

July 2021 Monthly Commentary

Aug 1, 2021

Stock Market & Portfolio Performance

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July 2021: Stocks posted modest gains for the month, led by large-cap U.S. stocks. Small cap stocks fell, while bonds performed well as interest rates fell over concerns of rising Covid cases triggered by the Delta variant.

	July 2021	YTD 2021	Description:
Without Dividends:			
S&P 500	2.3%	17.0%	500 Largest Public U.S. Companies
Russell 2000	-3.7%	12.7%	2000 of the smallest U.S. stocks
MSCI EAFE	0.7%	8.1%	international stock index
U.S. Aggr Bond	1.1%	-0.5%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	1.0%	10.1%	non-very conservative MAM portfolios
MAM Conserv	0.9%	6.0%	portfolios with 45%+ 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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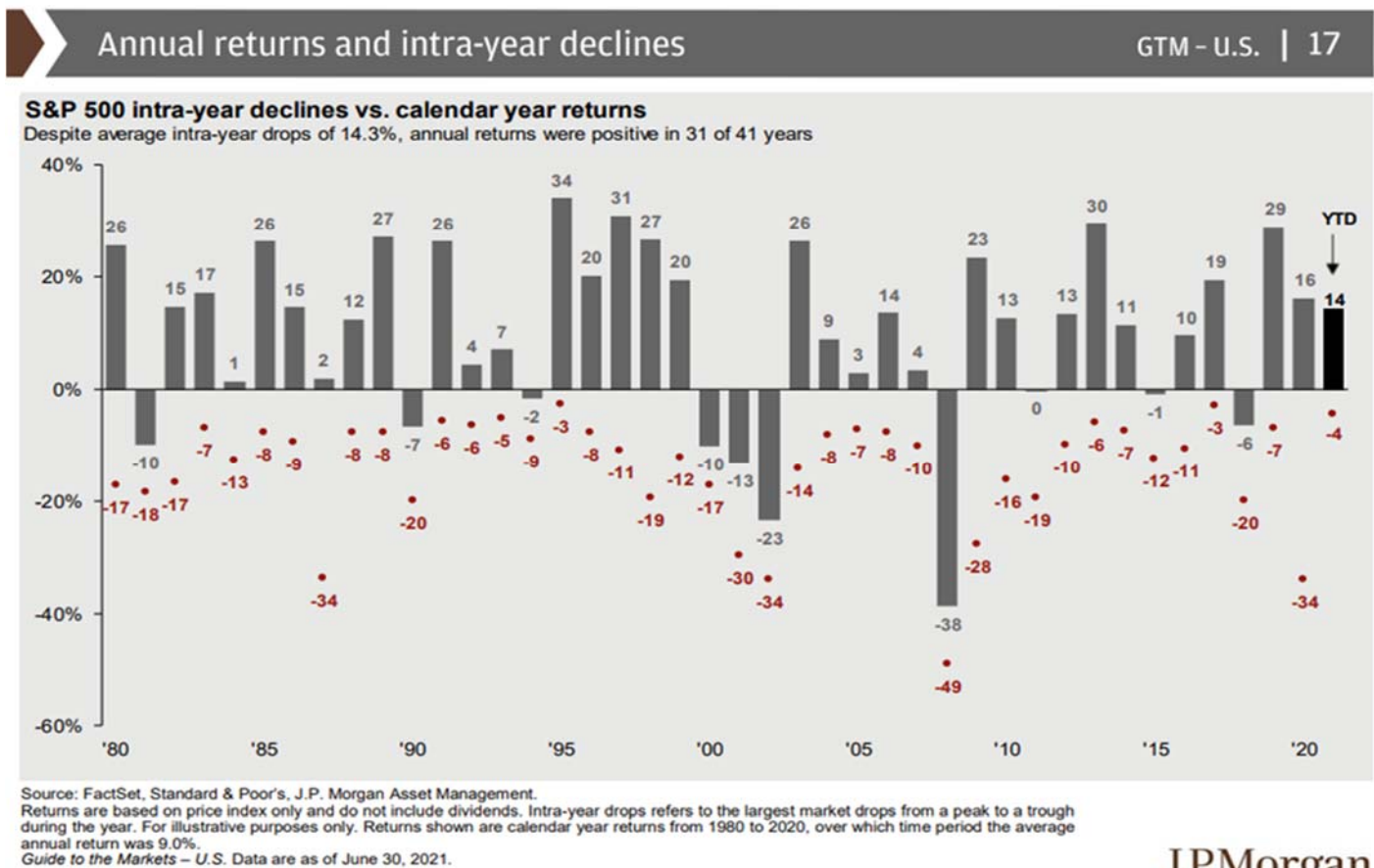
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Market Turbulence Ahead?

