McCarthy Asset Management, Inc.

Personalized Wealth Management

February 2019 Monthly Commentary

March 1, 2019

Stock Market & Portfolio Performance

Inside this issue:

February 2019: U.S. and international stocks performed well for the second consecutive month. The S&P 500 is off to its best year's start in over 30 years. Bonds were relatively flat for the month and are up modestly for the first two months of 2019.

	Feb 2019	YTD 2019	Description:
Without Dividends:			
S&P 500	3.0%	11.0%	500 Largest Public U.S. Companies
Russell 2000	5.1%	16.8%	2000 of the smallest U.S. stocks
MSCI EAFE	2.3%	8.9%	international stock index
U.S. Aggr Bond	-0.1%	1.0%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	2.2%	8.1%	non-very conservative MAM portfolios
MAM Conserv	1.7%	6.0%	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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Stock Market Outlook

What a Start to 2019! After a very difficult 4th quarter of 2018, investors have been pleased (and probably surprised) to see the S&P 500 off to its best year's start in nearly three decades. Over the short-term, the market is overdue for a minor pullback. In fact, such a decline could be healthy to keep a lid on excessive speculation. What could cause such a pullback? One possibility is a corporate earnings slump.

Corporate Earnings Slump: Corporate earnings for the 4th quarter of 2018 were up approximately 17% from the prior year. While this is impressive growth, it is actually a reduction from the 25% growth for the first three quarters of 2018. Currently, analysts estimate that earnings for the first quarter of 2019 will be flat with the prior year. Why the slow down? There are several reasons:

- With the anniversary date having passed for the 2018 corporate tax cuts, this will no longer provide a tailwind. Analysts estimate that about 7% of the 17% fourth quarter growth was due to the 2018 corporate tax cuts.
- Uncertainty surrounding the U.S.-China trade dispute.
- Slower growth overseas.

Analysts estimate that corporate earnings growth will resume after the first quarter, with full-year 2019 growth estimated to be 4% to 5%. This probably assumes there will be some resolution with the U.S.-China trade dispute and that economic growth will pick up globally.

Relatively Optimist Outlook from BCA Research: BCA Research is an investment research firm that we highly respect. It is also the most expensive investment research service that we subscribe to. In a recent Weekly Report for their Global Investment Strategy, they discussed their outlook for 2019. Included in their comments were:

- None of the preconditions for a U.S. recession are in place yet. The Fed's decision to delay further rate hikes ensures that it will take at least another 18 months for monetary policy to turn restrictive.
- Global growth should accelerate by mid-2019, as Chinese stimulus kicks in and the headwinds facing Europe dissipate.
- Investors should overweight global equities and underweight bonds over the next 12 months.
- International stocks will gradually start to outperform U.S. stocks.

The BCA report speculated that the next U.S. recession is not just around the corner, as some economists seem to think. Perhaps this economic expansion can endure beyond 2020.

MAM Portfolio Implications: While we would not be surprised to see a stock market pullback, particularly if first quarter corporate earnings are weak, we don't try to time these short-term movements. We continue to focus on the timing of the next U.S. recession. We are encouraged to see BCA Research predict that this is still at least 18 months away. For now, we plan to stay the course with current positioning of portfolios.

When to Consider Qualified Charitable Distributions
By Lauree Murphy

For those who are over 70 ½ and have a required minimum distribution (RMD) from their IRA account, one option is to make a qualified charitable distribution. This is done by directly contributing part or all of your IRA RMD to one or more qualified charities. Distributions made this way are counted toward your RMD, but are not included in your taxable income. Otherwise, IRA distributions are included in your Adjusted Gross Income and subject to ordinary income tax rates.

Below are the specific rules that apply to Qualified Charitable Distributions:

- On the date of the contribution you must be over 70½.
- Inherited IRAs can qualify for the charitable contribution distribution BUT only if the beneficiary of the IRA is over 70½.
- The maximum dollar amount for the distribution is $100,000 a year per person. Married people can each make $100,000 in donations as long as they come from their own IRAs.
- These charitable contributions can only come from individual IRAs, not SEPs or SIMPLE IRAs or any type of employer retirement plan.
- You must have your IRA custodian (brokerage firm) directly send the check to the charity. Contact your custodian for the proper form to submit a check request. Be sure no taxes are withheld from the distribution. All the money must go to the charity to qualify and you won't owe taxes anyway.
- Timing is important. You want to make your charitable distributions first, before taking any other distributions from your IRA. That's because the RMD is satisfied from the first distributions that come from the account. You can't undo your distribution once it has been made.
- The distribution must be made to a public charity. Private foundations and donor advised funds aren't eligible. If 100% of the donation does not go to the charity, it does not count. For instance, if you donate to KQED Public TV and receive a "thank you gift" for your donation, the donation won't qualify.
- You also cannot claim an itemized deduction for the qualified charitable distribution.
- Be sure to keep proper documentation for your distribution. A receipt from the charity listing the date and amount of the donation, as well as stating "no goods or services were received," is best.

