McCarthy Asset Management, Inc.
Personalized Wealth Management

May 2016 Monthly Commentary

June 2, 2016

Inside this issue:

Stock Market & Portfolio Performance

May 2016: U.S. stocks posted good gains while international stocks slipped and bonds were flat for the month.

	May 2016	YTD 2016	Description:
Without Dividends:			
S&P 500	1.6%	2.6%	500 Largest Public U.S. Companies
Russell 2000	2.2%	1.7%	2000 of the smallest U.S. stocks
MSCI EAFE	-1.5%	-2.8%	international stock index
U.S. Aggr Bond	0.0%	3.5%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	0.9%	2.6%	non-very conservative MAM portfolios
MAM Conserv	0.5%	3.0%	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– Improved Outlook for 2016?

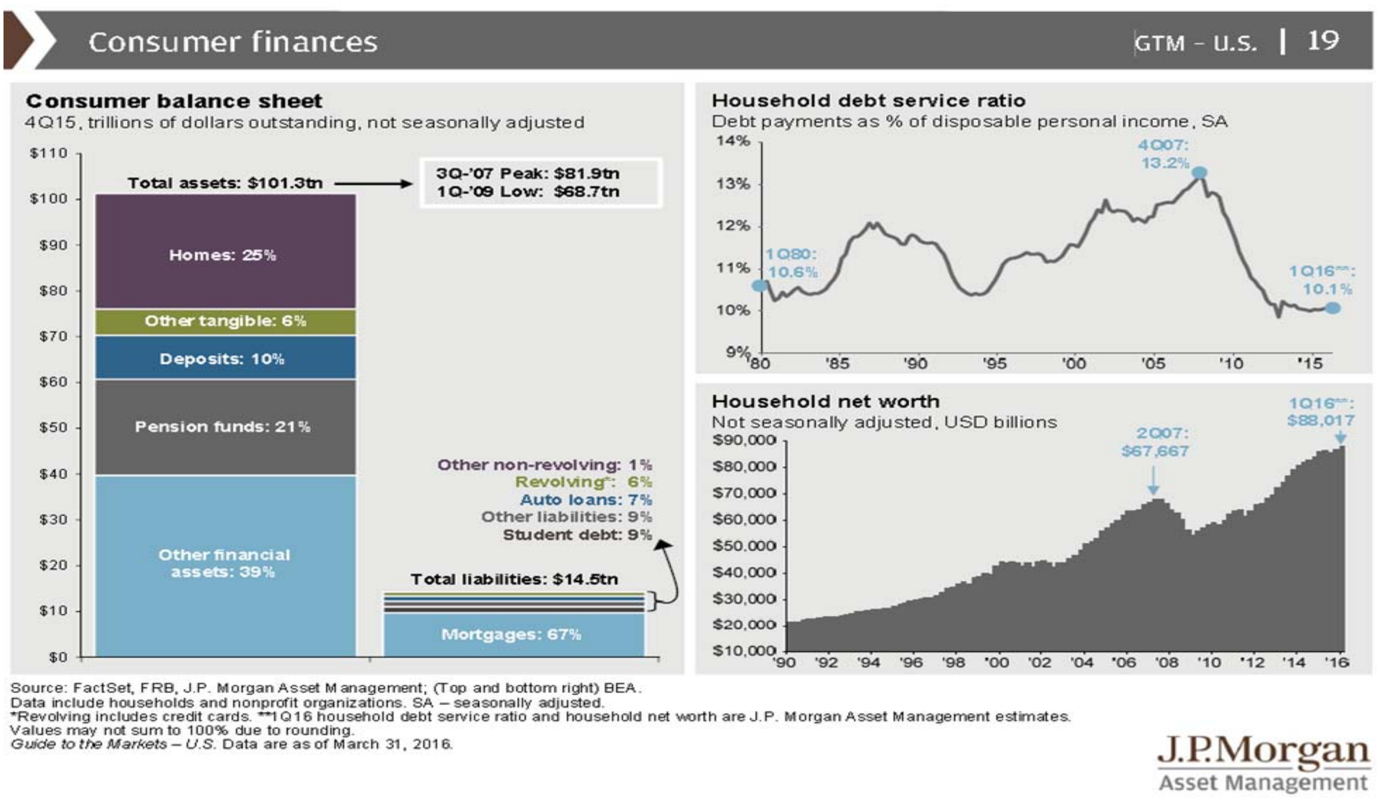
The stock market, as measured by the S&P 500, is about where it was twelve months ago. That's not to say that not much has happened. During that time, there were two 10% corrections. While stocks subsequently recovered from these declines, investors have little to show for it . In hindsight, it is not surprising to see why the stock market has struggled. Corporate earnings have been down for the last five quarters, primarily due to a sharp rise in the U.S. dollar and a dramatic fall in energy prices.

