McCarthy Asset Management, Inc.
Personalized Wealth Management

August 2017 Monthly Commentary

Sept. 1, 2017

Inside this issue:

Stock Market & Portfolio Performance

August 2017: U.S. stocks were mixed and international stocks down modestly, while bonds posted good gains for the month.

	Aug 2017	YTD 2017	Description:
Without Dividends:			
S&P 500	0.1%	10.4%	500 Largest Public U.S. Companies
Russell 2000	-1.4%	3.5%	2000 of the smallest U.S. stocks
MSCI EAFE	-0.3%	14.7%	international stock index
U.S. Aggr Bond	0.9%	3.6%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	0.0%	8.8%	non-very conservative MAM portfolios
MAM Conserv	0.1%	5.4%	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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Can North Korea Derail the Bull Market?

Recently tensions with North Korea have escalated, with the potential risk of a conventional or even nuclear war. While North Korea has strived for decades to develop its nuclear weapons capabilities, it appears it has made significant progress in the past year. Furthermore, President Trump has added fuel to the fire as he warned of unleashing "fire & fury like the world has never seen" on the Kim Jong-un regime. In addition, he said that "military solutions are now fully in place, locked and loaded, should North Korea act unwisely." This is unusual rhetoric for a U.S. President to use.

Should investors take action now to protect their portfolios? Our advice is "no". Overreacting to a low-probability event isn't a wise course of action. Furthermore, history shows that stocks tend to quickly rebound from losses resulting from war or other shocks, such as terrorism. Since World War II, the U.S. has been involved in a number of military conflicts. Most have had only a very limited impact on financial markets.

Is There a Solution? Our feeling is that North Korea will remain a threat for many years to come. Furthermore, the U.S. is likely to exhaust all diplomatic options before starting a catastrophic second Korean War. We feel the best hope is to convince China, who has the most influence over North Korea, to apply enough pressure to change Kim Jong-un's behavior. The U.S. recently scored a significant diplomatic success by persuading Russia and China to join it in enacting new United Nations economic sanctions on North Korea. This is important because China accounts for more than 90% of North Korea's exports. Beijing has pledged to fully enforce the sanctions and said it will stop importing coal, iron, iron ore and seafood from North Korea.

Stock Market Outlook– Still Positive (For Now)

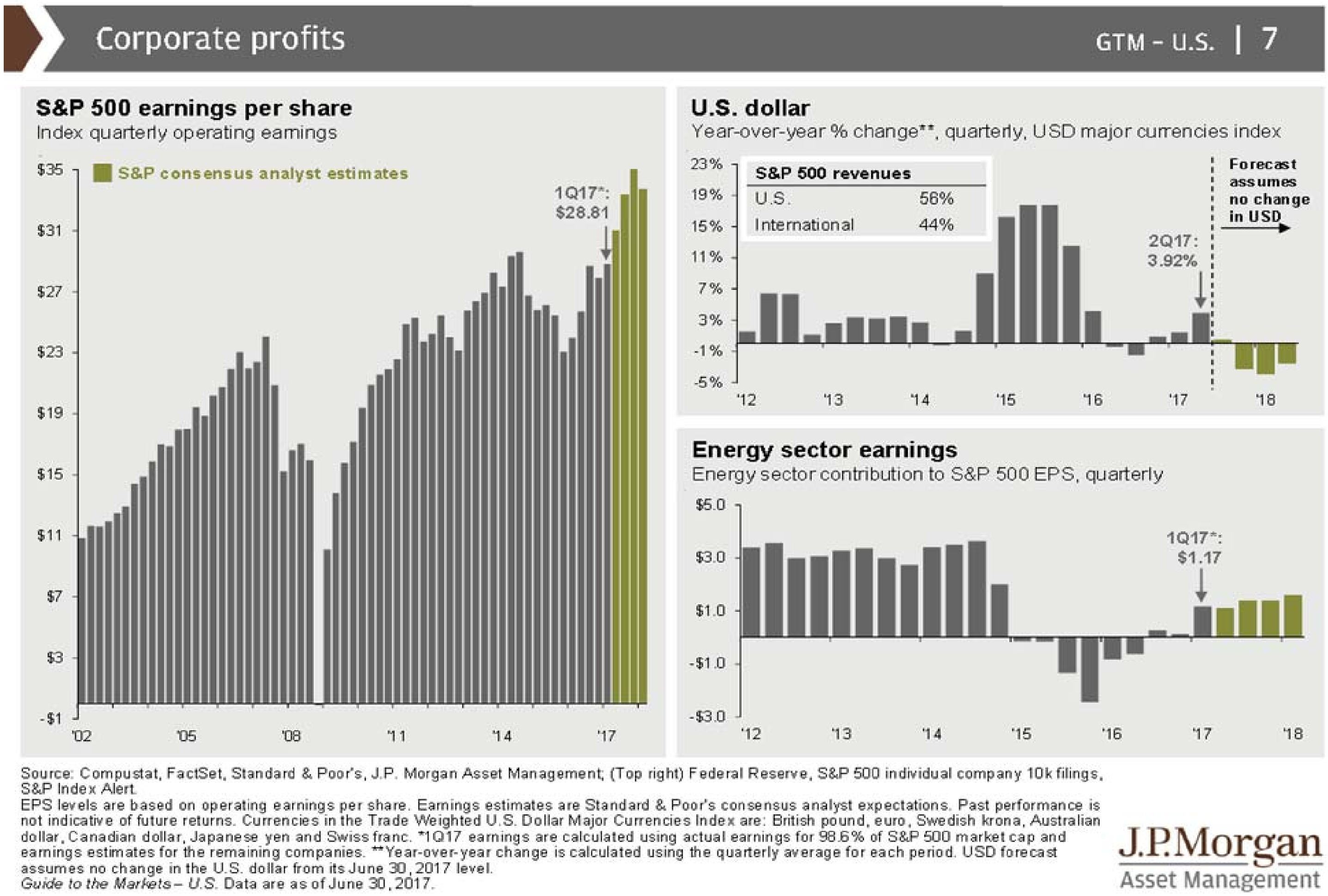
Does the Stock Market Still Have Room to Run? After bottoming in March of 2009, the stock market has been in a bull market for 8 ½ years. How much longer can this bull market last? While we are not market timers, we do try to anticipate when a bear market is approaching, which constitutes a drop of 20% or more in stock prices. Here are items we monitor as a warning of an impending bear market:

