McCarthy Asset Management, Inc.
Personalized Wealth Management

November 2014 Monthly Commentary

December 1, 2014

Stock Market & Portfolio Performance

Inside this issue:

November & YTD 2014: With the exception of smaller companies, stocks performed well for November:

	November	YTD 2014	Description:
Without Dividends:			
S&P 500	2.5%	11.9%	500 Largest Public U.S. Companies
NASDAQ	3.5%	14.7%	stocks trading on the Nasdaq
Russell 2000	-0.1%	0.8%	2000 of the smallest U.S. stocks
MSCI EAFE	1.2%	-4.0%	international stock index
U.S. Aggr Bond	0.7%	5.9%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	1.3%	7.8%	non-very conservative MAM portfolios
MAM Conserv	0.5%	5.4%	portfolios with 50%+ bond allocation

Comment: Historically, November through February has been the best 3-month period for stock market returns.

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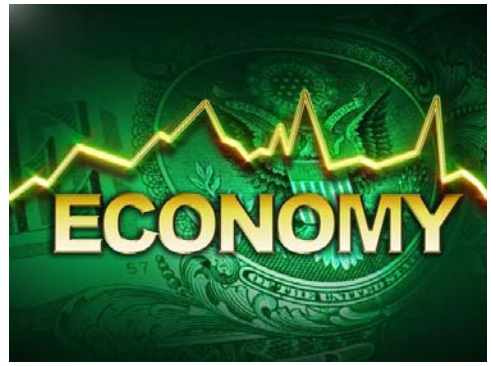
Economic and Stock Market Update



Recent Economic Growth: On November 25th, the Commerce Department revised upwards its measure of the 3rd quarter Gross Domestic Product (GDP) to 3.9%, from its initial estimate of 3.5% growth. With this upward revision, the combined growth rate in the second and third quarter of this year was 4.3%, representing the best six-month growth pace since 2003. This recent acceleration is encouraging as it follows a first quarter contraction that many economists say was driven by an unusually harsh winter.

Since the recession ended in June 2009, growth has averaged at subpar rates just above 2%. This lackluster recovery has been blamed on the financial crisis and the severity of the Great Recession. Such types of downturns are usually harder to recover from because the require repairs to the banking system to get credit flowing again.

2015 Economic Growth: Economists expect U.S. growth to be more sustainable in 2015 due to:

- Increases in government spending (up 4.2% in the 3rd quarter) caused in part by higher defense spending.
- Gains in employment are expected to provide households with more income boosting consumer spending.
- The recent sharp drop in oil prices is also expected to increase non-gasoline consumer spending.

Continuing concerns are the weakness overseas and a possible recession in Europe. However, government actions to boost foreign economies should help. For instance, last month the People's Bank of China cut interest rates for the first time in two years, igniting a global rally in stocks.

Stock Market Outlook: For the last few years, we have consistently had a positive outlook for the stock market. With 2014 likely to be another year of good stock market appreciation, though, stock prices are starting to get a little stretched. While we still favor stocks over bonds, and bonds over cash, investors may want to temper their expectation for additional strong gains. At a minimum, increased stock market volatility is likely in the year ahead.

What If You Live a Really Long Life?

(based on the November 2014 Money.com article "Make Your Money Last…and Last" and the October 2014 Wealthmanagement.com article "Sizing Up a Client's Lifespan")

Americans Are Living Longer and Being More Active: New research indicates that many Americans are not only living to more advanced ages than any previous generation, but also staying healthy and active longer into their retirement. For instance, a moderately affluent couple aged 65 today has better than a 40% chance that one or both partners will live to at least 95—and that chance should improve to 50% in the next 15 years. As Joe Coughlin, director of MIT AgeLab, puts it, "We've pushed out the longevity calendar from close to 50 years in 1900 to close to 100 today." Meanwhile, researchers at the University of Massachusetts Medical School have found that, in addition to living longer, older Americans are reporting fewer symptoms of disease, showing fewer signs of impairment on everyday tasks, and displaying more energy than previous generations.

What If You Live a Really Long Life?– Con't

Estimating How Long You Could Live: According to a 2012 Society of Actuaries research project on mortality, the following characteristics help identify those that typically live longer than suggested by the actuarial tables:

- Those who are wealthier, more highly educated, and have a spouse
- People who live in urban areas, particularly higher income areas. Amy Symens Smith, chief of the age and special populations' branch at the U.S. Census Bureau, says that a majority of the oldest U.S. citizens live in urban areas. "Living in the city, you have a lot more mental stimulation, better doctors and hospitals and more social networking."
- Those who engage in regular physical activity, good nutrition, no tobacco use, and only moderately consume alcohol. According to a 2014 Centers for Disease Control report, people who engaged in all four of these healthy behaviors were 66% less likely to die early from cancer, 65% less likely to die early from cardiovascular disease, and 57% less likely to die early from other causes compared to people who did not engage in any of the healthy behaviors.

While of course we can't really know how long we will live, there is an interesting online age calculator available at www.livingto100.com. The calculator, which draws on data from the New England Centenarian Study at Boston University, incorporates a whole host of factors including lifestyle, personal history and family history. I recommend you check it out. You are more likely to be surprised on the upside than the other way around (it predicts I will live to age 99). More importantly, the calculator can help you identify risk factors, which may spur changes in diet and exercise that can add years to your life.

