

Mar. Monthly Commentary/Q1 2017 Quarterly Letter

Apr. 3, 2017

Stock Market & Portfolio Performance

First Quarter 2017: Stocks had a strong first quarter, particularly large-cap U.S. and international stocks. Meanwhile, bonds were up modestly.

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	Mar 2017	1st Qtr 2017	Description:
Without Dividends:			
S&P 500	0.0%	5.5%	500 Largest Public U.S. Companies
Russell 2000	0.0%	2.1%	2000 of the smallest U.S. stocks
MSCI EAFE	2.3%	6.5%	international stock index
U.S. Aggr Bond	-0.1%	0.8%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	0.7%	4.9%	non-very conservative MAM portfolios
MAM Conserv	0.4%	2.7%	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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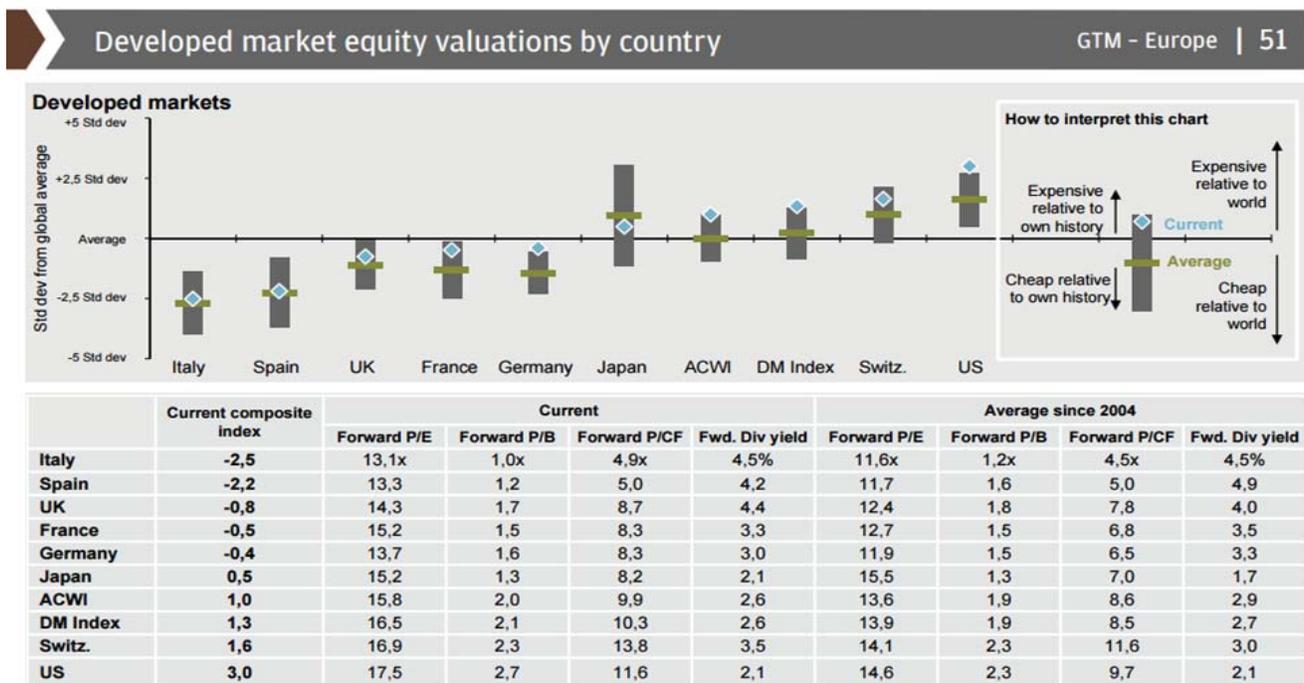
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Since the end of the financial crisis, European stocks have significantly underperformed U.S. stocks. Recently, stocks in the Eurozone remained 38% below their peak, while U.S. stocks have reached all-time highs. The case for investing in European stocks, though, is getting stronger based on fundamentals and valuations:



- Improving Corporate Earnings:** After a strong fourth quarter, European earnings for all of 2016 are estimated to have increased 1.3% over 2015, the first year of growth since 2013. Even more importantly, current consensus earnings expectations for 2017 are for 16% growth over 2016.
- Recovering Economy:** Unemployment in the Eurozone as a whole has been falling by nearly a percentage point a year since 2013. It finally dipped below 10% last August. Pent-up demand is being released. After the Eurozone crisis began in 2010, Europeans delayed purchases of just about everything. Car sales and residential investment had been running at two-thirds the pace seen last decade, but they are already beginning to bounce back.
- Reasonable Valuations:** As can be seen in the J.P. Morgan Chart below, the Eurozone valuations relative to 2017 forecasted earnings are below historical averages and are low compared to U.S. valuations:



Source: FactSet, MSCI, J.P. Morgan Asset Management. Each valuation index shows an equally weighted composite of four metrics: price to forward earnings (P/E), price to forward book value (P/B), price to forward cash flow (P/CF) and price to forward dividends. Results are then normalised using means and average variability since 2004. The grey bars represent valuation index variability relative to that of the All Country World Index (ACWI). DM Index is the MSCI The World Index. Guide to the Markets - Europe. Data as of 31 December 2016.

Risks to European Equities: Despite recovering economic growth and corporate earnings, European shares are lagging behind the U.S. equity rally primarily due to anxiety over the continent's fractious politics. Investors face a run of European elections, in which populist candidates, who favor leaving the European Union, enjoy a strong showing in the polls. The first of these occurred two weeks ago in the Netherlands. There was a sigh of relief as Geert Wilders and his anti-immigrant, anti-EU Party for Freedom, who had led the polls as recently as January, came in a distant second to the center-right party of Prime Minister Mark Rutte.

