McCarthy Asset Management, Inc.
Personalized Wealth Management

May 2019 Monthly Commentary

June 3, 2019

Inside this issue:

Stock Market & Portfolio Performance

May 2019: Stocks fell sharply for the month due to an escalation in the U.S.-China trade dispute. Bonds provided a safe-haven as interest rates slide to recent new lows.

	May 2019	YTD 2019	Description:
Without Dividends:			
S&P 500	-6.6%	9.8%	500 Largest Public U.S. Companies
Russell 2000	-7.9%	8.7%	2000 of the smallest U.S. stocks
MSCI EAFE	-5.4%	5.7%	international stock index
U.S. Aggr Bond	1.8%	4.8%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-3.9%	6.8%	non-very conservative MAM portfolios
MAM Conserv	-2.5%	5.6%	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, PACE
Executive Assistant
650 610-9540 x 305
marilyn@mamportfolios.com

Stocks Drop as U.S.-China Trade War Escalates

In early May, the U.S. and China appeared to be close to striking a new trade agreement, but prospects for a deal quickly unraveled. Specifically, on May 10, President Trump increased the tariffs on $200 billion of Chinese exports to the United States from 10% to 25%. Furthermore, he threatened to place 25% tariffs on an additional $325 billion of Chinese goods—a process that would take a couple of months to complete. China's finance ministry retaliated by announcing that effective June 1st, it would hike tariffs to 25% on $60 billion of U.S. goods.

In response to trade war tensions, stocks reacted as expected, with the S&P 500 falling over 6% for the month.

The key issue is not that Chinese exports to the U.S. far exceed U.S. exports to China. Afterall, due to relatively high labor costs, manufacturing is not as important to the U.S. economy as it used to be. The more critical issues at the root of the dispute—corporate espionage, hacking, forced technology transfers and intellectual property rights—are difficult to settle. Possibly the most significant point of conflict is the U.S. demanding China to crack down on the theft of U.S. intellectual property.

Should an agreement not be reached, economists estimate that it would cause a one-year decrease of around 0.5% in U.S. Gross Domestic Product (GDP) and close to 1% in Chinese GDP. There will also be greater inflationary pressure as tariffs increase the price of consumer goods. The decrease in growth and increase in inflation would have negative implications for the stock market.

Our feeling is that the odds still favor an eventual trade deal between the U.S. and China. A deal is in the best interest of both countries, as a prolonged trade war would lead to negative consequences. For President Trump, he wants to be re-elected. A strong economy and healthy stock market are key components of his path to re-election.

MAM Comments: I agree with President Trump that this trade war with China is a real issue. China does not "play fair." In particular, we must find a way to stop China from stealing U.S. intellectual property to protect our technology innovation. Hopefully, his reputation as a deal-maker will hold true this time and a deal between the U.S. and China will be reached.

Retirement Savings Bills Have Momentum in Congress

There may actually be something that bitterly divided Washington can agree on: the need to bolster retirement savings. Currently, there are multiple bills in Congress that are intended to benefit IRA owners and participants in workplace retirement plans such as 401(k)s. The proposals have some overlapping provisions, along with a number of important differences. There is substantial bipartisan support for these proposals, so optimism is high that a consensus can be reached this year on a final bill that boosts retirement savings opportunities.

SECURE Act: In early April, the House Ways and Means Committee unanimously approved the "Setting Every Community Up for Retirement Enhancement Act," known as the SECURE Act. This legislation was approved by the full House on May 23.

RESA: In the Senate, the Retirement Enhancement and Savings Act, or RESA, was introduced in April.

Portman-Cardin Bill: An additional Senate bill, the Retirement Security and Savings Act, was introduced by Ohio Republican Senator Rob Portman and Maryland Democratic Senator Ben Cardin in the middle of May (aka Portman-Cardin bill).

Retirement Savings Bills Have Momentum in Congress- Con't

There are numerous provisions in the various proposals, and it is difficult to predict what will end up in a final bill agreed to by both the House and Senate. Here is a list of some of the more important provisions in the proposed bills:

- **Required Minimum Distributions (RMDs):** The SECURE Act would increase the age for starting RMDs from 70 ½ to 72. While this provision isn't in RESA, The Portman-Cardin bill would incrementally hike the age for starting RMDs to 72 in 2023 and to 75 by 2030.

