McCarthy Asset Management, Inc.
Personalized Wealth Management

Dec. Monthly Commentary/4th Quarter Letter

Jan. 2, 2021

Stock Market & Portfolio Performance

Fourth Quarter 2020: The stock market enjoyed a very strong rally, led by small cap and value stocks. The performance was sparked by very promising news regarding the effectiveness and subsequent FDA approval of two coronavirus vaccines. Bonds rosed modestly for the quarter.

	4th Qtr	FY 2020	Description:
Without Dividends:			
S&P 500	11.7%	16.3%	500 Largest Public U.S. Companies
Russell 2000	31.0%	18.4%	2000 of the smallest U.S. stocks
MSCI EAFE	15.6%	5.4%	international stock index
U.S. Aggr Bond	0.7%	7.5%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	10.5%	11.6%	non-very conservative MAM portfolios
MAM Conserv	8.5%	9.7%	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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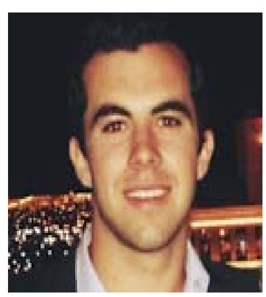

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Economic & Investment Outlook for 2021

Like us, I am sure you are relieved that 2020 has ended. The medical and economic impact of COVID-19 has been tragic. Fortunately, ten months after the start of the pandemic, there is light at the end of the tunnel. Both mRNA vaccines developed by Pfizer-BioNTech and Moderna have demonstrated efficacy rates of around 95%. Additional vaccines, including an important one from Johnson & Johnson, are in Phase 3 testing and likely to receive FDA approval in the first quarter of 2021.

U.S. Economy: Thanks to aggressive actions by the Federal Reserve and Congress, the U.S. economy dodged a bullet in 2020. A record decline in gross domestic product (GDP) in the second quarter was followed by record GDP growth in the third quarter as the economy emerged from lockdowns. Unfortunately, the sharp increase in new COVID-19 infections has accelerated in recent weeks. As a result, many states have implemented new restrictions on activity that will temporarily slow the economic recovery. This should only be a temporary setback, though, as the rollout of effective vaccines should allow the economy to more fully reopen as we progress through 2021.

Other Positive Factors for our U.S. Economic and Investment Outlook: In addition to the vaccine developments, other positives include the prospects of a divided Congress (i.e., Democrat-controlled House and Republican-controlled Senate) with relatively benign implications for major changes to tax policy, a new Stimulus bill passed in late December, and stronger-than-expected corporate earnings.

On the political front, there are looming uncertainties regarding the makeup of the Senate with the Georgia run-off elections in early January. If Republicans win at least one of the two seats, they will retain control of the Senate. This would result in a split Congress, which historically has produced the strongest stock market returns. This is because a split Congress will likely force both parties to negotiate on policy decisions, limiting the opportunity for dramatic changes.

Outlook for Global Economy and International Equities: The global economy has the potential to make a full recovery in 2021. Currently, the International Monetary Fund projects growth of 5.2% for 2021, rebounding from a 4.4% decline in 2020. Easy monetary and fiscal policy, combined with a vaccine rollout beginning the first half of 2021, should lead to a strong rise in economic and earnings growth. Furthermore, equities outside the U.S. are significantly cheaper than their U.S. peers based on price-to-earnings, price-to-sales, and dividend yields. The macro-outlook also favors non-U.S. stocks, which tend to outperform when global growth is strengthening and the U.S. dollar is weakening.

While we are not yet predicting that international stocks will once again start outperforming U.S. stocks, new economic cycles typically come with new leadership. Market leadership tends to last for many years, before reversing at the start of a new cycle. For example, after international equities outperformed in the 1980s, the 1990 recession saw a shift to U.S. stock outperformance. The 2001 recession saw a switch back to international outperformance, before the 2008 recession flipped the switch again to U.S. outperformance. And now, the start of a new cycle may once again start to favor international equities over U.S. equities.

Concentrated Market Performance: In our September 2020 Monthly Commentary, we wrote an article titled “Narrow Stock Market Leadership from Large Technology Companies.” Through the end of September, all of the year-to-date gains in the S&P 500 had come from the five largest stocks by market capitalization (Apple, Amazon, Microsoft, Facebook and Alphabet/Google). In the article, we wrote that “while technology stocks may continue to lead the market for the foreseeable future, the development of one or more effective vaccines could shift the tide where value stocks will once again start to outperform.” Since early September, there has been a series of shifts from growth stocks to value stocks, from large-cap to small-cap, and from stay-at-home stocks (Netflix) to get-out-and-about stocks (airlines, hotels, etc.) Time will tell if these shifts extend throughout 2021.

