McCarthy Asset Management, Inc.
Personalized Wealth Management

August 2013 Monthly Commentary

September 3rd, 2013

Inside this issue:

Market & Portfolio Performance	1
September Turbulence for Stocks?	2
Europe Appears to be on the Mend	3
Social Security Planning	4-5
Our Services	6

Stock Market & Portfolio Performance

August 2013: Stock prices fell for August, particularly during the last week of the month. Bond prices continued their slump which started in May of this year.

	August 2013	YTD 2013	Description:
Without Dividends:			
S&P 500	(3.1)%	14.5%	500 Largest Public U.S. Companies
NASDAQ	(1.0)%	18.9%	stocks trading on the Nasdaq
Russell 2000	(3.3)%	19.0%	2000 of the smallest U.S. stocks
MSCI EAFE	(1.6)%	5.8%	international stock index
U.S. Aggr Bond	(0.5)%	(2.8)%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	(1.9)%	9.4%	non-very conservative MAM portfolios
MAM Conserv	(1.3)%	1.1%	very conservative MAM portfolios

Comment: With the exception of a few clients we have not heard back from, we have completed the process of shifting 2% to 3% of most portfolios bond exposure into equities. We have also made adjustments to the very conservative portfolios.

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September Turbulence for Stocks?

For the last couple of months we have been warning to be prepared for a stock market pullback. So far it hasn't really happened as, although stocks did slip in the latter part of August, so far the pullback has been modest. For several reasons, we expect the stock market to at least experience greater volatility in September:

<u>Historical Performance:</u> Historically, September has been the worst performing month for stocks. According to Yardeni Research, Inc., since 1928, September has averaged a negative return of 1.1%. Only two other months, February and May, have averaged a negative rate of return during this time and it was only a loss of 0.2% for both months.

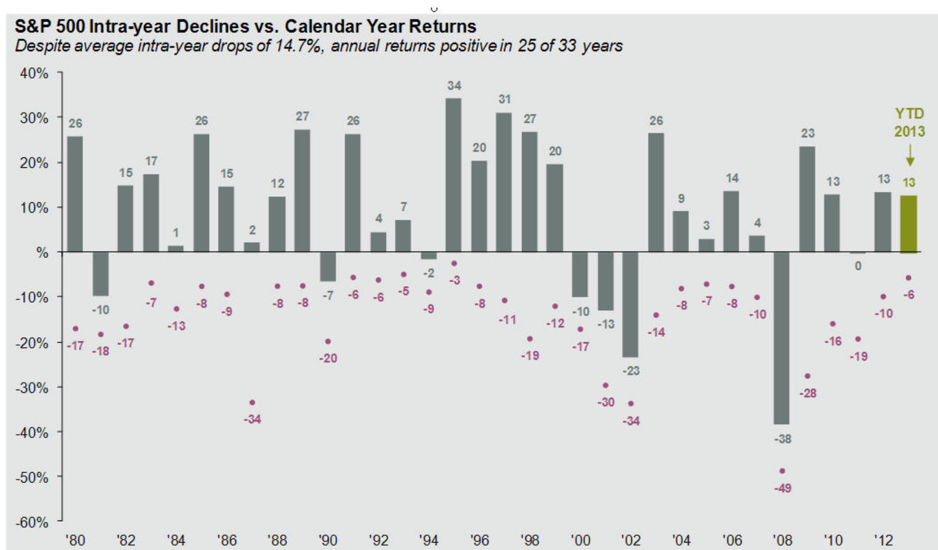
<u>Fed Tapering:</u> The Federal Reserve is likely to announce after its September 18th meeting that it will start tapering its $85 billion a month in bond purchases. We discussed this issue extensively on page two in our June quarterly letter:

http://www.mamportfolios.com/files/June%202013%20Monthly%20Commentary.pdf

<u>U.S. Budget Debate (Again):</u> While it's been relatively quiet in Washington lately, the calm may soon fade. When Congress returns from recess early in September, it will need to deal with several issues including the expiration of the resolution to fund the government through the end of September and the need to raise the national debt ceiling. It is possible the return of fiscal uncertainty could give the Federal Reserve an additional reason to delay tapering as the Congressional budget battles may be at their height during the Fed's mid-September meeting.

