McCarthy Asset Management, Inc.
Personalized Wealth Management

January 2015 Monthly Commentary

February 2, 2015

Stock Market & Portfolio Performance

Inside this issue:

January 2015: In a reversal to 2014's performance, international stocks rose in January while U.S. stocks fell. Bonds climbed as interest rates fell.

	Jan 2015	YTD 2015	Description:
Without Dividends:			
S&P 500	(3.1)%	(3.1)%	500 Largest Public U.S. Companies
NASDAQ	(2.1)%	(2.1)%	stocks trading on the Nasdaq
Russell 2000	(3.3)%	(3.3)%	2000 of the smallest U.S. stocks
MSCI EAFE	0.4%	0.4%	international stock index
U.S. Aggr Bond	2.1%	2.1%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	(1.5)%	(1.5)%	non-very conservative MAM portfolios
MAM Conserv	(0.2)%	(0.2)%	portfolios with 50%+ bond allocation

Comment: We expect higher stock market volatility this year, but are hopeful for full-year positive performance.

Advisor Team

McCarthy Asset Management, Inc.

Three Lagoon Drive Suite # 155
Redwood Shores, CA 94065
USA

STEVE MCCARTHY
CPA, CFP®,
Owner and Principal
650 610-9540 x 303
steve@mamportfolios.com

Lauree Murphy, CFP®, EA
Financial Planner
Tax Specialist
650 610-9540 x 304
lauree@mamportfolios.com

ANTHONY BERTOLACCI , EA
Director of Compliance
Tax Accountant
650 610-9540 x 302
anthony@mamportfolios.com

MARILYN BLANCARTE
Executive Assistant
650 610-9540 x 305
marilyn@mamportfolios.com

Impact of the Plunging Price of Oil

Since last June, the price of a barrel of oil has plunged from approximately $110 to less than $50. For the previous three years prior to that, oil fluctuated between $100 and $120 per barrel. The purpose of this article is to discuss some of the possible economic implications of this dramatic drop in oil prices since last summer.

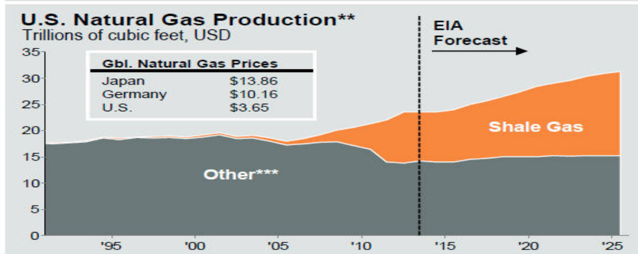
What Caused the Drop? In the past, falling oil prices were often triggered by a slowing economy that reduced the demand for energy. This time, weakening global demand as a result of stagnant global growth has been a factor. More significantly, though, has been rising oil production. In particular, the U.S. has been experiencing an energy boom. As can be seen in the upper left of the J.P. Morgan chart below, "Energy: Supply, Demand and Prices", U.S. oil production has climbed 20.7% since 2013, while the production from OPEC and other countries has been relatively stagnant. Meanwhile, worldwide oil consumption has increased only 2% annually the last couple of years. As a result, currently the supply of oil exceeds the demand by approximately 1 million barrels per day.

MARKET INSIGHTS | Energy: Supply, Demand and Prices

Economy

Change in Production and Consumption of Oil
Production, consumption and inventories, million barrels per day

	2013	2014*	2015*	Growth since 2013
Production				
U.S.	12.3	13.9	14.9	20.7%
OPEC	36.0	36.0	35.9	-0.3%
Other	41.8	42.1	41.9	0.4%
Global	90.2	92.0	92.8	2.9%
Consumption				
U.S.	19.0	19.0	19.1	0.7%
Europe	13.6	13.5	13.4	-1.9%
Japan	4.5	4.4	4.2	-6.4%
China	10.6	11.0	11.3	6.9%
Other	42.8	43.6	44.3	3.6%
Global	90.5	91.4	92.3	2.0%
Inventory Change	-0.3	0.5	0.4	