1) **A Recession:** Most bear markets are accompanied by a recession. The U.S. expansion is now in its ninth year, making it the third-longest on record. History shows that expansions do not die of old age. Rather, they are usually triggered by aggressive Federal Reserve tightening to cool off the economy, or by the bursting of an asset bubble. While this economic expansion is old, it has been accompanied by tepid economic growth and moderate inflation. At this point, the odds of a recession in the next year appear low. Consumer spending remains solid, job growth has stayed strong, and inflation is muted.

2) **The Federal Reserve:** While the Fed has discussed its plans to raise interest rates and start the process of unwinding its balance sheet, these efforts are expected to be gradual. The Fed could accelerate these moves if inflation were to heat up. This doesn't look likely right now. With the White House and Congress unsuccessful so far in making progress on their pro-growth agenda (healthcare reform, tax cuts, Infrastructure spending), it looks unlikely that the economy will shift into a higher gear any time soon.

3) **Corporate Earnings:** Corporate earnings are capping off another strong quarter. With the reporting season essentially completed, second quarter operating earnings were up 12% compared to one year ago. Revenue growth was particularly strong, up 5%, including the highest percentage of companies beating revenue expectations in six years. As can be seen in the middle part of the J.P. Morgan chart on the next page, analysts are projecting a continued healthy growth in earnings into 2018:

Stock Market Outlook– Still Positive (For Now)- Con't

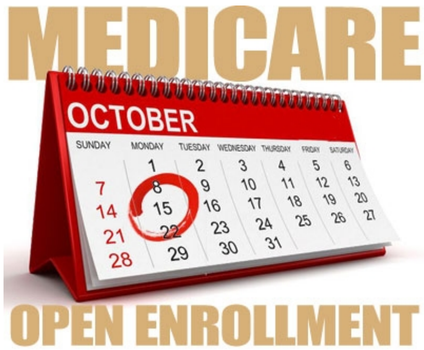


<u>State of the U.S. Economy:</u> The U.S. economy is reaching a sweet spot seldom seen in prior expansions, with July representing the 82nd straight month of job creation and the unemployment rate reaching a 16-year low. Economic growth has been anemic, though, stuck near a 2% annual rate, which is the weakest expansion in output since World War II. Expansions tend to get tripped up by excesses, such as a housing bubble in 2000's, a tech bubble in the late 1990s and inflation in the early 1980s. Absent these excesses, this economy appears to have more room to run. Improving global growth, especially in Europe, will also continue to help.

<u>Are We Due for a Short-term Correction?</u> While solid earnings and moderate economic growth should enable the long-running bull market to continue, history suggests we are overdue for a short-term correction. It has now been 18 months since the last correction ended in February 2016. Per Liz Ann Sonders, Chief Investment Strategist at Charles Schwab & Co, only three times in the last 50 years has the stock market gone this long without at least a 5% correction. Historically, 5% corrections occur every 7 months.

<u>Outlook:</u> While we wouldn't be surprised to see a short-term market correction, we continue to believe this bull market still has some life. The current environment remains positive with steady yet slow economic growth, low interest rates, moderate inflation, and rising corporate earnings. Most bear markets occur near recessions, and the U.S. economy is not showing signs of excesses that historically have built up and led to an economic downturn. In the absence of a recession, stock market declines tend to be more modest. By late 2018 or early 2019, our outlook would likely change if it appears the next recession is getting close at hand.

Medicare Open Enrollment Period Begins October 15th



What is the Medicare open enrollment period? This is when people enrolled in Medicare can make new choices and pick plans that work best for them. Each year, Medicare plans typically adjust what they cost and cover. In addition, your health-care needs may have changed over the past year. The open enrollment period is your opportunity to switch Medicare health and prescription drug plans to better suit your current needs.

When does the open enrollment period start? It starts October 15th and runs through December 7th. Any changes made during this open enrollment will be effective January 1, 2018.

What should you do? Now is a good time to review your current Medicare plan. As part of the evaluation, you may want to consider several factors. For instance, are you satisfied with the coverage and level of care you are receiving with your current plan? Are your premium costs or out-of-pocket expenses too high? Has your health changed, or do you anticipate needing medical care or treatment?

Where can you get more information? Determining what coverage you have now and comparing it to other Medicare plans can be confusing and complicated. Pay attention to notices you receive from Medicare and from your plan. Take advantage of help available by calling 1-800-MEDICARE (1-800-633-4227) or by visiting the Medicare website, www.medicare.gov. Alternatively, the services of Eileen Hamm, a Healthcare in Retirement expert, are available to MAM clients at no cost. Over the last few years, Eileen has provided valuable assistance to a number of clients in helping them make decisions related to Medicare. If you are interested in talking with Eileen, please let Steve or Lauree know and we will send an introductory email.

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

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