Economic & Investment Outlook for 2021– Con't

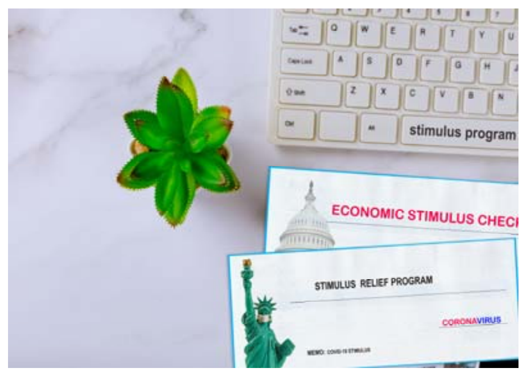
Fixed Income & Bonds: The outlook for bonds is not as promising. Bond prices move inversely to the direction of interest rates. They performed well in 2020 as the Federal Reserve reduced short-term rates close to zero at the start of the pandemic, and long-term rates fell sharply as the U.S. quickly slipped into a recession. After reaching a near all-time low of 0.5% last summer, the 10-year Treasury bond started gradually rising, closing 2020 at 0.9%. We expect the yield to extend this slow climb in 2021, reflecting the prospects of faster economic growth.

Meanwhile, short-term rates are likely to remain near zero as the Federal Reserve continues to stimulate the economy. Consequently, the yield curve should steepen, as the spread between short and long-term yields expands. We expect inflation to remain well contained for the next two to three years, before moving sharply higher by the middle of the decade.

MAM Comments: While we are optimistic about our 2021 outlook for economic growth, our outlook for equities is more of cautious optimism. We expect positive returns for the stock market for 2021, although returns could be constrained by relatively high stock prices.

Although our outlook for bonds is not as favorable, they will still play an important role in protecting portfolios on the downside. We are using bond funds with a short duration as we emphasize short and intermediate-term bonds, and avoid long-term bonds due to our concern for rising long-term rates.

Another Coronavirus Relief Act



The President signed the COVID-related Tax Relief Act of 2020 (the Act) on December 27th, 2020. The Act, which is estimated to cost $900 billion, contains a second round of recovery rebate payments. With a length of almost 600 pages, the new law includes numerous provisions. This article will address those that are most likely to impact our clients.

Stimulus Payments: Eligible households will receive up to $600 for each adult and $600 for each dependent child (under age 17). Payments will start phasing out for individuals with 2019 Adjusted Gross Income above $75,000 and couples above $150,000. Taxpayers, who don't qualify because their 2019 income was too high, will be eligible to receive a credit for the stimulus payment on their 2020 federal tax return if lower 2020 income makes them eligible. By contrast, taxpayers whose 2019 AGI was low enough to receive this second stimulus payment, but who's actual 2020 was too high, will not have to repay the payment.

On December 29th, the IRS and Treasury Department said they will begin delivering this second round of payments immediately. If you had direct deposit information on your 2019 return, the rebate payments should begin to arrive within the next week. Paper checks will be mailed starting this month. The IRS has an "Economic Impact Payment Information Center" page on its website at IRS.Gov. In a few weeks, the center should be open to help eligible recipients tract their additional rebate payment.

News Flash: Upon a request from President Trump, there is a last-minute effort to increase the amount of the stimulus payments to $2,000 (up from $600). The House has already approved the increase. As of December 30th, Senator McConnell is delaying a vote on the measure in the Senate.

Unemployment Benefits: An additional $300 per week for all workers receiving unemployment benefits will be paid from December 26, 2020 to March 14, 2021. As with the prior aid package, gig workers and others who do not ordinarily qualify for unemployment benefits would be eligible for the jobless aid.

Rental Assistance: The bill provides $25 billion of assistance to tenants in arrears on their rent. It also extends a federal eviction prohibition until the end of January.

Expanded Deduction for Charitable Giving: Before 2020, the charitable deduction was only available to households who itemize their deductions. Then in March, Congress allowed households that claim the standard deduction to deduct up to $300 in charitable contributions. With this Act, married couples that file jointly and claim the standard deduction will be allowed to deduct $600 in charitable giving for tax year 2021 (up from $300 for 2020).