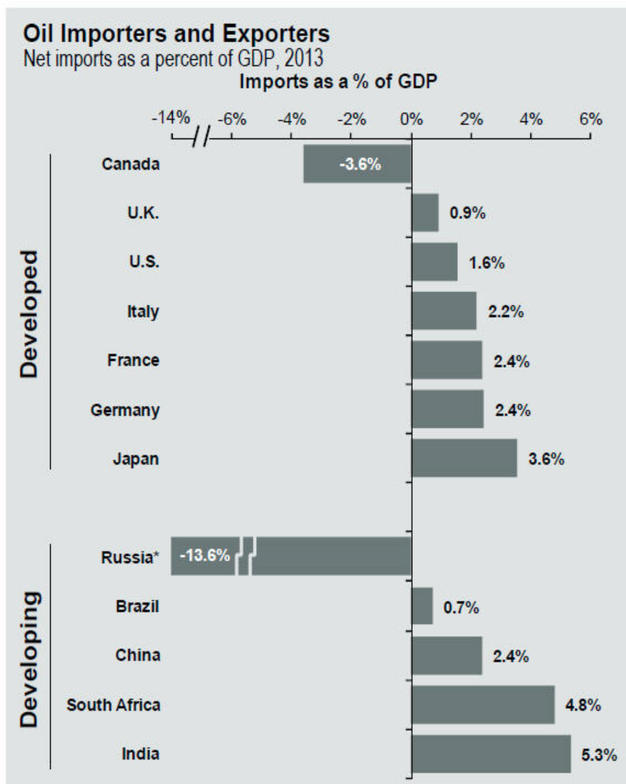
Source: EIA, FactSet, J.P. Morgan Asset Management. *Forecasts are from EIA Annual Energy Outlook and start in 2013. **Production numbers as of 2013. ***Other includes conventional on and offshore natural gas drilling, tight gas, and coalbed methane. Natural gas prices are $/mmbtu and are as of December 2014.

Exacerbating the situation has been the response of Saudi Arabia, the world's largest oil producer. In the past, Saudi Arabia has acted as a "swing producer", decreasing production when there was a surplus and increasing production when there was a shortage. For OPEC to preserve its market share, it is allowing prices to fall to the point where U.S. producers are forced to reduce their output to balance global supply and demand.

Economic Implications: The following are possible economic implications of lower oil prices:

1) **Loser- Oil Exporting countries:** The economies of Russia and Venezuela will be hit particularly hard. Since the second half of 2014, the price of the Russian ruble has collapsed, resulting in a financial crisis for the Russian economy. Venezuela's economy was already in shambles, so it will only get worse.

2) **Winner- Oil Importing Countries:** As can be seen on the J.P. Morgan chart on the right, "Oil Importers and Exporters", major countries that will benefit include Germany, Japan, China and India. The U.S. will also profit, as it is still a net oil importer.



Impact of the Plunging Price of Oil– Con't

3) **Net Winner- U.S. Economy:** While the energy companies will be hurt, U.S. consumers will benefit. Oxford Economics estimates that the U.S. economy would grow a full percentage point faster if oil drops to $40 a barrel. This is because the nation's 200 million drivers will save an average of $750 this year if prices stay low. Combined with lower heating bills, this could put an extra $120 billion in consumer's pocket to be spent on other things.

4) **Lower Inflation:** If oil prices stay low or even drop further, inflation is likely to stay muted for even longer. This could induce the Federal Reserve to delay the start of interest rate increases that are expected later this year.

Outlook for Oil Prices: Ignoring a geo-political event that could cause prices to quickly spike, in the short-term, the price of oil may fall even further. It will take a while for American producers to scale back production. As fewer new wells are drilled, though, the growth in U.S. oil production is likely to slow. Furthermore, energy consumption is likely to climb with gasoline prices as low as they are. So over the longer term, our expectation is that prices are likely to recover to at least $60 to $70 per barrel.

