McCarthy Asset Management, Inc.
Personalized Wealth Management

November 2018 Monthly Commentary

Dec. 3, 2018

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Stock Market & Portfolio Performance

November 2018: In the last week of November, U.S. stocks bounced back from their second correction of the year, with the S&P 500 index recording its best weekly gain since December 2011. International stocks fell slightly for the month to extend their year-to-date losses, while positive bond results reduced their year-to-date losses.

	Nov 2018	YTD 2018	Description:
Without Dividends:			
S&P 500	1.8%	3.2%	500 Largest Public U.S. Companies
Russell 2000	1.5%	-0.1%	2000 of the smallest U.S. stocks
MSCI EAFE	-0.3%	-11.8%	international stock index
U.S. Aggr Bond	0.6%	-1.8%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	1.8%	0.8%	non-very conservative MAM portfolios
MAM Conserv	1.5%	-0.3%	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.

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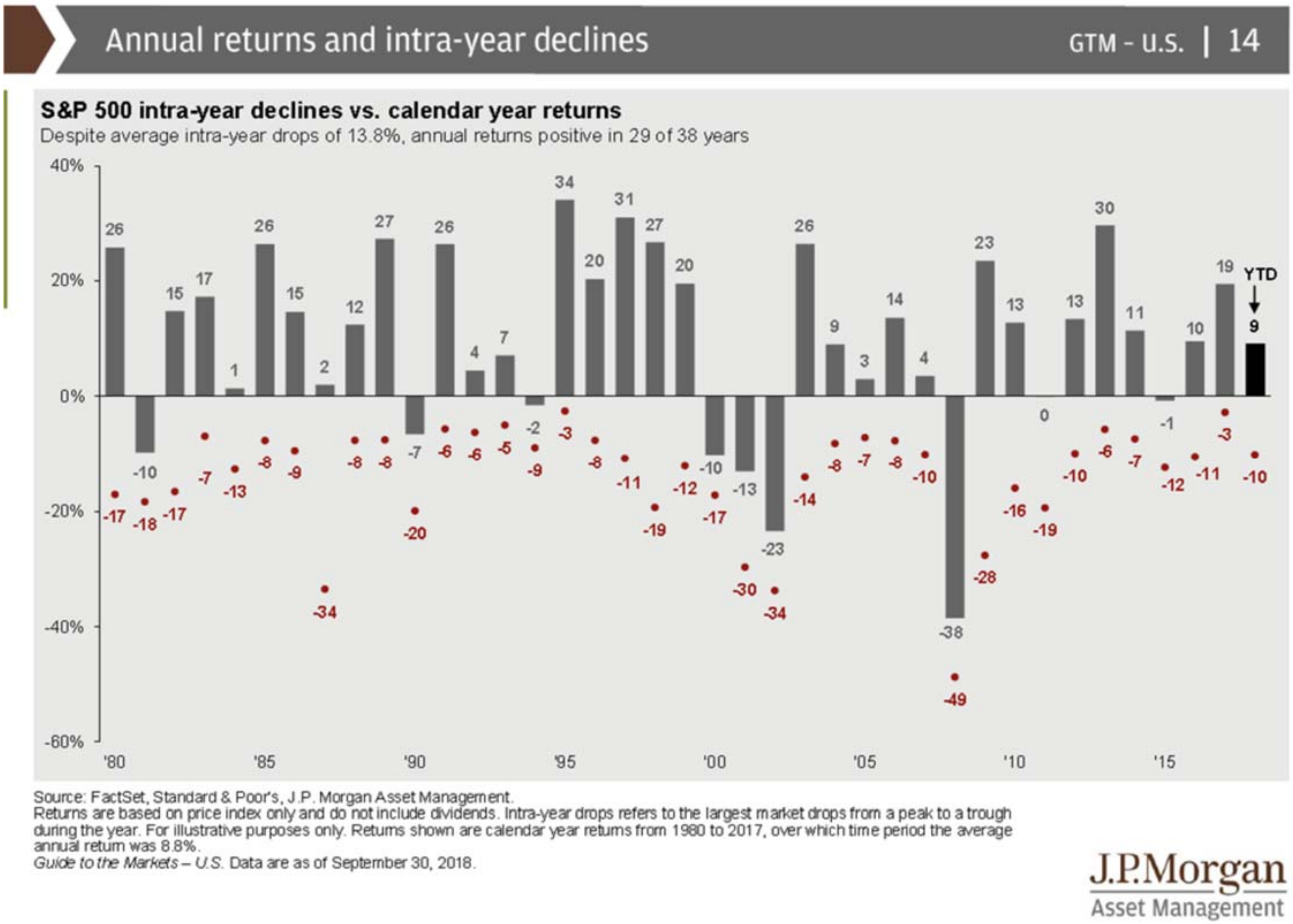
Stock Market Update– Still Just a Correction? Shift from Growth to Value Stocks?