- **Maximum Age to Contribute to IRAs:** Both the SECURE Act and RESA would lift the long-standing prohibition on contributions to a traditional IRA after age 70 ½. To be eligible to make these contributions, though, IRA owners will still need to have sufficient earned income.

- **Inherited Retirement Accounts:** Both SECURE and RESA reduce the number of years that an IRA can be held in an Inherited IRA account. Upon the death of an IRA owner, full distributions to individuals must be taken within 10 years for SECURE and 5 years for RESA. Both proposals make exceptions for a surviving spouse, disabled individuals, and individuals not more than 10 years younger than the account owner, and minor children.

- **Lifetime Income Disclosure:** Both SECURE & RESA would help employees see their savings as lifetime income, by requiring at least once a year, benefit statements to translate their savings into lifetime income. These statements would illustrate the monthly payments a participant would receive based on their current account balance.

- **Annuity Options:** SECURE would encourage 401(k) plans to offer annuities by giving certain employers some protection from future liability if their chosen insurer fails to pay claims.

- **Increase 401(k) Contributions for Those 50 and Older:** The Portman-Cardin bill would increase the "catch-up" contribution to $10,000 from the current $6,000 for individuals 50 and older with 401(k) plans.

MAM Comments: Data from studies and surveys consistently shows how unprepared Americans are for a financially-comfortable retirement. Furthermore, as discussed in the article below regarding an upcoming funding shortfall in the Social Security system, changes could be implemented that would potentially reduce Social Security benefits to retirees. As a result, the burden for saving for a secure retirement continues to shift more and more to workers. The changes offered in these retirement savings bills are intended to help Americans be able to better save for retirement.

Social Security– Funding Improves but Trouble on the Horizon

In late April, the Social Security Board of Trustees released its annual report summarizing the current and projected financial status of the Social Security program. The report indicated that the Social Security trust funds—currently almost $3 trillion—are projected to become depleted by 2035, with 80% of benefits payable at that time.

The good news is this is one year later than the trustees projected last year. The bad news is, unless changes are made, it is just a matter of time before the Social Security program's reserves are depleted. "The trustees recommend that lawmakers address the projected trust fund shortfalls in a timely way in order to phase in necessary changes gradually and give workers and beneficiaries time to adjust to them," Nancy Berryhill, acting commissioner of Social Security, said in a statement accompanying the report's release.

Social Security– Funding Improves but Trouble on the Horizon– Con't

This is nothing new as it has been clear for years that changes are needed to ensure the long-term stability of the Social Security program. Unfortunately, Congress probably won't take action until it is closer to being a crisis. This spells potential trouble for the growing number of elderly Americans who rely on Social Security benefits as a significant portion of their income.

To improve the solvency of the Social Security program, the government has a number of options to choose from:

- Increase payroll taxes by either increasing the 6.2% rate withheld for Social Security taxes and/or increase the maximum wage income that is subject to Social Security taxes (currently $132,300 for 2019).

- Delay the age in which retirees become eligible for benefits (currently full retirement age is 67 for those born after 1959).

- Reduce the level of benefits, especially for those with significant income.

Per the May 10, 2019 edition of The Kiplinger Letter, to currently put the Social Security system on a sound footing would require a 22% payroll tax increase, a 17% cut in benefits, or a mix of the two. Waiting until 2035 would require a 29% tax jump, a 23% reduction in benefits, or a combination of the two.

Workers who are most at risk from these possible changes are probably those under age 50. The rationale is that younger Americans will have more time to adjust to the changes than Americans who are in retirement or close to retirement.

MAM Comments: The aging of the American workforce is the primary risk to the solvency of the Social Security system. As baby boomers continue to retire, there will be more and more retirees collecting Social Security benefits relative to the number of workers paying into the system. The best way to protect yourself from a potential reduction in benefits is to focus on growing your invested assets so that you will have more retirement income from sources other than Social Security.

The article does not address Medicare. Not only is Medicare also expected to face deficits in the future, the potential negative impact to the U.S. budget is much greater than the Social Security shortfalls.

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

- Estimated Tax Payments: Second quarter of 2019 estimated payments are due on June 17th.
- ClientView Portal: Please let us know if you have any questions regarding accessing your ClientView Portal.

RiA STANDS FOR YOU.

Discover the difference with a Registered Investment Advisor.