McCarthy Asset Management, Inc.
Personalized Wealth Management

February 2021 Monthly Commentary

March. 1, 2021

Stock Market & Portfolio Performance

February 2021: Despite dropping 3% the last two days of the month, stocks managed to hold onto modest gains. Small-cap stocks continued to lead the market. Bonds fell relatively sharply as the 10-year Treasury bond reached it's highest level since prior to the start of the pandemic 12 months ago.

	Feb 2021	YTD 2021	Description:
Without Dividends:			
S&P 500	2.6%	1.5%	500 Largest Public U.S. Companies
Russell 2000	6.1%	11.5%	2000 of the smallest U.S. stocks
MSCI EAFE	2.1%	1.0%	international stock index
U.S. Aggr Bond	-2.5%	-3.0%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	2.1%	1.5%	non-very conservative MAM portfolios
MAM Conserv	1.3%	0.7%	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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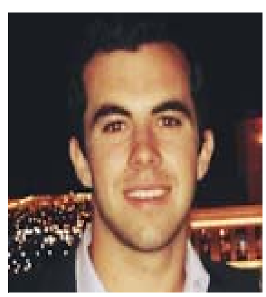

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How Much Government Stimulus is Too Much?

America's economy is likely to recover faster from the pandemic than most other large economies. This is not because we have controlled the spread of COVID, but mostly because of its enormous economic stimulus. Currently, Congress is debating an additional $1.9 trillion in emergency spending called the "American Rescue Plan." Added to the $4 trillion authorized in 2020, stimulus spending would exceed the equivalent of 25% of the U.S.'s 2019 Gross Domestic Product (GDP).

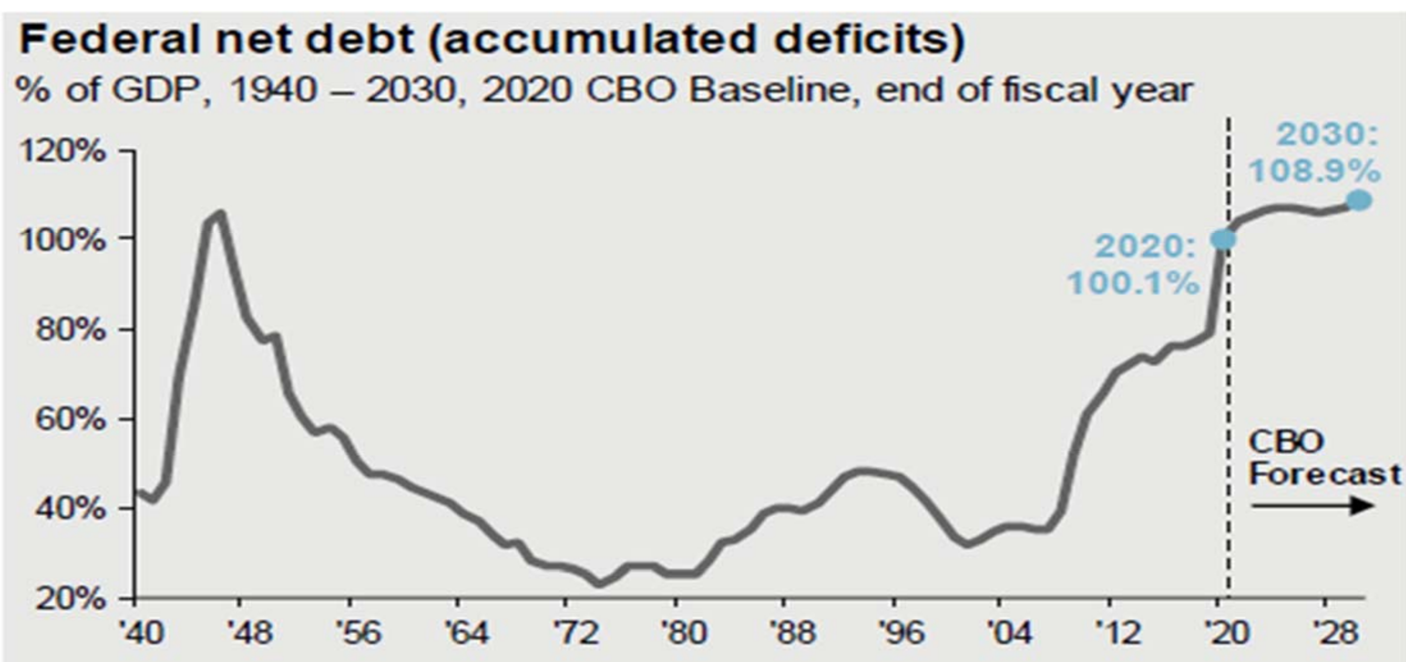
Our concern is this latest proposed spending may be too much. According to official projections released on February 1st, without the $1.9 trillion America's Rescue Plan, America's GDP would lag behind its potential by only 1.3% at the end of 2021. The proposed $1.9 trillion plan would spend six times more than this shortfall. Keep in mind that there may also be a large infrastructure plan passed within the next year or two as such spending has wide bipartisan support.