Stock Market Implications: In the past, the stock market performed poorly when oil prices dropped sharply. This was because the drop was often due to reduced energy demand that was triggered by a recessionary economy. For instance, in the financial crisis, oil fell to as low as about $32 a barrel by the end of 2008 while stock prices were tumbling. Since the current price drop is more likely due to rising U.S. oil production, the impact on the stock market is more difficult to predict. In all likelihood, the impact should be positive. Energy firms account for a relatively small weight in most equity indexes, such as the S&P 500. Offsetting the negative impact of energy companies will be the positive impact of consumer stocks, which make up a larger portion of most equity benchmarks.

Eurozone– Better Days Ahead?

Unlike the U.S., Europe has struggled to recover from the 2007-09 Financial Crisis. Many of the Eurozone economies have slipped in and out of recession, and unemployment remains very high. For a sustainable, significant recovery, the Eurozone needs to implement significant labor market and other structural reforms. Structural reforms—removing bureaucratic barriers and making the environment more conductive to business—have shown evidence of working. Of the countries forced to take on reforms required by bailouts, Spain and Ireland have shown remarkable economic improvement and have led growth in Europe.

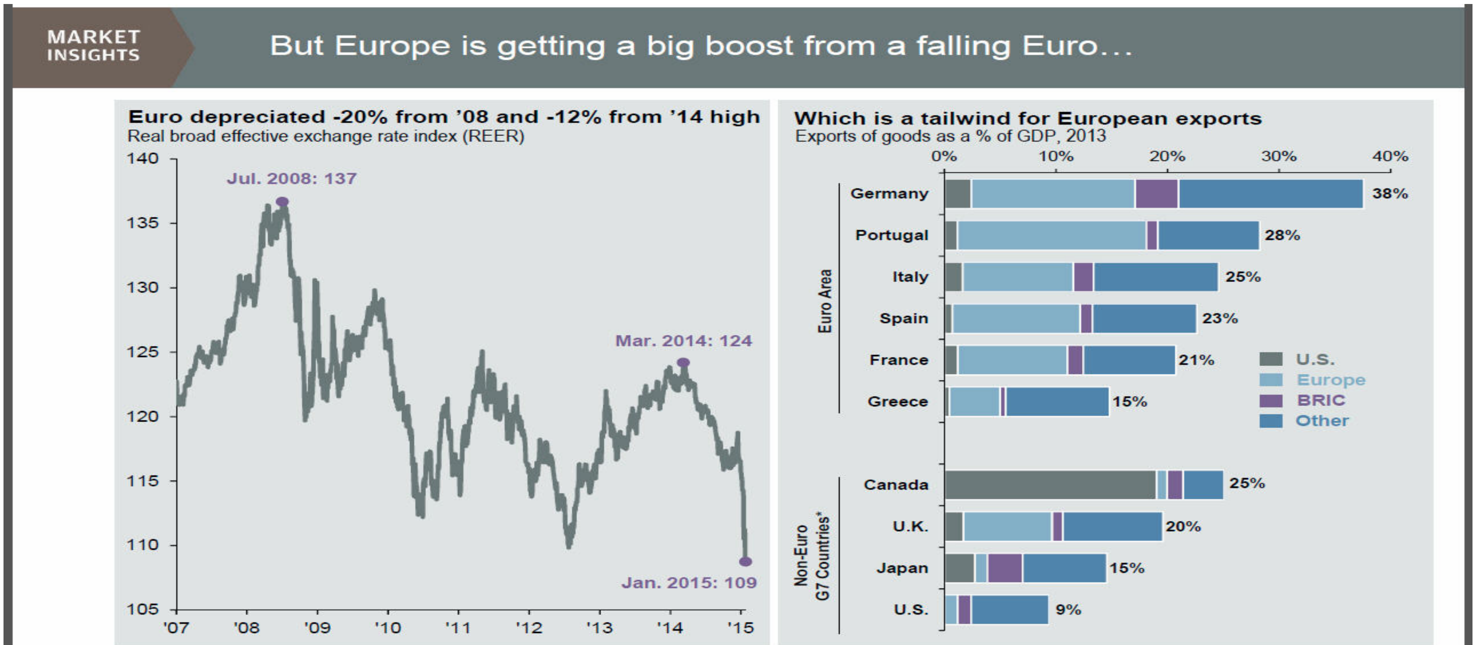
For the foreseeable future, the prospects of further reform are fading. This is because of the rise of the Euro-skeptical parties, which make the political environment less conducive to implementing structural reforms. For instance, the anti-Europe Syriza party won the recent elections in Greece and has already voted to abandon the austerity measures that were forced on Greece when it received a bailout.