The stock market hasn't displayed much volatility so far this year. As a result, some investors may have become complacent. Since 1980, the market has faced intra-year declines that have averaged -14.3%. The maximum drawdown in the S&P 500 so far in 2021 has been just -4%. For perspective, there have been only three years since 1950 that have had smaller pullbacks. While I am not predicting a sharp market pullback, it would be prudent to be prepared for a more significant correction to occur in the second half of 2021.

A favorite graph of mine is the one below from J.P. Morgan Asset Management. It shows the return for the S&P 500 for the year in charcoal, and the maximum intra-year decline in red. As mentioned above, since 1980, the S&P 500 has averaged an intra-year decline of 14.3%. Despite these sharp declines, the S&P 500 posted positive returns in 31 of the 41 years.



What could cause a sharper market drop this year? A continued surge in new Covid cases due to the rapid spread of the Delta variant could trigger a downturn if authorities take steps to reimpose lockdowns. Another concern is a rising inflation will prompt central banks to withdraw stimulus. Finally, with stock prices near record highs, it doesn't take much to cause volatility to spike.

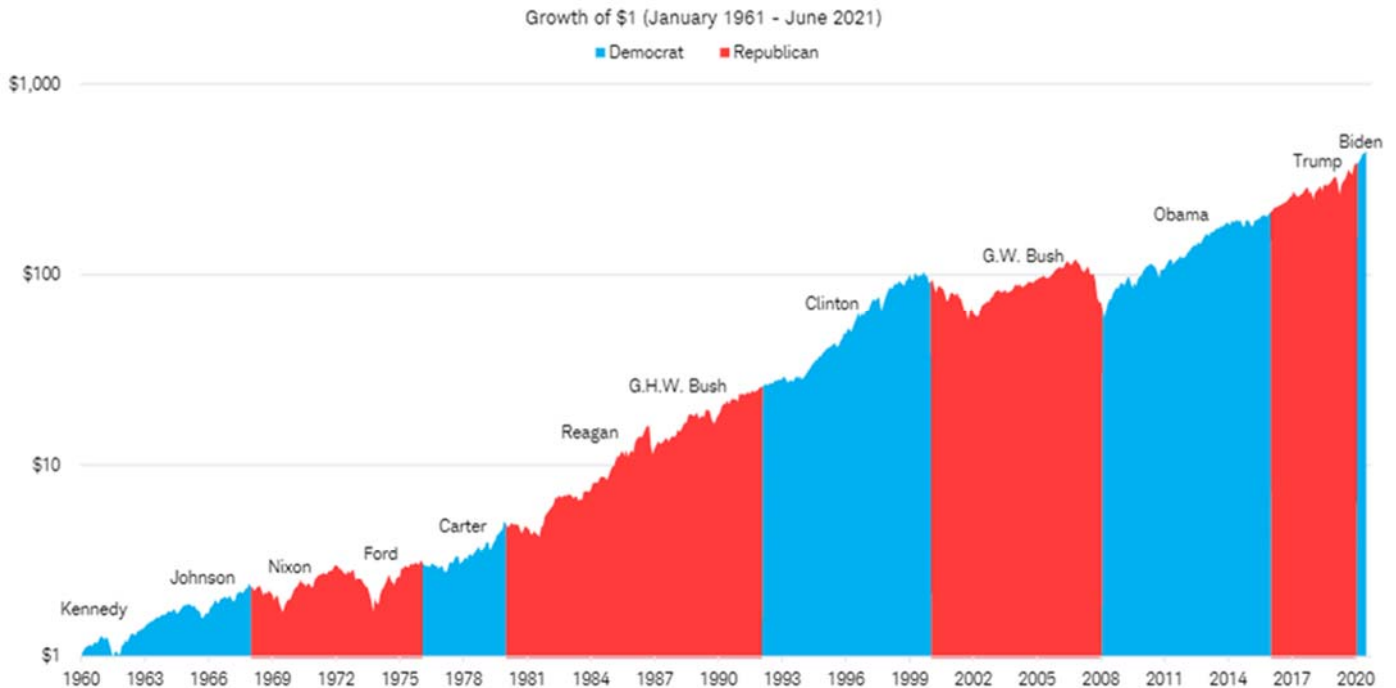
I point out the risk of increased market volatility to prepare clients in advance for that possibility. As seen in the graph above, volatility is part of stock market investing. The key is how investors react to it. What helps is to take a long-term perspective. The chart on the top of the next page from the Schwab Center for Financial Research displays how much \$1 invested in an index of U.S. Large Cap Stocks on January 1, 1961 has risen by June of 2021. This long period included both Democratic and Republican Presidencies. Those investors who stayed invested during this time have been richly rewarded!