Last month's Monthly Commentary included an article titled, "Is This the End of the Bull Market?" At the time, the S&P 500 had fallen 6.9% for the month of October. With additional declines during November, the S&P 500 has now experienced its second 10% correction of 2018. In last month's article, we explained why we thought that in all likelihood, this recent drop is just another correction, rather than the start of a new bear market. The J.P. Morgan chart below displays the performance of the S&P 500 by year since 1980. The numbers in red are the intra-year declines. As you can see, 10% market corrections are quite common. This is why we don't try to time those drops, as they occur fairly frequently and are too unpredictable.



Is This a New Bear Market? We still think that the answer is probably "no". In short, most bear markets occur in conjunction with an economic recession. Furthermore, historically, the worst performance of the stock market is the six months leading up to the start of a recession. Given that we believe a recession is unlikely to start in the next year, we don't think this bull market has ended. We do feel, though, we are in its latter stages. As such, we moderately reduced equity allocations and increased bond allocations in the October repositioning. Furthermore, we replenished the "3-year withdrawal bucket" for portfolios receiving regular withdrawals.

Has There Been a Shift from Growth Stocks to Value Stocks? In this case, we think the answer may be "yes". Since 2007, growth stocks have dramatically outperformed value stocks. Specifically, since the beginning of the last bear market in 2007 and up until the recent market correction, Standard & Poor's 500 Growth Index returned a cumulative 179%, compared to a 77% return for the Standard & Poor's 500 Value Index. Per LPL Research, this outperformance of growth stocks relative to value stocks is the longest such streak in recent history. In conjunction with the current market correction, investors may be gravitating back to value stocks.

Stock Market Update– Still Just a Correction? Shift from Growth to Value Stocks? – cont'd

Bear Market for the FAANG Stocks: The 10-year bull market has been led by the phenomenal performance of the FAANG stocks (Facebook, Amazon, Apple, Netflix and Google-parent Alphabet). Since peaking a couple of months ago, each of these growth stocks subsequently dropped at least 20% from their recent highs. Time will tell if these stocks will experience further declines and if value stocks will once again outperform growth stocks.

MAM Portfolio Positioning: MAM portfolios have exposure to both growth and value stocks, with a bias toward value stocks due to the dividend-focused theme in portfolios. An out-sized portion of the strong performance of the S&P 500 the last couple of years has been because of the FAANG stocks. Until their recent drop, these stocks made up 16% of the S&P 500 index. As the FAANG stocks soared, the S&P 500 outperformed many other stock indices. This outperformance of the S&P 500 could reverse, though, if the FAANG stocks continue their recent underperformance.

Inheritance Jackpot
by Robert J. Silverman, Esq.

In our area, many people have sizable estates. Consequently, when they die and their children (or other loved ones) receive an inheritance, it can be analogous to hitting the jackpot.

A primary goal of most clients—aside from other important objectives, such as avoiding unnecessary taxes and estate administration costs—is to help make their children comfortable. Many say: "I just want my kids to be happy." But will receipt of a substantial inheritance make the children happy? The answer is "of course," right?

Interestingly, when looking at lottery winners, the answer is not so clear. In a Wall Street Journal article from a number of years ago entitled "American's Dangerous Powerball Economy," the author cited a famous 1978 study. The study found that after an initial "happiness boost" right after winning the lottery, within a few months the winners' happiness had receded to a pre-lottery winning level. As more time passed, the winners were actually less happy than they had been before winning!