While I have concerns about my short-term outlook for stocks (including the Presidential election), there are reasons for optimism:

- *Corporate earnings are expected to rebound for the remainder of 2016.* The two factors that caused the drop in earnings have recently abated as energy prices have staged a nice recovery and the U.S. dollar has slipped.

- *The U.S. economy continues to create jobs at a reasonable rate.* Over the past year, nonfarm payrolls have grown at an average of 224,000 per month, a robust enough figure to cause the unemployment rate to drop to 5.0%.

- *Consumers' finances are in good shape.* As illustrated below in the charts from J.P. Morgan, U.S. household net worth is at an all-time high and the U.S. household debt service ratio (debt payments as a percentage of disposable income) is at a multi-decade low. In combination, these are very positive factors to support continued growth in consumer spending.



Possible Portfolio Adjustments: Despite a decent outlook for the stock market for the remainder of this year, I don't plan to get more aggressive with the portfolio repositioning this summer. If anything, given the old age of the current bull market and the uncertainty with the Presidential election, it may be prudent to get a little more conservative. *Please let me know if you would like to discuss any portfolio adjustments as it relates to your portfolio(s).*

Financial Advice for College Graduates

An important subject that is typically not taught in schools is how to develop great financial habits. Many of us learn these later in life, and unfortunately, some of us never really do. An ideal time for developing an understanding of how to handle money is as a new college graduate. *I recommend passing this article on to any recent college grads that you know.*

Here are my suggestions on how to develop great financial habits:

1) **Make a Budget**- While the term "budget" can have negative connotations, the reality is developing one can provide a financial framework to work within. Creating and staying within a budget gives confidence and a sense of accomplishment. It will help provide some warning that your spending is getting out of control so you can take corrective action before your finances are significantly impacted.