The much more significant test will be the April 23rd and May 7th elections in France, with the prospect that far-right candidate Marine Le Pen could win the presidential elections. Ms. Le Pen has promised to call a referendum on the country's membership in the Eurozone. Most analysts believe that Ms. Le Pen won't win, and that even if she does, she would face many hurdles in triggering a "Frexit". Recent polls in France and Germany show support for far-right populists is dwindling, while support for the pro-European presidential challenger Emmanuel Macro in France and for the German Social Democrat leader Martin Schulz is rising. Furthermore, support for the Eurozone among the citizens of member nations hit an all-time high of 70% in the latest semi-annual Eurobarometer survey, which goes back 12 years.

MAM Strategy: MAM portfolios have exposure to European equities, primarily through Capital World Growth & Income and Dodge & Cox International. It will be interesting to see how the elections in France play out over the next couple of months. After last year's surprise vote for the U.K. to exit from the European Union and for U.S. President Donald Trump, we will wait for the outcome of the French presidential elections before possibly increasing the European equity exposure in portfolios.

Schwab Reduces Trading Commissions to \$4.95



It is becoming very cheap to trade stocks. In early February, Charles Schwab announced that it cut its standard online equity and ETF trade commissions to \$6.95 from \$8.95, dropping them below those of competitors, including Fidelity and Vanguard. In response, Fidelity said it was lowering the cost to trade U.S. stocks and ETFs on its platform to \$4.95. This move, it boasted, made it cheaper than any of its major competitors. Not for long. Hours later, Schwab said it would also lower its trading commissions from \$6.95 to \$4.95 to match Fidelity's price cut. TD Ameritrade and E*Trade continue to charge \$9.99 per trade.

Higher Rate for Certain Schwab Customers: The commission rate for households with under \$1 million in assets held at Schwab and not using e-delivery has been lowered to \$12.95 (down from \$19.95.) "E-delivery" is where trade confirmations and monthly statements are sent electronically to clients rather than via the mail. Most MAM clients have signed up for e-delivery. Please let Marilyn know (marilyn@mamportfolios.com) if you are interested in signing up.

Deducting Non-Cash Contributions on Your Tax Return By Lauree Murphy

The IRS has become more particular with various noncash contributions, such as automobiles, clothes, furniture and household goods, to organizations like Goodwill and The Salvation Army. The IRS realizes that some taxpayers claim more than these items are worth. Used clothing and other personal items are usually worth far less than their original cost. The organization accepting your donation won't supply the value. You must come up with it yourself. To help you determine the value of your donated items, Goodwill and The Salvation Army have guides on their websites. Please see the links at the end of this article to view these guides.



Donations Under \$250: You must obtain a separate receipt from the charity for each donation up to \$249. The receipt must be dated and you must include a description and the estimated value of the donated goods. In other words, one of those yellow Goodwill receipts will get you a maximum deduction of \$249. **If what you have is worth more than \$249, make additional trips to the charity so that no individual receipt has a value greater than \$249.**

Deducting Non-Cash Contributions on Your Tax Return By Lauree Murphy– Con't

Donations of \$250 or More: Here is what the IRS instructs: “If taxpayers donated cash or goods of \$250 or more, they must have a written statement from the charity. It must show the amount of the donation and a description of any property given. It must also say whether they received any goods or services in exchange for the gift.”

Although the charity does not have to state the value of the property received, they are supposed to list the items donated. The problem is most charities will simply provide blank receipts and leave it to the taxpayer to fill in the details. It is possible the IRS will disallow these deductions because the charity didn't state what was received. For this reason, we recommend taxpayers limit each individual receipt to less than \$250.

Noncash Donations exceeding \$500 in Total: For these, more substantiation is needed. The IRS requires you provide the date you acquired the property, the manner you acquired the property (for example: purchase, gift, inheritance), the original cost, the current value of the property and how that cost was determined. This information is listed on Form 8283 “Noncash Charitable Contributions” and filed with your tax return.

Automobile Donations: In order to deduct an auto worth more than \$500, you need to have a signed IRS Form 1098-C from the charitable organization, which includes what the charity sold the vehicle for. This form must be attached to your tax return when filed.

Donations for Goods Over \$5,000: A signed written appraisal by a qualified appraiser is required.

If you have significant donations because of a move or someone has passed away, keep a good record of everything you donate and its value using one of the guides. Attach an itemized list and valuation to the receipts you receive and save it in your tax records.

IRS Audits: Budget cuts at the IRS mean it needs to utilize its staff more efficiently. Instead of full audits, the IRS is sending letters requesting more information for certain types of deductions. Charitable contributions are one of the deductions they are targeting. The best way to prepare yourself in case you receive such a request is to keep good records including receipts. These tax records should be kept for 7 years.

Links to the Goodwill and The Salvation Army valuation guides:

<https://satruck.org/Home/DonationValueGuide>

<https://goodwillnne.org/donate/donation-value-guide/>

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

Tax Reminders:

- April 18th is the deadline for filing 2016 individual income tax returns and making 2016 IRA, SEP-IRA, Roth IRA and Education Savings Account contributions.
- It is also the deadline for first quarter 2017 Federal and State estimated payments.
- April 10th is the deadline for California property tax payments for the first half of 2017.



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