McCarthy Asset Management, Inc.
Personalized Wealth Management

April 2013 Monthly Commentary

May 1, 2013

Stock Market & Portfolio Performance

Inside this issue:

April 2013: The stock market continued to perform well this month with many of the indices reaching new all-time highs (including the S&P 500) at month-end.

	Apr 2013	YTD 2013	Description:
Without Dividends:			
S&P 500	1.8%	12.0%	500 Largest Public U.S. Companies
NASDAQ	1.9%	10.2%	stocks trading on the Nasdaq
Russell 2000	(0.5)%	11.6%	2000 of the smallest U.S. stocks
MSCI EAFE	4.7%	9.3%	international stock index
U.S. Aggr Bond	1.0%	0.9%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	1.6%	9.1%	non-very conservative MAM portfolios
MAM Conserv	1.4%	4.0%	very conservative MAM portfolios

Comment: While some wait for at least a short-term correction, stocks continued to move higher in April. Bonds also performed well as the economy continued to show signs that growth will be subdued for at least the foreseeable future. A slow-growth economy historically provides a good environment for the stock market.

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American Funds Report– The Long View

Attached to this Monthly Commentary is an 11-page report from American Funds entitled "Building On a Boom: Energy is Powering the U.S. Renaissance". This report provides a good summary of a number of topics that we have discussed in previous Monthly Commentaries and Quarterly Letters over the last year and are influencing our long-term outlook in our search for investment opportunities. Here are some highlights from the report:

Energy Boom: The U.S. is experiencing an energy boom that has very significant economic implications:

- Over the next 10 years, the U.S. and Canada are probably going to become energy independent.
- U.S. oil production grew more in 2012 than in any year in the history of the domestic industry.
- The U.S. Energy Information Administration predicts 2013 will have even greater growth than in 2012.
- The U.S. is expected to surpass Saudi Arabia in crude production by 2020 according to the International Energy Agency.
- The report discusses how many truck fleets are converting to run on natural gas.
- Not discussed in this report, but previously discussed by us is how the U.S. is experiencing somewhat of a manufacturing renaissance due to very low natural gas prices in the U.S. relative to the rest of the world.

The Housing Market is Gaining Momentum:

- After enduring a four-year depression, the housing industry is now more of a tailwind than a headwind.
- In addition to a recovery in construction jobs, the benefit of an improving housing market includes state and local government spending.
- Between pent-up demand, the country's demographic profile, and the multiplier effect, there may be factors now in play that bode well for the nation's economic vitality.

Consumers May Be Ready to Spend Again: There is an insightful chart on P. 7 of the report that shows:

- The average age of consumer durable goods (cars, appliances and other big-ticket items) climbed to 4.6 years in 2011, the highest since 1962.
- While percentage of disposable personal income spent on big-ticket items recovered to 10.3% in 2012, this is still low relative to spending during the last 60 years.
- Not discussed is that U.S. consumers have made great strides in reducing their debt during the deleveraging that has occurred since 2008. Consumers are now in better financial shape to start spending again on durable goods and other items.

Corporate Dividend Payments Soared to a Record in 2012:

- As we have discussed in a previous Monthly Commentary, S&P 500 companies paid out a record amount of dividends in 2012 (17.1% greater than in 2011 and 13.6% greater than the all-time high set in 2008).
- Analysts expect S&P 500 companies to pay out an even higher amount in 2013.

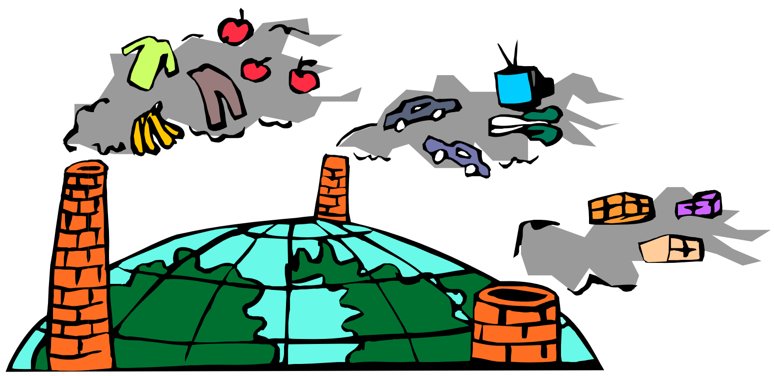
- The payout ratio of dividends relative to corporate earnings is only 36%, well below the long-term average of nearly 50%.
- Many large technology companies now pay a dividend (Apple, Oracle and Cisco, to name a few). In fact, Apple, which just started paying dividends last year, announced last month in its quarterly earnings release a 15% increase in its dividend, which will make it the largest payer of dividends in the world (slightly ahead of Exxon).

Youth in the Developing World and Africa are on the Rise:

- Many emerging countries have a relatively young population, which is promising for their future economic growth.
- India alone is expected to have 150 million people enter the workforce during the next decade, which is the current size of the entire U.S. workforce.
- American Funds is finding some compelling opportunities in Africa with its emerging middle class (we discussed the long-term opportunities in Africa in our February article on Frontier Markets).

