McCarthy Asset Management, Inc.
Personalized Wealth Management

April 2022 Monthly Commentary

May 1, 2022

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Stock Market & Portfolio Performance

April 2022: U.S. and international stocks fell sharply due to concerns of rising interest rates and the risk of a recession. Bonds prices fell due to plans for the Federal Reserve to conduct a series of increases in short-term interest rates.

	Apr 2022	YTD 2022	Description:
Without Dividends:			
S&P 500	-8.8%	-13.3%	500 Largest Public U.S. Companies
Russell 2000	-10.0%	-17.0%	2000 of the smallest U.S. stocks
MSCI EAFE	-6.8%	-12.9%	international stock index
U.S. Aggr Bond	-2.5%	-9.0%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-6.5%	-11.4%	non-very conservative MAM portfolios
MAM Consrv	-5.0%	-9.3%	portfolios with 45%+ 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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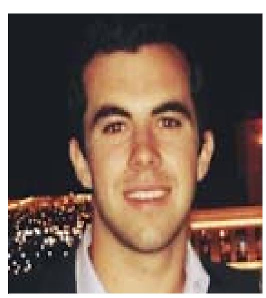

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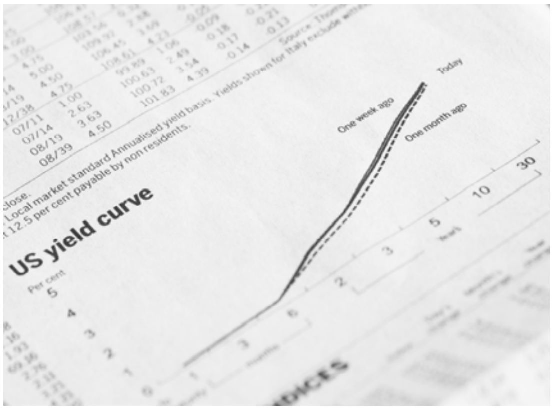
Is the Yield Curve Predicting a Recession?



Recently there has been some discussion in the financial media about the yield curve portending a recession. The yield curve is a fixture of the financial markets used to gauge stages in the economic cycle, and in particular, whether the danger of a recession is rising. Recently, parts of the yield curve inverted. Historically, this has been a sign of an approaching recession.

What is the yield curve? The yield curve is a line that plots yields (i.e., interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity.

Normally, the yield curve slopes upward. That’s because shorter-duration bonds usually have lower yields and long-term bonds have higher yields. Investors typically demand a higher return for longer-dated bonds because of the inflation risks associated with tying up money for longer time periods.

An inverted yield curve means that short-term U.S. treasuries are paying a higher interest rate than long-term U.S. treasuries. This happens when bond investors expect interest rates to fall, likely due to an economic slowdown or recession.

Historically, the yield curve has inverted prior to the start of every recession. One widely used version of the yield curve inverted in late March. At that time, the gap between the two-year yield and the 10-year yield turned negative for the first time since the 2020 recession.

How predictable is the yield curve as a recession alert? A joke among economists is that an inverted yield curve predicted 10 of the last 5 recessions. In other words, there can be false alarms. Furthermore, there is quite a lag, as the inversion typically occurs one to three years before the recession starts. During this lag, the S&P 500 often continued to provide positive returns.

Additionally, there’s a question of which yield curve to use. Prof. Campbell Harvey of Duke University was the first to identify an inverted yield curve as a recession indicator. Prof. Harvey prefers to compare the three-month Treasury yield to the 10-year Treasury yield. The New York Fed likes this approach so much it built a probability model from it based on the idea that the more inverted the curve, the more likely a recession is coming. At the moment, the answer isn’t very likely at all. In February, it put the chance of a recession in the next 12 months at 6%.

MAM Comments: Rather than flashing a recession warning, an inverted yield curve is better read as a sign to investors that the economy is late in its cycle. That is, the Fed is tightening policy in an effort to slow the economy and curb inflation. The deeper the inversion, the closer the cycle is to its end. We continue to feel the U.S. economy will grow this year. Our greater concern is that if this year’s Fed’s interest rate increases don’t sufficiently reduce the rate of inflation, the Fed will continue to raise rates in 2023 and 2024. If so, a recession could occur by late 2023 or sometime in 2024. We will continue to monitor for this risk.

Donating Appreciated Securities Rather Than Cash

An often-overlooked tax break is to donate appreciated securities to a charity. For those who are charitably-minded, this can be a great tax-planning strategy. Publicly traded securities held for more than one year—such as stocks, exchange-traded funds (EFTs) and mutual funds—are what can be donated.
Here are the benefits of doing so:

- The donor avoids having to pay capital gains tax on the appreciated asset. Including state income taxes, for high-income taxpayers, this can result in Federal/State tax savings as high as 35% of the gain.