Provisions Impacting Other Deductions: Business meal expense will now be 100% deductible, up from 50%. And the hurdle to claim medical expense deductions has been "permanently" returned to 7.5% of Adjusted Gross Income, down from 10%.

Another Coronavirus Relief Act– con't

Small Businesses: $325 billion is allocated to help small businesses including $284 billion for a second round of Paycheck Protection Program (PPP) loans and $20 billion for Economic Injury Disaster Loans. This new round of PPP loans (PPP2) could be open to applicants in early January. Furthermore, businesses which received a previous PPP loan that has been forgiven, will not need to reduce their business deductions for the amount of the loan forgiveness. Effectively, this makes the forgiveness of these loans tax-free.

For those businesses who have yet to receive a loan under the original Paycheck Protection Program, the ability to apply for "round one" financing will be reopened. By contrast, those who already received an original PPP loan, may be able to receive a second loan under PPP2. PPP2, however, has more stringent qualification requirements than the original PPP. To qualify, the business must have experienced a drop in revenue of more than 25% in **any** quarter in 2020, as compared to the same quarter in 2019, in order to be eligible for a PPP2 loan.

The Employee Retention Credit under the CARES Act has been extended to cover compensation paid through June 30, 2021. The refundable tax credit is 50% of up to $10,000 in wages paid by an eligible employer whose business has been financially impacted by COVID-19. Originally, you could only get this credit if you didn't receive a PPP loan. Now this has changed so you can potentially take advantage of both.

CA Proposition 19 - Changes Related to Property Tax Assessed Values

Proposition 19 was passed by California voters in the November Presidential Election. It gives Californians age 55 and older potentially a big property tax break when buying a new home. Legislators hope this measure will increase home sales by calming the fears of those who want to move but are concerned about rising property tax bills. To fund the new tax break, it will curtail a separate tax break Californians may receive on homes inherited from parents and grandparents.

CA Property Tax Law- Proposition 13: Under 1978's Proposition 13, real estate in California is reassessed at market value when it changes hands. In between changes of ownership, the assessed value can go up by no more than 2% per year plus the value of new construction. Normally, taxes go up when a property turns over because market values have risen more than 2% a year over the long term.

After Prop. 13 passed, voters approved several propositions that excluded some property transfers from reassessments, including those for older adults and transfers between parents and children. Prop. 19 will replace those exemptions with new rules.

Rules Related to Those 55 & Older: Currently, homeowners older than 55 or severely disabled can sell their primary residence and transfer its tax base to a replacement home of equal or lessor value in the same county, or in one of 10 that accept inter-county transfers. Under Prop 19, effective April 1, 2021, those 55 and older and disabled homeowners, will be able to sell their primary residence, buy a replacement home of any value anywhere in CA, and transfer its tax base from the old home to the new one. If the new home is more expensive, the difference in market value between the old and new homes will be added to the old home's tax base. A homeowner will be able to do this transfer up to three times.

Rules Related to Transferring Property to Children: Today a parent can transfer by gift, sale or inheritance, a primary home of any value and it won't be reassessed, even if they leave it vacant or rent it out. A parent can also transfer other real estate, such as a rental home or commercial property, and exempt up to $1 million of assessed value (not market value) from reassessment. A married couple can transfer up to $2 million. Prop. 19 will abolish this tax break on any property not being used as a primary residence or farm. To qualify, the new owner must also use the property as their primary residence or farm and the difference between the assessed value and current market value does not exceed $1 million. If the difference does exceed $1 million, the primary residence or farm will be reassessed based on a convoluted formula.

Tax Planning for CA Real Estate: Families with substantial real estate holdings may want to consider transferring property before February 16, 2021. However, there's a trade-off. For those who plan to leave the property to their children as an inheritance, the children will lose the step-up in basis that property receives under current law when it is transferred at death. This step-up allows heirs to avoid capital gains taxes on inherited property if they sell it right away.

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) **Estimated Tax Payments**: 4th Quarter 2020 Federal & State Estimated Payments are due January 15, 2021.

2) **ADV Part II**: You were provided a copy of our ADV Part II when you became a MAM client. As a Registered Investment Advisor, we file this this document annually with the Securities and Exchange Commission. Along with other items, it contains information regarding our fees, experience and educational backgrounds. Each year, the SEC requires us to offer clients the opportunity to receive a copy of our most recent ADV Part II. Please let us know if you would like to receive a copy.

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