Even without further reforms, in the short-term the Eurozone should benefit from a number of factors:

- **The European Central Bank Embraces Quantitative Easing:** On January 22, European Central Bank (ECB) President Mario Draghi announced the much anticipated launch of a sovereign bond buying program at the rate of 60 billion euros ($70 billion) per month known as "quantitative easing". The program will be open-ended, lasting until at least September 2016 and could total as much as a trillion euros ($1.3 trillion). The goal of the program is to boost the European economies and head off deflation. While economists debate how effective the QE will be for Europe, it is likely that it will lower Eurozone interest rates, which will provide motivation for Europeans to shift their investments from savings accounts to equities.

Eurozone– Better Days Ahead?- Con't

- **<u>Fall in the Value of the Euro:</u>** As can be seen from the J.P. Morgan chart below, the euro has dropped nearly 20% from its 2008 high and 12% from its 2014 high. This will make European exports more competitive, and is a significant tailwind for many of the Eurozone economies where exports are a significant part of their GDP (e.g. 38% for Germany compared to only 9% for the U.S.)



Source: J.P. Morgan Economic Research, IMF DOT, IMF WEO, FactSet, J.P. Morgan Asset Management. *The G7 countries using the Euro are Germany, France and Italy. Data are as of 1/28/15.

- **<u>Drop in Oil Prices:</u>** The Eurozone will also benefit from the 60% fall in oil prices from the high in 2014. For instance net oil imports make up 3.4% of Spain's economy, and 2.4% for France and Germany.

- **<u>Improvement in Certain Economic Indicators</u>**: Consumer confidence has been gradually rising (and is close to a post-Financial Crisis high) and bank lending conditions are slowly improving.

<u>Investment Implications:</u> While for now we are maintaining a relatively modest international equity allocation of 10% to 15% in portfolios, as discussed in our 4th quarter 2014 letter, we may increase the international allocation later in 2015.

Social Security– 70 is the new 65

Social Security is the single largest source of income for a majority of Americans over age 65, making up about 40% of the average retiree's income. When to start receiving your Social Security benefits may be one of the biggest financial decisions you make in retirement. The age at which you elect to start has a tremendous impact on your monthly income and lifetime benefits. Currently, the majority of retirees start social security at 62. In many cases, though, this is not the best choice.

There are some compelling reasons to wait until 70 to start receiving Social Security. Social Security is probably the best lifetime annuity you can get. The benefit amount is calculated based on two primary factors—your highest 35 years of earnings and the age you elect to start receiving benefits:

- At full retirement age ("FRA"), you receive 100% of your calculated benefit.
- If you start earlier than FRA, the monthly payout is lower to compensate for the additional time you will receive benefits.

Social Security– 70 is the new 65– Con't

- *If you start later than FRA, you receive an 8% higher monthly benefit for each year you delay*.
- You can't earn delayed credits beyond age 70; therefore there is no advantage to waiting until after age 70 to start collecting benefits.

First you need to know your full retirement age (FRA). Consult the chart below:

Year of Birth	Full Retirement Age
1943-54	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

What percent of your benefit do you get if you apply early?