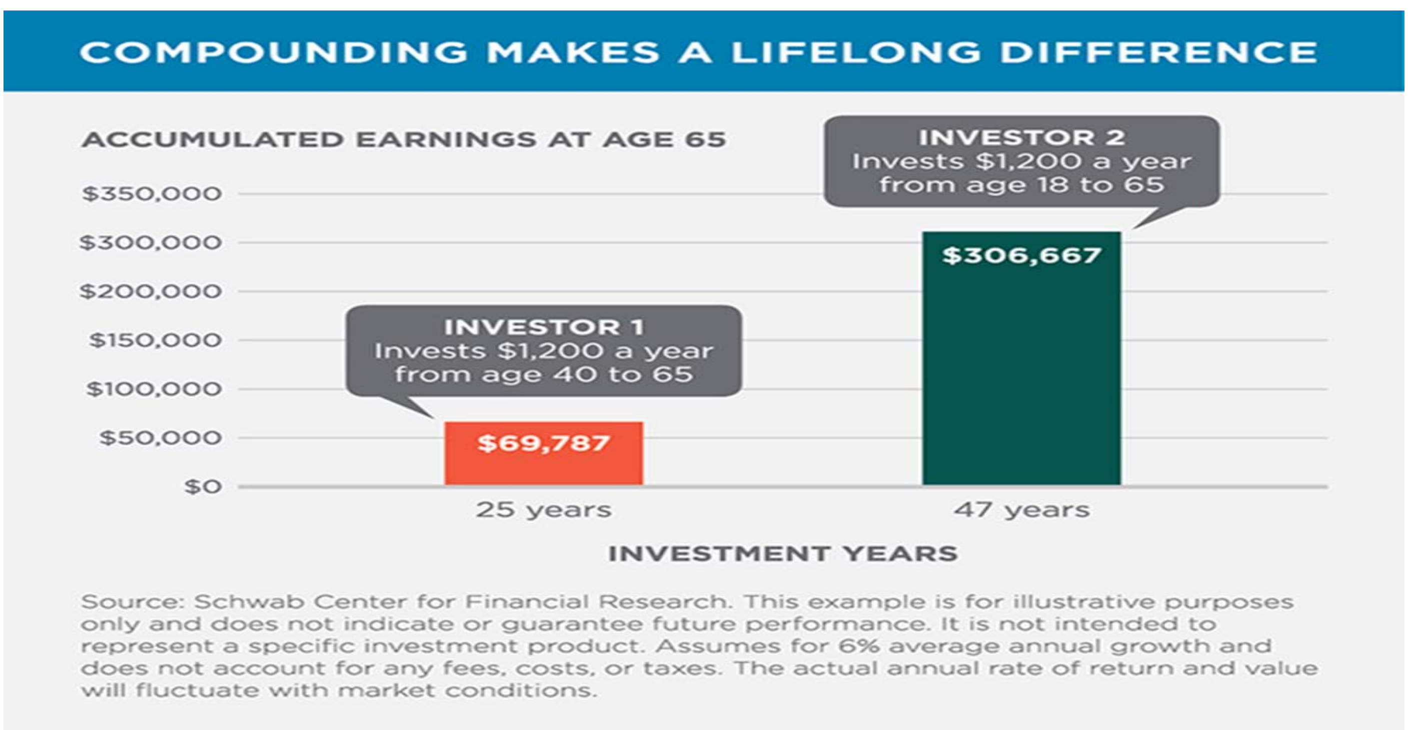
   One simple way to do this is to allocate your "take-home pay" as follows:

   - 50% to needs such as rent, utilities, and groceries
   - 30% to "wants" such as shopping, entertainment, restaurants, and vacations
   - 20% to savings, investing and debt repayment.

   There are online programs like MINT which can help automate the tracking of your expenditures.

2) **Contribute to a Retirement Plan**- If your employer offers a retirement plan such as a 401(k), start contributing right away. This provides a tax benefit as contributions are made with "pre-tax" dollars and the funds grow tax-deferred. At a minimum, contribute at least up to the amount that allows for the full company match. My rule of thumb is to save at least 10% of your income.

   Albert Einstein purportedly once said, "The most powerful force in the universe is compound interest." The following graph from The Schwab Center for Financial Research illustrates the powerful impact of compounding on an Investment plan. (Note the disclosure regarding this assumes 6% average annual growth and does not account for any fees, costs or taxes.) The difference between the two graphs is the one in green had the investor start contributing at age 18 rather than age 40:



Financial Advice for College Graduates– Con't

3) **Establish an Emergency Fund**- An emergency savings account is a great way to handle unexpected financial expenses. People often go into debt to cover unforeseen expenses, but it's a problem that can be solved with a little planning. By contributing a small amount of each paycheck into a conservative investment savings account, you will be better prepared to pay for life's inevitable emergencies.

4) **Pay down Debt; Avoid Incurring Credit Card Debt**- Strive to pay off your debt, including student loans, as quickly as you can. Don't just make the minimum payment, as that will result in little progress. Keep in mind that paying off your debt provides a guaranteed return (equal to the interest rate on the debt), which isn't the case for nearly all investments. Just as important, don't incur additional debt by using credit cards to spend beyond your means. Credit card companies prey on college grads as they are ideal candidates to carry high balances on their cards. The reality is that while credit cards may allow you to live beyond your means for a while, over time you will have a lower standard of living as the expensive interest charges will reduce what will be available for future discretionary spending.

