McCarthy Asset Management, Inc.
Personalized Wealth Management

July 2019 Monthly Commentary

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Stock Market & Portfolio Performance

July 2019: U.S. stocks performed well for the month, while foreign stocks fell and bonds were flat. For the first seven months of 2019, stocks and bonds rose sharply in response to an anticipated Federal Reserve interest rate cut. On July 31st, the Fed announced a 0.25% rate cut, the first since 2008.

	Jul 2019	YTD 2019	Description:
Without Dividends:			
S&P 500	1.3%	18.9%	500 Largest Public U.S. Companies
Russell 2000	0.5%	16.8%	2000 of the smallest U.S. stocks
MSCI EAFE	-1.3%	10.3%	international stock index
U.S. Aggr Bond	0.2%	6.4%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	0.5%	12.4%	non-very conservative MAM portfolios
MAM Conserv	0.3%	9.8%	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 and Economic Outlook from BCA Research

BCA Research is an investment research firm that we highly respect. As mentioned in a previous article, it is also the most expensive investment research service that we subscribe to. The following is taken from BCA's Strategic Outlook for the third quarter of 2019. Its current expectation is for the Federal Reserve's policies to result in two stages for the performance of the economy and stock market:

Stage 1: Over the next 12 to 18 months, the Fed will continue to exercise a highly accommodative monetary policy with lower interest rates in the short term. This will provide a positive environment for the U.S. economy and stock market.

Stage 2: By 2021, however, inflation and inflationary expectations will have risen to a level prompting monetary policy to turn restrictive. This would likely lead to a recession and a new bear market in stocks. Given that bear markets and recessions travel together, it is too soon to position portfolios defensively because the recession risk is more than 12 months away.

The Next Recession: "Recessions usually occur when rising rates expose some serious imbalances in the economy. In the U.S. at least, the imbalances are fairly modest…Housing is on solid ground, which means that mortgage rates would need to rise substantially before the sector crumbles. Equities are pricey, but far from bubble territory. Moreover, unlike in the late 1990's, the run-up in stock prices over the past five years has not led to massive capex overhang." Capex overhang is defined as excessive capital expenditures by corporations.

"Corporate debt is the weakest link in the financial system, but we should keep things in perspective. Even after the recent run-up, net corporate debt is only modestly higher than it was in the late 1980's, a period where the fed funds rate averaged nearly 10%."

Trade War Worries: "This rosy outlook is predicated on the assumption that the trade war does not get out of hand. Our baseline envisions a "muddle through" scenario, where some sort of deal is hatched that allows the U.S. to bring down existing tariffs over time in exchange for a binding agreement by the Chinese to improve market access for U.S. companies and more secure intellectual property rights. The specifics of the deal are less important than there being a deal—any deal—that avoids a major escalation."

Investment Recommendations: "Recessions rarely happen if monetary policy is expansionary. Sustained equity bear markets in stocks, in turn, almost never happen outside of recessionary periods. As such, a pro-risk asset allocation, favoring global equities and high-yield credit over safe government bonds and cash, is warranted at least for the next 12 months...Stocks tend to peak about six months before the onset of a recession. In the 13-to-24-month period prior to the recession, returns tend to be substantially higher than during the rest of the expansion. We are approaching that party phase."

MAM Comments: While we like the positive investment environment BCA Research is forecasting for the next year or two, we are not ready to reduce our downside protection in portfolios given that this bull market is now in its 10th year. If events start to unfold as BCA is predicting, we plan to increase the downside protection in portfolios as we get closer to the next recession.

Fund Profile: Vanguard Dividend Appreciation (VIG)

Dividend-growth funds focus on companies that have the ability and willingness to increase their dividend payments. Companies that regularly boost their dividends often have sustainable competitive advantages. Such high-quality companies make excellent core holdings. Quality-focused stocks may not keep pace during bull markets, but they hold up relatively well in down markets. Studies have shown that over a full market cycle, quality companies that have a history of paying an increasing dividend over time, outperform that overall stock market with less volatility.

Fund Profile: Vanguard Dividend Appreciation (VIG)- Con't

Vanguard Dividend Appreciation ETF (VIG) is an excellent fund that offers a diversified portfolio of highly profitable U.S. dividend-paying stocks. The fund's low fee contributes to its edge over the long run and supports its Morningstar Analyst Rating of Gold. We started using VIG in MAM portfolios in 2009, and currently it is the largest equity fund used in most portfolios.