The author rightfully points out that it would be misguided to conclude that money makes us unhappy. Rather, he referred to voluminous research demonstrating that money, when earned, is typically associated positively with happiness; but, "conversely, when it is unearned and raw purchasing power is untethered from hard work and merit, people are much less likely to be happy and feel successful."

These findings are consistent with anecdotal evidence and my 25+ years of experience helping people plan and administer their estates. During the planning process, it can help to ask clients about the legacy they wish to leave. A fascinating question is, "How much is too much to leave your children (or other loved ones)?" For some, the answer is $1 Million; for others, it's significantly more or less. Many say that no amount is too much to leave their children.

A related question—particularly for those with more substantial wealth is: "Might you feel better and your kids be just as happy if you leave them with a bit less and give some portion to worthwhile charitable organizations?"

For those with minor or young adult children, a crucial question is: "When is the right time for your children to receive their inheritance outright, with no strings attached?" I often include a Living Trust provision under which children receive regular distributions for their needs, while deferring distribution of funds beyond their needs until they reach an age, or a portion at several ages, deemed appropriate by clients.

Inheritance Jackpot
by Robert J. Silverman, Esq.– Con't

Some people choose instead to create a lifetime trust for each child, in which varying standards of distribution may be established, without any mandated age for outright distribution. Besides potentially serving as a "happiness" tool, this option can create helpful creditor protection, including the shielding of inherited assets for any married child (or child who later marries) who might otherwise comingle the inheritance with his spouse and later get divorced.

Once a child develops a solid work ethic and starts to experience successes based on the fruits of his or her own labor, the receipt of an inheritance is less likely to create problems. But choosing the right distribution age(s) in your living trust is often difficult and is a moving target. Your children change, as do your assets, and perhaps also your objectives. So it's important to have your estate plan reviewed regularly by an experienced estate planning attorney. This helps ensure that your trust distribution provisions (among other trust provisions and other estate planning documents) comport with your wishes and the law, as each evolve. It also just might help your loved ones avoid the inheritance "Powerball trap."

*** Estate Planning   * Trust Administration & Probate   * Real Estate   * Business**

Please contact the author to request a complimentary: i) "Estate Planning Primer"; ii) Real Estate titling brochure; iii) introductory meeting.

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This article is intended to provide information of a general nature, and should not be relied upon as legal, tax and/ or business advice. Readers should obtain specific advice from their own, qualified professional advisors.

Use Tax Letters Being Sent to Individuals

The California Department of Tax and Fee Administration (CDTFA), the agency formerly known as the Board of Equalization, has begun sending letters to individuals who did not report any use tax on their California individual income tax returns. The letter is CDTFA-1295 Rev. 3. So far, at least one of our clients has received such a letter.

The letter states: "Our records indicate that you may not have reported use tax on your California state income tax return, and we would like to bring this possible oversight to your attention…The majority of households in California owe at least a small amount of use tax….Whenever you purchase an item from outside of California, either in person, over the Internet, by phone, or by mail, you may owe California use tax on that purchase. Use tax applies only to items on which you would have paid sales tax if you had purchased the items in California. Your out-of-state purchases may be subject to use tax if a seller does not charge sales or use tax and the items are purchased to be used, stored, or consumed in California."

The letter goes on to explain how to pay use tax, either on your individual income tax return or online.

Use Tax Letters Being Sent to Individuals– cont'd

Spidell, which is a firm we use for tax research, said it asked the CDTFA if the letter is being sent because the CDTFA has information about an unpaid use tax. Its response was that this is an outreach campaign, and generally there will not be a follow-up letter. However, the CDTFA could audit the taxpayer in the future. They would not provide any other information about how the taxpayer was selected or what criteria would be used to follow-up.

If you receive one of these letters, we recommend you contact us to discuss whether you should respond.

We last wrote about use tax in the February 2014 Monthly Commentary in the article "Use Tax—The Tax You Probably Forgot to Report".

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, 2018.
2) **Roth IRA Conversions:** Please contact us ASAP if you would like to discuss. The deadline for 2018 conversions is December 31, 2018

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Discover the difference with a Registered Investment Advisor.