There is huge pent-up demand for services that many Americans have largely gone without since the virus shut down much of the economy last year. It is estimated that American consumers currently have an extra $1.6 trillion stashed in savings. If the rollout of vaccinations allows the U.S. economy to fully reopen in the second half of 2021, a significant portion of this pent-up demand could be unleased. While great for economic growth, the risk is an overheated economy could lead to a burst of inflation. This in turn could accelerate the arrival of the next recession if the Federal Reserve is forced to raise interest rates to cool inflation.

This is not to say that Congress shouldn't pass some version of the American Rescue Plan. More spending is needed to accelerate the rollout of the COVID vaccinations and to expand testing. Furthermore, extending unemployment insurance benefits beyond its scheduled expiration in March should be a priority. This will help replenish the incomes of workers bearing the brunt of the crisis who have lost their jobs through no fault of their own.

The January Bureau of Labor Employment Situation report portrayed a sharp contrast between the depressed state of the Leisure & Hospitality sectors and the rest of the economy, which is experiencing a steady recovery. This points toward the need for targeted relief measures rather than massive monetary injections and across the board stimulus.

There is also the issue of how to pay for the massive Federal deficits the U.S. is now incurring. Eventually, taxes will need to be increased and/or spending curtailed. The chart below, from the Congressional Budget Office (CBO) and J.P. Morgan, shows the growth in the U.S. net debt as a percentage of GDP will soon exceed the peak it reached during World War II:



How Much Government Stimulus is Too Much– Con't

MAM Comments: Passing the American Rescue Plan will probably be bullish for the stock market for 2021. If the economy receives too much stimulus, though, interest rates will eventually start to rise to keep inflation in check. This could lead to an early end of the current bull market in 2022 or 2023. While not a risk for now, we will be monitoring this longer-term risk for MAM portfolios.

Stock Market Update

The stock market rally that started last April continued during the first two months of 2021. The S&P 500 was up 1.5%, while the small-cap Russell 2000 index climbed 11.5%. Foreign stocks were up modestly. In our 2021 market outlook we provided in our December 2020 Monthly Commentary, we were optimistic for strong economic growth and cautiously optimistic for equities to perform well. Our outlook for bonds, though, was negative due to concerns about rising interest rates. At least so far, this has been the case as the yield on the 10-year treasury rose from 0.92% on 12/31/20 to 1.46% on 2/28/21. Because bond prices fall as interest rates rise, the Lehman U.S. Aggregate Bond index fell 3.0% for the first two months of 2021. Bond funds utilized in MAM portfolios held up relatively well as they are invested primarily in short and intermediate term bonds, which are less susceptible to rising interest rates.