5) **Pay Yourself First by Automating Your Savings and Investing-** Set up an automatic transfer from your checking account to your investment or savings accounts. By doing this, effectively you are drawing money straight from your paycheck to "pay yourself first." A Roth IRA account is a great way to save. For 2016, a maximum of $5,500 can be contributed (for those under age 50 and assuming they qualify based on their adjusted gross and earned income). These accounts are ideal for younger investors who may benefit from decades of tax-free compounded growth.

6) **Learn about Investing & Good Financial Habits**- One of my favorite personal finance books is the "Millionaire Next Door." Written in 1996, the book offers timeless insights into common traits shared by many millionaires. It suggests living below your means and achieving financial independence rather than displaying high social status. A favorite personal finance magazine is "Kiplinger's Personal Finance," which offers basic but valuable advice related to personal money management and investing.

Qualified Small Business Stock– A Great Tax Benefit You Probably Haven't Heard Of

It's no secret that small businesses have long been the growth engine of the US economy. With that in mind, in 1993 Congress created the qualified small-business stock (QSBS) exclusion to encourage investment in certain small businesses. Providing the owner and the stock meet certain criteria, QSBS offers the opportunity to realize significant tax savings by reducing or eliminating Federal capital gains tax on the sale of qualified stock.

How much gain can you exclude? Depending on when the stock was acquired, you may be able to exclude from 50% to 100% of the gain from capital gains tax, up to the greater of $10 million or 10 times the cost basis. Specifically, for stock acquired:

- Before 2/18/09, 50% of the gain is excluded.
- Between 2/18/09 and 9/27/10, 75% of the gain is excluded.
- After 9/27/10, 100% of the gain is excluded.

Qualified Small Business Stock– A Great Tax Benefit You Probably Haven't Heard of- Con't

Company Requirements- To qualify as QSBS:

- The Company must be a domestic C corporation throughout the owner's holding period (i.e. S corps and LLCs don't qualify).
- The corporation may not have more than $50 million in assets both before and immediately after the shares were purchased.
- At least 80% of the firm's assets must be used in an active business in a qualifying field, as defined in Internal Revenue Code Section 1202. The disqualified list includes, but is not limited to, most service firms in the fields of financial services, farming, accounting, consulting, health care, law and hospitality.

Investor Requirements: The owner of the stock must be a non-corporate taxpayer, acquire the stock at its original issue (not from a secondary market), and hold it for at least five years.

For QSBS acquired prior to September 28, 2010, the tax benefit of the exclusion is reduced as the taxable portion of the gain is taxed at 28%. In addition, 7% of the excluded gain is a preference item subject to alternative minimum tax. The really significant benefit is that 100% of the gain (up to $10 million) is excluded from Federal tax for QSBS acquired after September 27, 2010.

Recommendations/Comments:

1) **Stock Options:** The 5-year holding period begins on the date of exercise, not the grant date. The $50 million gross asset cap must be satisfied on and before the date of the exercise of the options.

2) **State Income Tax:** The QSBS exclusion does not necessarily apply to state-level taxes. Some states allow an exclusion from state-level tax, while others, (including California) do not.

3) **Certify Your Purchase:** Keep good records of your QSBS purchase including the date and amount paid. Also, ask the Company to certify that it is a C Corp, has $50 million or less in assets before and just after your purchase, and that at least 80% of the Company's assets are used in the active conduct of a qualifying business. Note that if you wait several years to ask for this information, it may no longer be available.

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

MAM

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:

<u>Investment Management Services:</u>

- **MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.**

<u>Financial Planning Services:</u>

- **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.**

<u>Tax Services:</u> 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

- Estimated Tax Payments: Second quarter of 2016 estimated payments are due on June 15th.
- ClientView Portal: Please let us know if you have any questions regarding accessing your ClientView Portal.