As reflected by its current yield of 1.8%, VIG's strategy is to focus on dividend growth rather than dividend yield. This approach reduces the fund's exposure to firms with weak fundamentals that may not be able to sustain their dividend payments, which is a risk that often accompanies a narrow focus on yield. The fund builds its portfolio by only selecting among stocks that have increased their dividend payment for at least 10 consecutive years. On top of this dividend-growth screen, the strategy applies additional proprietary screens to filter out firms that may not be able to sustain their dividend growth. In addition, the portfolio caps single-stocks weightings at 4.5% of the portfolio at each quarterly rebalancing. This helps mitigate the risk of a handful of stocks dominating the portfolio.

5 Largest Holdings: The five largest holdings in VIG, making up 21% of the portfolio, are Microsoft Corp, Visa, Walmart, Procter & Gamble and Johnson and Johnson.

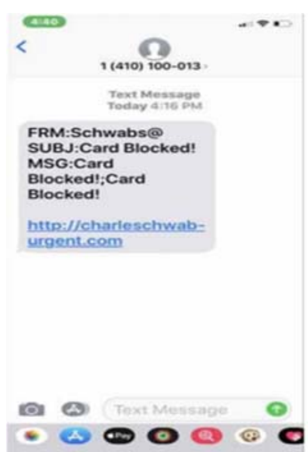
Fees & Beta: Vanguard charges a 0.06% expense ratio for this fund, which places it among the cheapest dividend-growth funds available. The fund's beta of 0.9 (i.e. 90% as volatile as the S&P 500) is a further indicator of the quality of the companies it invests in. With this emphasis on quality, the fund tends to underperform the S&P 500 in strong markets and outperform in weak markets. For instance, in 2008, when the S&P 500 fell 37.0%, VIG dropped 26.5%.

MAM Comments: We really like this fund. While it has modestly lagged the S&P 500 since the start of the bull market in 2009, we are comfortable using it for part of our equity exposure as we get closer to the start of the next market downturn. A one-page Morningstar report for VIG is attached to the email for our July 2019 Monthly Commentary. Listed at the bottom of the report is the annual return for the fund and the S&P 500 index since 2008.

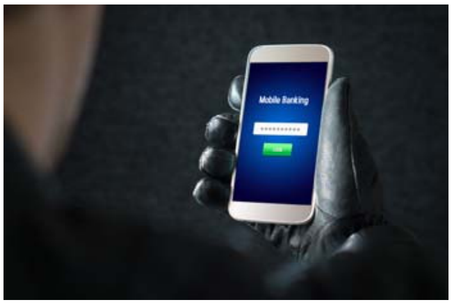
Alert from Schwab: Phishing SMS/Text Message Scams on the Rise

We recently received an alert from Charles Schwab & Co. warning that there has been an increase in phishing attempts initiated via text or SMS messages, referred to as "smishing". In the smishing scam, individuals receive a fraudulent text or SMS message that appears to be from a legitimate source such as Schwab or another financial provider.

The fraudulent text attempts to lure individuals to provide their account credentials. In the sample below, the individual is led to believe their card has been blocked and must take action. The link directs to a fake website requesting they enter their account credentials, in which fraudsters can then use to gain access to their funds. Be sure to be cautious when responding to texts or emails from unknown sources, including clicking attachments and links.



Alert from Schwab: Phishing SMS/Text Message Scams on the Rise– Con't



Action for Clients to Take:

1. Don't click links or provide any personal information to a sender that looks unusual.
2. If you receive a fraudulent text and have NOT acted on it, you can safely ignore and delete it.
3. If you receive a fraudulent text and clicked on the hyperlink and supplied any of your credentials, Schwab strongly encourages you to immediately change your login and password for your financial providers and email accounts.
4. When accessing your accounts, Schwab encourages clients to navigate directly to a financial provider's website or use an authorized mobile app.
5. Confirm that you are accessing a secure website. Secure websites begin with "https," not "http" and are denoted with a padlock icon in the address bar.

Sincerely,

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MAM

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 there are any topics you would like to have us cover or any questions answered in a future Monthly Commentary.