Implications of Living a Longer Life: What are the implications of us living longer and being more active later in life? Here are a few of them:

- Delay starting Social Security under full retirement age (currently 70). For each year you delay taking social security until full retirement age, the annual benefit increases by 8%. The breakeven age that you need to live to benefit from delaying social security until full retirement age is in your early 80's. If you live past that age, you come out ahead by waiting. If you live until 90 or later, the increase in the payments is substantial.
- Even in retirement, invest for some growth with your portfolio(s). While studies have shown a sustainable annual withdraw rate is 3% to 5% of the portfolio value, growth is needed to allow those withdrawals to be increased for inflation. Over time the impact of inflation can be substantial. For instance, at a 3.0% annual inflation rate prices double in 24 years, and at a 4.0% annual rate they double in 18 years.
- Need for a Long-Term Care Plan: Unless you have already addressed it, we recommend that you have Allen Hamm prepare a Long-Term Care Plan for you. While Allen does sell long-term care insurance, he says that in only about 25% of the Plans is long-term care insurance purchased. The purpose of a Long-Term Care Plan is to address how you plan to cover the potential need for long-term care.

Four Things You May Not Know About Property Taxes– by Lauree Murphy

Recently, we had a couple of interesting questions from clients concerning property taxes. In researching those questions, I found some things that may apply to many of our clients' situations.

<u>Homeowner's Exemption:</u>

Homeowners are eligible for a $7000 homeowner's exemption on their primary residence, saving you at least $70 a year in taxes. Once it's applied for, it should show up automatically each year on your property tax bill.

<u>School Bond Relief for Seniors:</u>

If you read your property tax bill, you will notice there are often taxes for school bonds, which are specific to where you live. Frequently, seniors (i.e. those over 65) can get exempted from paying school bond taxes, saving up to hundreds of dollars every year. The exemption is given locally, not by the county. To qualify, homeowners generally must live in the home as their primary residence. They must request, fill out and send in the application provided by the school district, generally with proof of age, ownership and residency. <u>Generally, the exemption is not needs based; you only have to show that you are over 65</u>. It's not retroactive, but if you apply now you may save money off next year's bill.

<u>Take Your Valuation with You:</u>

Proposition 13, which was passed by California voters in 1978, has rewarded long-time real estate holders with lower property taxes. There are a couple of ways to keep a low property tax assessment when a property is transferred. If you are over 55, you may be able to take your valuation with you. Another instance is when you transfer property between parent and child or in some cases from grandparent to grandchild (see next section for further details).

Under California Proposition 60, if you or your spouse is over 55 years old and you sell your principal residence and move to another within the same county, you can take the assessed value of your home to your next home if:

- The replacement home value must be equal to or less than the current market value of the property you sold.
- The replacement property must be purchased or built within two years (before or after) of the sale of the original property.
- You have to file a claim form with the county assessor within three years of the date of transfer.
- This is a one-time benefit. Once you use it, it can't be used again.

California Proposition 90 allows inter-county transfers of your property base valuation. Currently, there are 9 counties in California (Alameda, El Dorado, Los Angeles, Orange, Riverside, San Diego, San Mateo, Santa Clara, and Ventura) that allow you to transfer your property valuation from another county. If you are moving to another county, it's important to check to see if the county you are moving to will accept the transfer (as this list may change overtime).

<u>Parent-Child and Grandparent to Grandchild Exclusion:</u>

California Propositions 58 and 193 deal with the transfer of real estate between parent and child, or grandparent and grandchild. Proposition 58 excludes from reassessment real estate that is transferred from parent to child, or child to parent. The grandparent to grandchild exclusion under Proposition 193 comes into play only if *all* parents of the grandchild are deceased. A surviving grandparent can transfer their property tax base to their grandchildren, but grandchildren cannot transfer to grandparents. Depending on the situation, it can get complex. Two exclusions apply:

Four Things You May Not Know About Property Taxes— by Lauree Murphy— Con't

1. Transfer of a primary residence. There is no dollar value limit on the transfer of a primary residence.

2. Transfers of the first $1 million of real property, other than the primary residence, can also be excluded from reassessment. The $1 million exclusion applies to the assessed value of the property, not the fair market value. This can apply to multiple properties until the cumulative assessed value reaches $1 million. Note that real estate held in an LLC, partnership, or corporation are not eligible for the exclusion while real estate in the parent's name or a revocable living trust would be eligible.

What happens when a parent dies and leaves a house to multiple children? Can one get the house and take the exclusion? As long as the value of the property does not exceed that child's share of the entire estate, he/she can get the full exclusion. If he/she needs to buy out their siblings because the house is worth more than what the others received, they can still get a prorated share of the parent's valuation.

Let's look at a simple example. Assume a home has a market value of $1 million when the parent dies and the total estate is worth $1.2 million. Assume Child A, who wants the house, has a total share of the estate worth $600,000. That child would be able to exclude a proportional share. If we assumed the current assessed value is $100,000:

Current assessment $100,000 X 60%=	$ 60,000	Parent to Child Portion
Market value $1,000,000 X 40%=	$400,000	Sibling to Sibling Portion
Child's new property tax valuation	$460,000	

Additional Information: I have only skimmed over these issues, with the intention of giving basic information in case any of these situations apply to you. I am not an expert in property tax, real estate, or estate planning. Laws change over time and the information presented here may become out of date. It's always best to consult with a real estate or estate planning attorney for advice before claiming the exclusions. The State Board of Equalization has some very good examples and Q&As for these propositions. If you have specific questions you can search by the proposition number for more info or call the State Board of Equalization or your local county assessor.

Some Useful Links:

Proposition 60& 90 Q&A

http://www.boe.ca.gov/proptaxes/faqs/propositions60_90.htm#14

Proposition 58 and 193 Q&A

http://www.boe.ca.gov/proptaxes/faqs/propositions58.htm#9

The phone number for the Property & Specialty Tax Department at the State Board of Equalization is (916) 274-3350.

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

1) **Property Tax payments** are due December 10, 2014.

2) **Roth IRA Conversions:** Please contact us ASAP if you would like to discuss. The deadline for 2014 conversions is December 31, 2014.