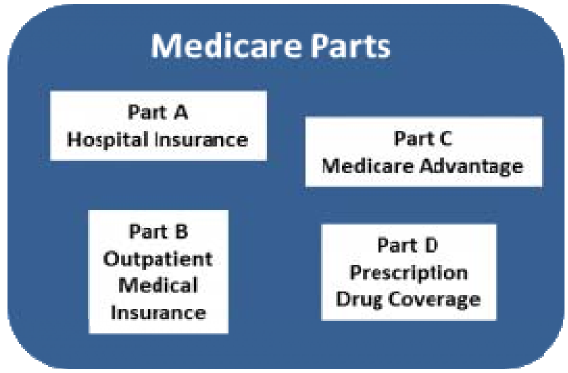
While the recent monthly employment reports have been good, the strong U.S. dollar and the dramatic drop in oil prices (i.e. which lowers inflation), may have given the Fed some hesitation. It now seems likely that the Fed will start raising rates as early as June but probably more likely after its September meeting. This will be the first increase in rates in nine years (i.e. since June 2006).

On March 27th, Federal Reserve Chairwoman Janet Yellen, in a speech in San Francisco to economists, laid out a road map for what happens after the U.S. central bank lifts short-term interest rates later this year. In short, the Fed will go slow. Ms. Yellen said the Fed would likely end up taking a "gradualist approach" to rate increases in the years ahead, meaning it would move in small steps and with much caution to avoid undermining a grudging expansion.

She is cautiously optimistic the economy is getting to a point where it can live without the near-zero interest rates required in the past six years to generate an expansion and keep it going. But she's not so optimistic that she wants to move the Fed's benchmark federal funds rate quickly toward the levels that prevailed in the past. Currently, the median forecast of Fed officials put the fed funds rate at 0.625% by year-end, which implies two quarter-percentage-point rate increases this year. Then Fed officials see the rate rising to 1.875% at the end of 2016, and 3.125% by the end of 2017. This compares to the mid-2000s, when the Fed's rate increases topped out at 5.25%.

Getting Through the Medicare Mage
(Written by Allen Hamm of Superior Long-Term Care)

Over 10,000 Americans turn 65 everyday! And that will happen each and every day for the next 3 decades!! Age 65 used to be thought of as the age to retire. That's changed. More and more people are working past age 65; with a high percentage by choice, not necessity. But turning 65 is still an important milestone: It's the age to make some important decisions regarding Medicare.



Medicare is our country's health insurance program for people 65 and older. Not to be confused with Medi-Cal or Medicaid, which are means-tested healthcare programs available to people of all ages, Medicare is available only to people 65 and older, unless a person has a specific disability that allows them to qualify early.

You'd think that getting enrolled in Medicare and all choices that surround your Medicare decisions would be easy. But there's lots of ways to go wrong. One of the most common mistakes is not getting signed up for Medicare on time. If you miss the deadline for signing up, you will be penalized for your lifetime. The important point to keep in mind is **that if you're retired when you turn 65, it's imperative that you start planning for Medicare 3 months prior to your 65th birthday. That's also true if you're still working and your employer has less than 20 employees.** If you're still working as you turn 65, and you're employed by a company with more than 20 employees, you may still want to sign up for Medicare, but only for Part A, the hospitalization benefit of Medicare. Or you may want to postpone signing up for any parts of Medicare until you retire.

Another important decision is whether to elect regular Medicare, or a Medicare Advantage Plan. There are pros and cons to each choice. Maintaining regular Medicare gives you the choice of utilizing any doctor or hospital in the U.S. that accepts Medicare recipients. But this option costs more. The Medicare Advantage route limits you to certain doctors and hospitals but there are cost savings.

You'll also want to consider whether or not you need a Medicare Supplement policy. These policies pay for some or all of Medicare's deductibles and co-insurance costs. There are a dozen Medicare Supplement options. The best one for your situation can be determined by doing an analysis of your history of healthcare usage.

What about prescriptions? This is a vital part of the Medicare equation: choosing a Part D prescription medication provider. Some people going on Medicare skip this step because they don't take any prescription medications. That's a big mistake! You should choose a Part D prescription medication plan, even if you take no medications. Waiting until later will cause penalties for your lifetime.

Because it's so easy to make a wrong turn or skip a step when it comes to getting through the Medicare maze, MAM, Inc. has retained the services of my firm, Superior Long-Term Care, which specializes in this area of planning. My team and I have been working with MAM, Inc. clients for a number of years, assisting them with Medicare and long-term care planning. We are available to make sure you make all the right choices at the right time. There's no charge to you for utilizing our services: MAM, Inc. pays my firm a retainer fee, as a value-added benefit to you for being a client. If you'd like to take advantage of this service, please let Steve know and he will make an introduction.

Spring Cleaning– Record Retention
Written by Lauree Murphy

Spring is here. It's time to clean off those dusty filing boxes full of records and purge what is no longer needed. Make sure to shred the financial documents you are tossing. Create a backup if you retain your records digitally so that if your computer dies, you do not lose everything. However, be cautious of saving data in the cloud.

Spring Cleaning– Record Retention
Written by Lauree Murphy

Consult the following list to help you decide what to keep versus toss:

Keep Forever:

- Birth, Adoption, Marriage, Divorce, and Death Records.
- Military Discharge papers.
- Proof that a mortgage or other loan has been paid off.

Keep for One Year:

- Paystubs until you receive your year-end W2.
- Monthly bank statements (although the bank may allow online access to older statements).
- Monthly/quarterly brokerage statements- Hold on to these until you get the year-end statement. Alternatively, these should be available online. For instance, Schwab allows online access to the last ten years of statements. Be aware that if you close an account, you will no longer have easy access to data, so get what you need first.

Tax Records:

- Generally, tax returns and supporting documents should be kept for seven years.
- Keep trade confirmations showing how much you paid for an investment for seven years after sold.
- Keep closing statements for real estate and records of improvements made for seven years after you sell the property.

Other Records:

- Keep sales receipts for anything you buy with a warranty for the life of the warranty.
- Monthly bills like utilities only need to be kept for one year, unless you're using them as a deduction like a home office (in which case, save for seven years).
- Receipts for big purchases like jewelry, cars, and furniture should be kept in an insurance file for proof of value in case of loss or damage. Photos of the item are a good idea too.
- Retain records of pension and retirement plans as long as they are active. For nondeductible IRA contributions, keep the records indefinitely.
- Keep health insurance documents for treatments that are in progress or not completely paid for. If you want a record of your own health treatments keep the records longer.
- Keep copies of any insurance policies as long as they are active.
- Legal documents such as wills, trusts and bankruptcy documents should be kept indefinitely.

If you are cleaning out records for someone who has passed away, follow the same guidelines as above.

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.**

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/Updates

Tax Reminders: April 15th *is the deadline for filing 2014 individual income tax returns and making 2014 IRA, SEP-IRA, Roth IRA and Education Savings Account contributions.*

It is also the deadline for first quarter 2015 Federal and State estimated payments.

April 10th is the deadline for

California property tax payments for the first half of 2015.

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