McCarthy Asset Management, Inc.
Personalized Wealth Management

November 2016 Monthly Commentary

December 1, 2016

Stock Market & Portfolio Performance

November 2016: U.S. stocks, especially small-cap, posted strong gains for the month, while bonds and foreign stocks fell.

	Nov 2016	YTD 2016	Description:
Without Dividends:			
S&P 500	3.4%	7.6%	500 Largest Public U.S. Companies
Russell 2000	11.0%	16.4%	2000 of the smallest U.S. stocks
MSCI EAFE	-2.2%	-5.1%	international stock index
U.S. Aggr Bond	-2.4%	2.5%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	1.7%	6.6%	non-very conservative MAM portfolios
MAM Conserv	0.2%	5.3%	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.

Inside this issue:

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Possible 2017 Tax Law Changes

Donald Trump's surprising White House victory, combined with Republicans retaining their majorities in both the House of Representatives and the Senate, makes passage of a significant tax reform package in 2017 a very real possibility.

What a tax package could look like: During his campaign, Trump proposed a tax reform plan (the "Trump plan".) In addition, House Speaker Paul Ryan and House Republicans proposed a tax reform plan (the "Ryan plan") similar to Trump's, but with a much lower projected cost. Some experts estimate that Trump's plan could cost the government between $6 trillion and $7 trillion, which may be too much for Democrats and conservative deficit hardliners in Congress to pass. A possible outcome would be for a combination of the two plans. Below are some of the more important details of the Trump & Ryan plans:

- **Individual Tax Rates:** Both plans would replace the current seven tax brackets on ordinary income, which range from 10% to 39.6%, with three brackets of 12%, 25% and 33%.
- **Exemptions and Standard Deduction:** Trump's plan would replace the current personal exemption ($4,050 per individual and dependent) and the current standard deduction ($6,300 for single filers and $12,600 for married filers) with a standard deduction of $30,000 for married filers and $15,000 for single filers. Under Ryan's plan, the standard deduction would be $24,000 for married filers and $12,000 for single filers.
- **Itemized Deductions:** Trump would cap itemized deductions at $200,000 for married taxpayers and $100,000 for single filers. Ryan would eliminate all itemized deductions other than those for mortgage interest and charitable contributions.
- **Alternative Minimum Tax:** Both plans would repeal this dreaded tax.
- **Investment Income:** Trump would tax long-term capital gains and qualified dividends at the current rates of 0%, 15% and 20%. Ryan's would revert to an older code provision that taxes capital gains, dividends and interest as ordinary income—after excluding 50%. Both plans would eliminate the 3.8% surtax on net investment income that was imposed by the Affordable Care Act.
- **Estate and Gift Taxes:** Both plans would repeal estate and gift taxes. However, under Trump's plan, at death, assets above $5 million per individual would be subject to capital gains tax.
- **Corporate Tax Reform:** Trump would reduce the U.S. corporate tax rate from 35% to 15% (20% under Paul Ryan's plan.) Owners of sole proprietorships, partnerships, S corporations and other pass-through entities could choose to be taxed on their business income at the 15% corporate rate (25% under the Ryan plan) rather than their individual rate. Most corporate tax breaks would be eliminated, with the exception of the research and development tax credit. Both plans call for a one-time reduced repatriation tax rate (10% under Trump and 8.75% under Ryan) to encourage U.S. companies to bring the trillions of dollars in cash that is held overseas back to the United States.

Considerations for 2016 Year-End Tax Planning: The possibility of significant tax reform in 2017 influences tax planning for year-end 2016. Unfortunately, at this point, we don't know what tax reform package, if any, will be passed and when it will be effective. This makes 2016 year-end planning particularly challenging. Assuming, though, that tax reform is enacted next year, it probably makes sense for many taxpayers to defer income to 2017 and to accelerate deductions into 2016. Specific planning, though, depends on a taxpayer's particular tax situation, including whether they will be subject to alternative minimum tax for 2016.

Impact of Trump Victory on Stock & Bond Markets

Donald Trump's upset victory in the presidential race came as a shock to millions. In the first three weeks since the election, the stock market has generally been quite positive, while the bond market has been weak due to a sharp increase in the 10-year Treasury interest rate. Why have stocks and bonds reacted this way?