U.S. 1st Quarter GDP Up 2.5%

Last Friday the Commerce Department released its initial report of first-quarter gross domestic product (GDP), which showed a 2.5% increase from the fourth quarter of 2012. While this was up from 0.4% growth for the 4th quarter of 2012, it was less than the 3.2% annualized expansion forecasted by economists surveyed by Dow Jones Newswires. Averaging the first quarter GDP growth of 2013 and the fourth quarter of 2012 (i.e. 1.8%) provides a better indicator of the subdued growth we may see for the remainder of 2013.



The economy has now grown for 15 consecutive quarters, but the average pace—just above 2% annually—is weak by historical standards. The primary driver of the faster growth this past quarter was an increase in consumer spending. Personal consumption expenditures grew 3.2%, the best pace since the end of 2010. This was encouraging as it indicated consumers continued to spend despite the payroll tax increase that took effect at the beginning of this year. The housing market remained a bright spot for the economy. Residential fixed investment—which includes home building and household improvements—rose 12.6% during the first quarter, building on solid gains over the past two years.

The lackluster first quarter growth may silence those calling for the Federal Reserve to curtail its economic stimulus. Last month, Fed Chairman Ben Bernanke said the central bank may slow its bond-buying programs later this year if the economy continues to improve, but stressed the Fed will support the recovery until the labor market makes substantial improvements. In addition, the lack of inflationary pressures gives the Fed more leeway to continue those programs without fear of causing price spikes.

Health Savings Accounts

Introduced in 2003 as an alternative to increasingly costly health insurance plans, a health savings account ("HSA") allows a taxpayer to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis. Based on seeing these more frequently with my tax clients, I believe HSAs have become increasingly popular. Personally, I have been very pleased with the HSA that I established for my family in 2009. In this article I will discuss how these accounts work as well as list some of their pros and cons. *If you are eligible but don't currently have a HSA, I recommend you consider setting one up.*

How an HSA works: Before opening an HSA, you must first enroll in a high-deductible health plan (HDHP), either on your own or through your employer. For 2013, the annual deductible for an HSA-qualified HDHP must be at least $1,250 for individual coverage and $2,500 for family coverage. Once you've satisfied your deductible, the HDHP will provide comprehensive coverage for your medical expenses (though you may continue to owe co-payments or coinsurance costs until you reach your plan's annual out-of-pocket limit). A qualifying HDHP must limit annual out-of-pocket expenses (including the deductible) to no more than $6,250 for individual coverage and $12,500 for family coverage for 2013. Once this limit is reached, the HDHP will cover 100% of your costs, as outlined in your policy.

Here are some of the benefits of a HSA:

- **Tax Incentives:** Contributions to a HSA are tax-deductible while withdrawals to cover medical expenses are tax-free. Effectively, with a HSA your out-of-pocket medical expenses become tax-deductible (i.e. to the extent they are paid out of the HSA). You receive an "above the line" tax deduction equal to the amount contributed to your HSA. The 2013 contribution limits are $3,250 for individual coverage and $6,450 for family coverage (plus an extra $1,000 if you are over age 55).
- **Lower Insurance Premiums:** Because a HSA requires a high-deductible insurance plan, the healthcare premiums are typically lower. The savings in the premium costs can be used to at least partly fund the contribution to the HSA.
- **Control of the Funds:** You own and control the money in your HSA. You decide how and when to spend the money on qualified medical expenses and how to invest the money in your account to make it grow.
- **Cover Healthcare Expenses in Retirement:** One of the biggest financial challenges of many retirees is covering their out-of-pocket medical expenses. Money saved in a HSA (including the earnings within the account) can be used tax-free to cover these expenses.
- **Additional Retirement Savings:** To the extent you accumulate savings in your HSA that aren't needed to cover medical expenses, the money can be withdrawn after age 65 without a penalty (although the amount withdrawn will be taxed if not used for medical expenses).

Here are some of the disadvantages of a HSA:

- **Higher Out-of-Pocket Costs:** Because a HSA requires having a high-deductible insurance plan, your out-of-pocket medical expenses will likely be higher than they would be with a non-HDHP. *If you and/or someone in your family is likely to incur high medical expenses, a HSA may not be a good choice.*
- **State Taxes:** California does not recognize HSAs, so contributions to a HSA are not state-deductible for CA residents.

- **<u>20% Penalty for Non-qualified Withdrawals:</u>** If HSA funds are used for other than qualified medical expenses, the expenditures will be taxed and, if you are not disabled or over age 65, will also be subject to a 20% penalty.

<u>Who can open a HSA?:</u> Any individual with a qualifying HDHP coverage can open a HSA. If you are covered under your employer's plan, check to see if they provide a HSA option. Once you reach age 65 and enroll in Medicare, you can no longer contribute to your HSA.

<u>How can you use your HSA funds?</u> You can use your HSA funds for many types of health-care expenses, including prescription drugs, eyeglasses, deductibles and co-payments. Although you can't use funds to pay regular health insurance premiums, you can withdraw money to pay for specialized types of insurance such as long-term care or disability insurance. IRS Publication 502 contains a list of allowable expenses.

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.**
- **The Savvy Life® Classes and Workshops by best –selling author Melis-**

Reminders

Please let us know if there are any topics you would like to have us cover or any questions answered in a future Monthly Commentary.