<u>Likely U.S. Missile Strike Against Syria:</u> At the start of September, the U.S. was poised to launch missile strikes against targets of Syrian President Assad. These strikes would be in response to the Syrian regime's recent use of chemical weapons against its own people which resulted in over one-thousand deaths. Oil prices spiked on the news with fears that Iran or Syria could try to retaliate against the U.S. (or Israel) for the missile strikes.

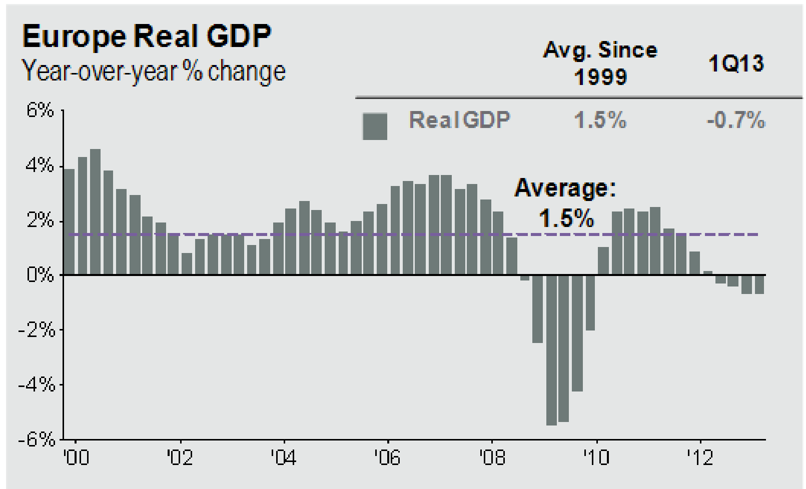
Despite the historical precedence for September being weak and the myriad of issues we are faced with at this time, we don't think investors should try to market-time short-term corrections. Furthermore, as we have often said, such corrections are actually healthy in that they lessen speculative pressures which could otherwise cause stock prices to become overly inflated. The chart on the right depicts this well. It shows the annual return for the S&P 500 for each year since 1980, along with the maximum drop in the stock market for each of those years. As you can see, even most of the best years (with annual gains in excess of 20%) experienced fairly significant corrections. With the maximum decline so far this year only a modest 6%, it wouldn't be surprising to see a greater correction before the year is out.



Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2012, 2013 numbers represent year to date returns.
Data are as of 6/30/13.

Europe Appears to Be on the Mend

Europe's most recent recession appears to be on the verge of ending. Gross domestic product across the 17-nation Eurozone grew by an estimated 0.3% in the second quarter. That's the first time the region has grown since the third quarter of 2011 (note that the "Europe Real GDP" chart on the right reflects only through the 1st quarter 2013). A rebound in the region's two biggest economies—Germany and France—and an easing of the recession in the third and fourth largest—Italy and Spain—led the return to growth. This stabilization of the European economy is encouraging and a first step toward alleviating a major concern for the global economy.