Pro-Growth Agenda: Much of Trump's economic agenda is pro-growth, which is positive for stocks and negative for bonds. His plans for increased fiscal spending, lowering taxes, and reducing regulations are all aimed at stimulating US growth, which could add meaningfully to US gross domestic product. With a Republican House and Senate, Trump will not face Obama's gridlock challenge. Many of his policies could be at least partially adopted. Areas in which Trump's goals are consistent with those of the Republican Party include: lower regulation, corporate and individual tax reform and tax cuts, and higher infrastructure spending. Corporate tax cuts could incentivize corporations to bring jobs back to the US and encourage business to invest domestically. In addition, Trump's focus on reducing restrictions in the oil and gas sector and reforming Obamacare may be positive for the economy.

Medium-Term Risks: The biggest uncertainty for future economic growth relates to trade policy. Trump's plans to restrict trade with barriers or higher tariffs could ignite an expensive trade war and slow US growth by increasing costs to US consumers and making it more difficult for US companies to sell their goods overseas. Curbing immigration could also detract from growth. However, many in the Republican-controlled Congress are generally supportive of free trade, so the political process may lead Trump to compromise, mitigating the more negative impact of his trade platform. I plan to carefully monitor Trump's words and actions on trade. If it appears he may be provoking a trade war, we will likely adopt a more defensive investment posture.

Longer-Term Risks: A longer-term risk is that increased deficit spending (i.e. resulting from tax cuts and infrastructure spending) will be a drag on growth and could eventually spur a recession as the government tries to reduce the deficit.

Below is a discussion of the possible impact of a Trump Presidency on various asset classes:

- **US Stocks-** An increase in economic growth would be a positive for US stocks. Small-cap stocks, in particular, have done very well since the election because smaller firms tend to do most or all of their business in the US and therefore are not as dependent on global trade.

- **International Stocks-** International stocks have had mixed performance since the election. What has hurt them has been a sharp three-week rise in the US dollar, which is now close to a 10-year high.

- **10-year US Treasury yield up significantly**- This benchmark yield finished November at 2.37%, up from 1.70% just a few weeks ago. Bond prices, which move inversely to interest rates, have fallen, particularly longer maturity bonds, which are more susceptible to rising interest rates. Long-term municipal bonds have also suffered due to the possibility of tax rates being lowered next year, which will reduce the attractiveness of tax-free bonds.

- **Specific Stock Sectors-** Financial stocks have benefited from rising interest rates, while companies focused on infrastructure spending have also done well. Master limited partnerships (MLPs), which invest in the oil and gas pipelines, have benefited from Trump's likely emphasis on promoting the US oil and gas production. Among the poorest performing sectors have been utility stocks and REITs, which are vulnerable to rising interest rates.

OPEC Reaches Deal to Cut Oil Production

In an effort to lift sagging prices, on November 30th, OPEC representatives reached an important deal to cut oil production after months of negotiations. The Organization of the Petroleum Exporting Countries said it agreed to cut production by 1.2 million barrels a day from the current 33.6 million barrels, representing about 1% of global production. Other oil producers from outside the cartel (including Russia) are expected to cut an additional 600,000 barrels a day, OPEC said.

Oil prices surged more than 8% yesterday (the day of the announcement), hitting a high of $51.84 in London trading. OPEC members have said they are targeting prices as high as $55 to $60 a barrel, a level that would boost petroleum-dependent economies that have been badly damaged by two years of prices below $50 a barrel.

Saudi Arabia, OPEC's largest producer, pushed hard for a broad agreement for production cuts between both OPEC and non-OPEC members. Yesterday's OPEC deal strikes a fresh path for the 56-year-old oil cartel whose oil supremacy has been challenged in recent years by the surge in US energy production. Two years ago, faced with a glut caused by growing American production, OPEC decided to let prices fall and produce more oil in a fierce competition for market share.

It remains to be seen how effective the production cut will be. OPEC has a checkered history of complying with its own agreements, with countries often producing more than their agreed upon share. Analysts said oil traders would watch the agreement warily in coming weeks.

The investments in MAM portfolios that will benefit most from this agreement will be the funds we use that invest in the oil and gas pipelines (JP Morgan AMJ and Eagle MLP).

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

1) **Property Tax payments** are due December 10, 2016.
2) **Roth IRA Conversions:** Please contact us ASAP if you would like to discuss. The deadline for 2016 conversions is December 31, 2016.