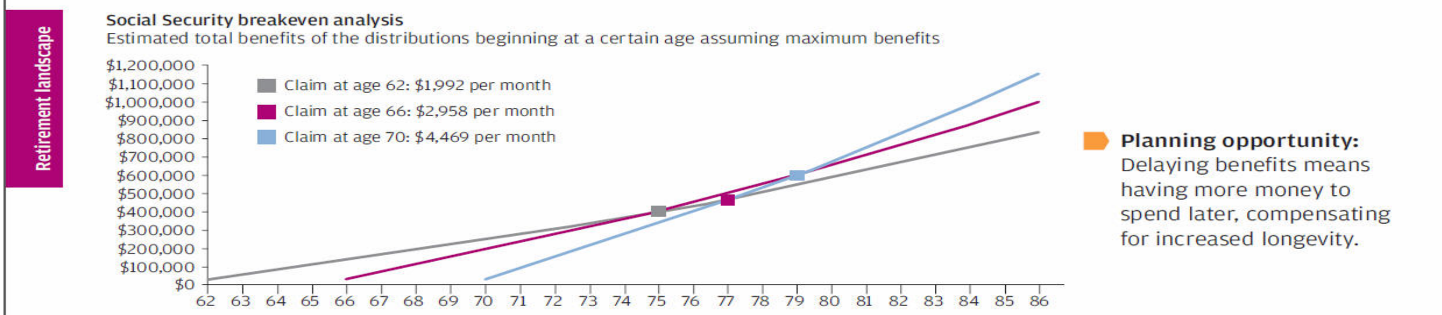
Apply at age	If FRA= 66	If FRA = 67
62	75%	70%
63	80%	75%
64	86.7%	80%
65	93.3%	86.7%
66	100%	93.3%
67		100%

What if you wait beyond full retirement age to file?

Apply at age	If FRA= 66	If FRA = 67
66	100%	
67	108%	100%
68	116%	108%
69	124%	116%
70	132%	124%

Social Security– 70 is the new 65– Con't

For an illustration of this concept, see the chart from J.P. Morgan below. It shows the best strategy based on how long you live. In particular:



Social Security break-even data

	Claim at age 62	Claim at age 66	Claim at age 70	At age 65, probability of living to age	
70	$237,120	$187,701	$53,628		
75	$396,206	$403,194	$345,151	78%	85%
77	$466,251	$498,075	$473,507	72%	80%
79	$540,274	$598,343	$609,152	65%	75%
82	$659,262	$759,522	$827,198		
85	$788,529	$934,622	$1,064,077		

- If you die before age 75, the best strategy would be to start collecting benefits at age 62.
- If you die between age 75 and 77, the best strategy would be to start collecting at full retirement age (i.e. 66 or 67).
- If you live past age 77, it would be best to wait until age 70.

The longer you live past age 77, the greater will be the benefit of waiting until age 70 to start collecting benefits. For instance, as shown in the chart above, if you live to age 85, claiming at 62 would yield $788,529 in lifetime benefits, compared to $934,622 at FRA, and $1,064,077 at age 70.

For a married couple, it may be even more important for the spouse with higher benefits to wait until age 70 to start. The reason is that if the spouse with higher benefits dies first, the surviving spouse will be able to switch to receiving payments based on 100% of the deceased spouse's benefits.

What else can I do to increase my benefit?

Benefits are determined based on your highest 35 years of earnings. The earnings from earlier years are adjusted to reflect cost of living changes. If you have less than 35 working years, zeros are figured into the formula for the non-earning years. Strategies:

- If you are at your peak earning years at the end of your career, each additional year you work will allow you to replace lower earning years with earning at your peak.
- If you did not work 35 years because you took time to raise children or for some other reason, you can replace the zero years with years that have income, increasing the amount of Social Security you will be entitled to.

Couples have other options for increasing their benefits. There are a number of strategies available, which will be discussed in a future MAM Monthly Commentary.

Sincerely,

Steve P McCarthy, CPA, CFP®

McCarthy Asset Management, Inc.

Three Lagoon Drive Suite # 155
Redwood Shores, CA 94065
USA

Phone: 650-610-9540
Fax: 610-9541
E-mail: Steve@mamportfolios.com

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 hourly 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 available at no cost to our clients:

- **Long Term Care Planning– Allen Hamm of Superior LTC Planning Services, Inc.**
- **Medicare Advisory Program (MAP) - Allen Hamm**
- **The Savvy Life® Classes, Workshops , and One-on-One Consultations**

Reminders/Updates

Health Insurance Requirement: Under the Affordable Care Act (aka "Obamacare"), most Americans are required to have health insurance (or be subject to a penalty). The deadline to purchase a 2015 health insurance policy through HealthCare.gov or a State health insurance exchange is February 15, 2015.