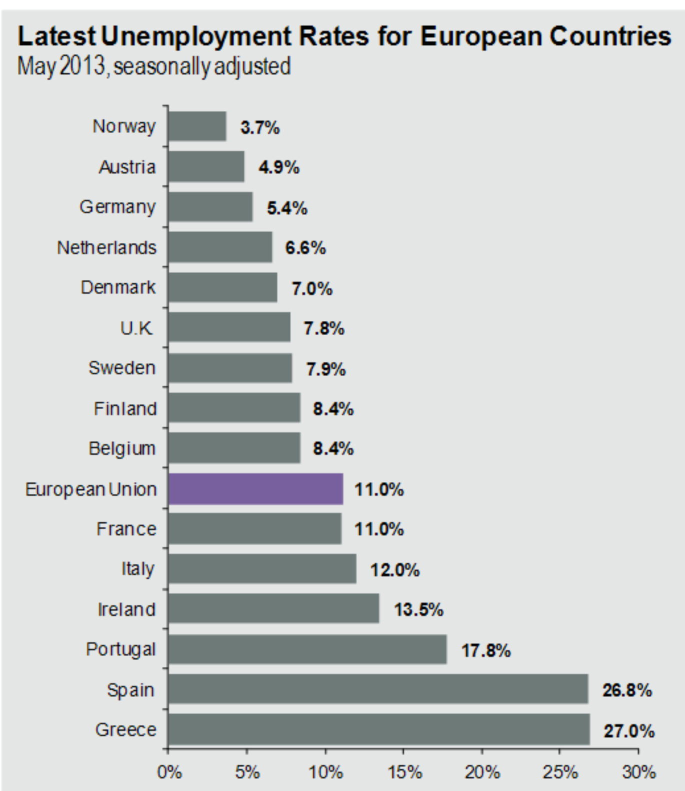


Source: Eurostat, FactSet, J.P. Morgan Asset Management.

Data are as of 6/30/13.

Like most of the rest of the developed world, Europe tumbled in the 2008 financial crisis. But unlike the U.S., it has struggled to come back, thanks largely to the explosion of its debt crisis in 2010. The crisis was compounded by the reaction of most European governments. To slow the growth of their national debts, many of the governments instituted large spending cuts and tax increases (i.e. the unpopular austerity measures). This in turn drove banks to reduce their lending and it battered confidence, both of consumers who might spend and businesses who might invest.

Having made big fiscal cuts in 2011 and 2012, governments have lightened up on their austerity measures as the pressure from the financial markets to cut debt growth has eased. Furthermore, taking a script from the U.S. Federal Reserve, last summer European central bankers' made an extraordinary commitment to inject cheap money into their economies to help avert disaster. It appears to be working. Consumers are now more willing to spend and businesses more willing to invest. European Central Bank (ECB) President Mario Draghi recently stated "We are seeing possibly the first signs this significant improvement in (consumer and business) confidence and interest rates is finding its way to the economy…The picture seems to be better from all angles than it was a year ago."



To be sure, economically Europe is not yet out of the woods. Eurozone unemployment is still horrendously high at 12%. In Spain and Greece unemployment is over 26% and youth unemployment is over 50% (see chart on left for Unemployment Rates for European Countries). Furthermore, the Eurozone debt crisis remains a risk, as evidenced by political concerns in Portugal and Spain, as well as Greece's continued woes.

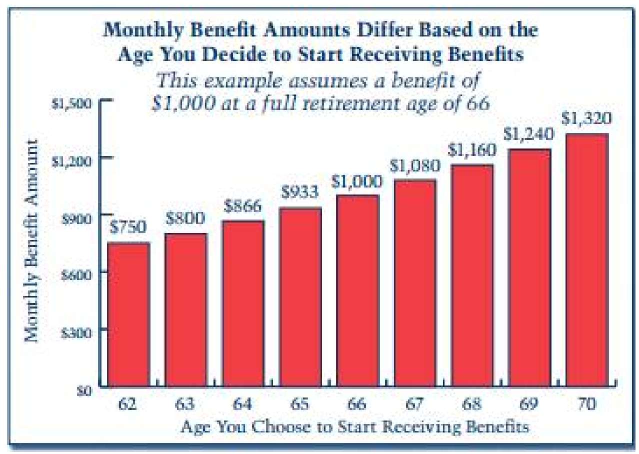
From an investment standpoint, though, European companies are interesting. A good time to invest is when an economy is coming out of a recession. Furthermore, relative to U.S. companies, on average European companies trade at a lower average price-earnings ratio and a higher dividend yield. While we are not investing in any mutual funds or ETFs which focus solely on European companies, we do have meaningful European exposure as a number of our funds invest a portion of their assets there.

Social Security Planning

In helping our clients prepare for a financially secure retirement and in running the Retirement Analysis, we found that Social Security benefits are an integral part of the retirement income stream for most of our clients. Choosing the correct method for receiving benefits may mean thousands of additional dollars during retirement and could even make the difference between achieving your retirement goals and falling short. We have addressed this topic before in our webinar (a replay of which is available on our website).