- Assuming the donor itemizes their personal deductions rather than claiming the standard deduction, they get to claim a charitable deduction equal to the fair market value of the donated asset. This assumes their total charitable contributions are less than 50% of their Adjusted Gross Income.

- The charity can sell the donated asset and avoid having to pay capital gain taxes on the gain.

- The donor can reduce a concentrated stock position without having to realize capital gains by gifting part of the concentrated stock position.

Approximately 8.6 million individual taxpayers who made at least $200,000 filed tax returns in 2018. Of those, just 2% claimed a deduction for donating securities. It's not clear why more taxpayers don't take advantage of this tax break. Of course, if a taxpayer simply wants to maximize their after-tax proceeds from an appreciated stock, they should just sell the shares and pay the tax. But if they desire to make charitable contributions, then they are better off donating the appreciated asset rather than cash.

Donor-Advised Funds, such as the Schwab Charitable Fund or the Fidelity Charitable Fund, can improve on this charitable giving in a couple of ways:

- The donor can make a large contribution to their Donor-Advised Fund in one year, and then distribute the contributions to one or more charities over a period of years.

- These Funds greatly simplify the process for the charity. The Donor-Advised Fund sells the appreciated asset tax-free, and transfers cash to charities as directed by the donor. This way the charities do not have to deal with selling the donated securities.

MAM Comment: I established a Schwab Donor-Advised Fund several years ago and have enjoyed using it since. It is a straight-forward process to contribute appreciated securities and instruct Schwab to distribute cash to charities.

How To Choose A Trustee
By Robert J. Silverman, Esq.

Establishing a revocable living trust ("Trust") for yourself and your family is worthwhile for many reasons I've written about previously, including: avoiding probate; maintaining privacy; controlling when and how young loved ones inherit assets; estate tax mitigation; etc. Perhaps the most compelling reason is to create a "financial succession" vehicle, optimized to ensure that your assets are handled the way you want, both during your life and after you're gone.

A Trust has three "stakeholders": 1) the settlor [aka "grantor" or "trustor"] – the person(s) who establishes the trust; 2) the beneficiaries – the people who benefit from the trust; and 3) the trustee – the person who manages the trust. As long as a settlor is willing and able, he or she (or they, if a married couple) typically serves as initial trustee.

A much more difficult, but important question, is who should serve as successor trustee and thus manage the trust – handle the bulk of the settlor's financial affairs - when the settlor(s) die or become unwilling or unable to do so. This has many implications. It should be thought through carefully and discussed in detail with your estate planning attorney. One should also consider the pros and cons of naming the chosen successor trustees to serve as agents in other critical estate planning documents, such as your Durable Power of Attorney and Will.

First, it's critical to step back and ask what the appropriate criteria is for choosing a successor trustee. It depends on all relevant facts and circumstances, including the makeup of the settlor's family, loved ones, assets, and objectives.

Certain criteria is intuitive and universal, including trustworthiness. An additional consideration is whether or not the candidate is responsible – is he/she the type of person who gets up in the morning and takes care of business? Geographic proximity can be a factor, but that tends to be less important now because of technology advances that facilitate the management of assets from afar. Emotional character and personality should also be assessed since one or more trust beneficiaries (who are often related to the successor trustee) may try to manipulate the successor trustee. For example, a beneficiary may request that the successor trustee exercise discretion in a manner that is not in the best interest of that beneficiary. On the flip side, the beneficiary may perceive that the successor trustee is treating him/her unfairly.

Often, a quick decision is made to nominate one's spouse, oldest child, or all children as Co-Trustees. Such haste may lead to serious problems. Choosing co-trustees, even when they consist of all of your children, is often problematic logistically and/or because of the required compatibility and cooperation involved in making key decisions (e.g. how, when or whether to sell or divide certain cherished assets). Family relationships can be devastated as a result of a settlor not taking ample care in deciding who is truly best suited to serve as successor trustee. This decision can be even more sensitive for those who have a blended family.

Sometimes, neither relatives nor friends are the best candidates. Many financial institutions have reputable trust departments, with capable, seasoned trust officers who can potentially carry out a settlor's wishes most objectively, safely and effectively. Another alternative is to choose an experienced, "private professional fiduciary" – an individual who is properly licensed, bonded and insured, whose job entails serving as successor trustee for many different family trusts.

Your trusted professional advisors can typically help you make a prudent decision. Certainly, your estate planning attorney should be directly involved and if you wish, other advisors, such as your CPA and/or financial advisor, may offer helpful counsel.

**** 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.

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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

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.