We continue to be optimistic for the prospects of strong economic growth for 2021. Massive government stimulus combined with an aggressive rollout of COVID vaccines should allow the U.S. economy to more fully reopen as we move through the second half of the year. While stock prices may have gotten ahead of themselves, as long as bond yields move higher in conjunction with improving growth expectations, stocks are likely to remain in an uptrend. The end of this bull market is more likely to occur when the Federal Reserve starts to sound more hawkish due to the risk of the economy overheating. This is not likely to happen for at least the next 12 months.

What Can Retirees Do with Their Home Equity?

Many older Americans have a large share of their net worth tied up in their homes. According to U.S. census data from 2013, home equity composed 66% of the net worth of homeowners between the ages of 65 and 69. The percentage was even higher for older Americans—70% for those between the ages of 70 and 74, and 76% of the net worth of people over age 75.

A research paper from the Center for Retirement Research (CRR) at Boston College noted that few retirees tap their home equity in retirement, either by downsizing or taking a reverse mortgage, and suggested a variety of reasons why this might be so. Leaving a bequest was a key one. Traditionally, many older homeowners have considered home equity as part of their estate plans, with the goal of passing the asset to their children after they're gone.

The CRR researchers also noted that for some older adults it is beneficial to avoid tapping their home equity because homes are not typically a countable asset in the calculations used to determine eligibility for Medicaid-funded long-term care and other means-tested benefits.

But maintaining home equity throughout retirement isn't ideal in many situations, especially for those with significant housing wealth who are forced to curtail their spending to avoid depleting their financial assets. For them, tapping home equity may be a sensible move. Some people die with substantial home equity that could have been used to support a more comfortable retirement.

What Can Retirees Do with Their Home Equity?– con't

Here are a few options that a retiree with substantial equity in their home can consider:

Keep the Home: If you are living a financially-comfortable life in retirement, there may not be a financial need to sell your home. There could be other reasons, though, why you would want to sell and move, such as wanting to be closer to where your children live.

Sell the Home. Selling your home is the most direct way to unlock the equity. It can also allow you to seek a new location with lower taxes and living costs. Downsizing your house could carry additional upsides, such as reduced maintenance cost and moving to a home that is better suited to your needs as you age. Here are two financial considerations:

- Capital Gains Tax: Depending on the amount of the gain from the sale, capital gains taxes can be significant. The first $250,000 of gain for singles and $500,000 for married couples, though, is tax free if the home qualifies as their principal residence. Furthermore, for a surviving spouse, the home's cost basis is "stepped-up" to the current value when an owner's spouse dies. Therefore, capital gains until that point are forgiven.

- Property Taxes: For California homeowners age 55 and older, recently passed Proposition 19 potentially makes it less expensive to own a new home. Specifically, it allows them to fully retain their low property tax base when they sell and purchase a less expensive home in California.

Tap Home Equity Via a Reverse Mortgage: While this is not a common option, reverse mortgages are becoming more popular. Borrowers can take the loan in a lump sum or as a line of credit. Repayment of the loan typically isn't due until the homeowner sells the property or dies. From a financial standpoint, the big benefit of using a reverse mortgage is the ability to tap into the home equity without having to sell the home. There are disadvantages, however. One is that a retiree will leave less equity for their heirs to inherit. Second, reverse mortgages can be expensive, as they typically have higher rates than conventional mortgages, and they also come with high closing costs. Finally, and maybe most significantly, the home must remain owner occupied. If the owner moves out, the loan becomes due.

Convert the Home to a Rental: This can be an appealing option if you want to move, but don't want to sell the home and incur large capital gains taxes. If you want to purchase another home, though, you won't have the equity of the current home to help cover the purchase price. Furthermore, for California homeowners, you can only transfer a low property tax base to a new home if you sell your current home.

MAM Comment: Most of our clients have chosen to either stay in their home, or sell and either purchase a less expensive home or rent. What is best for you depends on your circumstances. The Retirement Analysis we prepare for clients is a great way to evaluate the financial impact of your various options. Please let us know if you would like to discuss your situation.

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 copy.**

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