Understanding the different strategies available to retirees is crucial to success, but according to the 2010 Survey by the Pension Research Study, only a small percentage of Americans understand how benefits are calculated, taxed and adjusted. While it is not feasible to fully describe all the benefits and strategies within the confines of this article, we will touch on several key facts which we believe can make a difference in the quality of your retirement. Here are some interesting facts:

- **You can quality for up to 132% of your regular Social Security Benefits** if you choose to delay receiving benefits. If your age of eligibility for full retirement is 66 (for people born between 1943 and 1954), you may opt to receive your first check as early as 62, in which case you receive only 75% of what you would receive if you waited until your full retirement age (FRA) of 66. Delaying your benefits beyond FRA gives you an 8% annual raise up to 132% of your FRA benefits if you wait until 70 before collecting.



- **You can qualify for ½ of your spouse's benefits**. The amount of your benefit is derived by applying a formula to your 10 highest-income years. Which means that if your spouse made more money than you over his or her career, you may be better off filing for **spousal benefits** rather than your own. Spousal benefits are 50% of your spouse's if you apply at a FRA of 66 and 35% if you apply early at 62. It is also possible for one spouse to collect spousal benefits, while building up their own, and then switching to a higher check later (a valuable strategy called "file-and-suspend"). Coordinating spousal benefits is one of the more complex areas of Social Security, but it can provides a way to maximize benefits. The rules are complicated, and you must follow them carefully.

- **Divorce and Widowhood may also affect the amount of your benefits:**

  - You can receive benefits based on your ex-spouse's work record if the marriage lasted at least 10 years and you are currently unmarried. If you and your spouse were divorced for at least two years, your ex-spouse does not need to file for their benefits in order for you to receive yours.

  - If your spouse is deceased, you may apply for survivor benefits as early as age 60 (50 if you are disabled). The survivor benefit is 100%, assuming you apply at a Full Retirement Age. If you re-marry before reaching age 60, your survivor benefits will stop.

Working and Income:

- **Working: If you are younger than full retirement age, there is a limit to how much you can earn and still receive Social Security benefits**. If you are younger than full retirement age during all of 2013, $1 will be deducted from your benefits for each $2 you earned above $15,120. It is important to note, though, that these benefit reductions are not truly lost. Your benefit will be increased at your full retirement age to account for benefits withheld due to earlier earnings.

Social Security Planning– Cont'd

- **Taxation of Benefits:** Your benefits may be taxable, based on how much income you earn, including pension, investments, and even income from tax-free bonds. If your combined income (Adjusted gross income (AGI) plus ½ of your social security benefits plus any tax-free income) exceeds a certain threshold prescribed by the IRS, then up to 85% of it may become taxable

Medicare- It used to be the case that a retiree would apply for both Social Security and Medicare at age 65. Now that the full retirement age for Social Security is increasing, baby-boomers become eligible for Medicare before their full retirement age. The important thing to remember is that if you decide to delay receiving Social Security benefits because you are working, you need to proactively apply for Medicare to avoid penalties. Missing the sign-up date may result in higher Medicare premiums. Your monthly premium increases 10 percent for each 12-month period you were eligible for, but did not enroll in, Medicare Part B.

The Social Security rules are complex. Luckily, there are many online resources available. Here is a listing of some of the most useful websites:

- Social Security Administration
- AARP SS benefit estimator
- T.Rowe Price Social Security benefits evaluator
- Kiplinger Upcoming Webcast: On September 23rd at 6 p.m. eastern time, Kiplinger will be providing a free 45-minute webcast that will tell you how to get the most out of Social Security. If you are interested, you can register at: Kiplinger.com/go/social

At MAM, we recently purchased a license to "Maximize My Social Security", a Social Security analysis tool developed by Laurence Kotlikoff, Professor of Economics at Boston University. With the help of this tool we can run an analysis to help you decide when and how to collect retiree, spousal, survivor, divorcee, parent, and/or child benefits to help maximum your highest lifetime benefits. For more information, visit our website to view a recording of our webinar or contact us directly.

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 hour-ly 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 avail-able 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

Third quarter of 2013 estimated tax payments are due on September 16th.