Two Good Reasons to Consider Qualified Charitable Distributions

1. Higher Standard Deductions

Changes to the tax law in 2018 included a large increase in the standard deduction. Many taxpayers, who used to itemize for federal taxes, may be switching to the standard deduction. That would mean that they would receive no benefit on their Federal return for charitable deductions.

For single taxpayers, the itemized deduction is $12,000 in 2018. If you are single and over 65, you can add $1,600, increasing the standard deduction $13,600. For married taxpayers, the standard deduction is $24,000. Add $1,300 for each individual over 65 and the standard deduction could potentially be as high as $26,600 in 2018.

When to Consider Qualified Charitable Distributions By Lauree Murphy– Con't

Here's an example:

John is single. He projects his 2019 modified adjusted income to be $162,000. He has a required minimum distribution from his IRA of $20,000. He regularly makes an annual donation to his church of $5,000. Usually he writes a check to the church and claims it as an itemized deduction on his Schedule A. In 2019 he won't have enough expenses to itemize for federal taxes. After learning about qualified charitable distributions, he satisfies part of his RMD by having his IRA custodian directly contribute $5,000 from his IRA to his church. Note that John did not increase his charitable gift. He simply changed how he gives. He shifted the gift from an itemized deduction that provided no tax benefit, to a reduction in IRA distribution income.

This makes sense if:

- You plan to contribute to a charity anyway.
- Your deductions are under the threshold to itemize for federal taxes.
- From a tax perspective, it may be better to decrease adjusted gross income than to increase itemized deductions. Some deductions like medical expenses and miscellaneous itemized deductions are based on adjusted gross income (AGI). California did not conform to many of the federal tax changes. Therefore, John may still be able to itemize for California and deduct more expenses on his state tax return because of the lower AGI.

2. Tax Planning for Medicare Premiums

Your 2019 Medicare premiums are based on the income reported on your 2017 tax return. The government subsidizes Medicare. Those with higher incomes pay a higher percentage of the Medicare cost. Looking ahead, you may be able to reduce your 2021 Medicare premiums by making changes that affect your 2019 income. If you reduce your AGI by using a qualified charitable distribution, you might decrease your Medicare premiums.

Medicare Brackets for 2019

Filing Single MAGI in 2017:	Married Filing Joint MAGI in 2017:	Percent of Cost Covered by Monthly Part B Premiums	Part B Monthly Payment For 2019
$85,000 or less	$170,000 or less	25%	$135.50
$85,001- $107,000	$170,001- $214,000	35%	$189.60
$107,001- $133,500	$214,001- $267,000	50%	$270.90
$133,501- $160,000	$267,001- $320,000	65%	$352.20
$160,000- $500,000	$320,000-$750,000	80%	$433.40
Above $500,000	Above $750,000	85%	$460.50

When to Consider Qualified Charitable Distributions
By Lauree Murphy– cont'd

Here's an example:

John is single. He projects his 2019 modified adjusted income to be $162,000. That places him in the second highest Medicare bracket. After learning about qualified charitable distributions, he satisfies a portion of his RMD by having his IRA custodian directly contribute $5,000 from his IRA to his church.

When John prepares his 2019 tax return, his modified adjusted gross income will be $5,000 less, or $157,000. Using the current Medicare data, John has dropped down a bracket for his 2019 Medicare Part B premium. We don't know the rates for 2020 yet, but using 2019 data, he would save $81.20/month on his Part B premium or $974.40/yr.

Due to the time lag between the end of a tax year and when premiums are determined, it's hard to predict exactly how much savings you will receive by moving into a lower threshold for Medicare. We also can't predict when or if Medicare might adjust the brackets again.

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

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 document with the Securities and Exchange Commission. Along with other items, it contains information regarding our fees and our 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 current copy.