Market Turbulence Ahead?- Con't

Quarterly Chartbook | Q3 2021

Politics versus sound investment principles

Markets have historically rewarded long-term investors regardless of the presidential party.



Source: Schwab Center for Financial Research, with data provided by Morningstar, Inc. The chart above shows the growth of \$1 invested in a portfolio that tracks the Ibbotson U.S. Large Stock Index starting on January 1, 1961. January returns in inauguration years are assumed to be under the party that is being inaugurated. Returns include investment of dividends and interest. The example is hypothetical and provided for illustrative purposes only. Past performance is no guarantee of future results.

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Our overall economic and market outlook is still positive. While global growth may be peaking, it will still remain very strong. And while the proliferation of the Delta strain is triggering another wave of Covid cases this summer, the economic impact will be far smaller than during past surges due to the excellent effectiveness of vaccines. An important factor will be getting enough people vaccinated to enable herd immunity.

Shortest Recession in History: Last month the National Bureau of Economic Research announced that the U.S. officially climbed out of a recession in April 2020, concluding a pandemic-driven economic contraction that began in February 2020. With a duration of only two months, this was the shortest recession in U.S. history.

Second Year of Economic Expansion: The U.S. is now in its second year of economic expansion. The average U.S. expansion since World War II has lasted five years. There's nothing on the horizon to indicate the current expansion can't reach that mark. Meanwhile, the second year of a bull market is often more challenging than the first, but historically still usually sees stocks climb higher. We feel that will be the most likely case, along with an increase in volatility.



From time to time, we have clients receive a letter from the IRS adjusting their federal tax return. The most common reason for the adjustment is the estimated tax payments claimed on the tax return did not agree with the IRS record of payments. This is one reason we recommend clients create an online account with the IRS. By doing so, they can see a list of estimated payments credited to them by the IRS.

By setting up an online account, a taxpayer can see:

- 1) Federal estimated tax payments by year for the last five years.
- 2) Account Status for the most recent year. Whether the tax return has been processed, is in process, or a tax extension has been filed. This is one way to keep an eye out for suspicious activity with your tax return.
- 3) The amount owed for past years.
- 4) Key information from the most recently processed tax return.
- 5) Details about your payment plan, if you have one.
- 6) Digital copies of select notices and letters from the IRS.
- 7) Access tax records via Get Transcript.

The IRS regularly adds new features to online accounts. For instance, taxpayers can now check the amount of the three Economic Impact Payments (EIPs) paid to them in 2020 and 2021. Later in 2021, taxpayers will be able to digitally sign certain authorization forms, such as a Power of Attorney, initiated by their tax professional.

Here's how to get started for creating an online account:

- 1) Select [View Your Account](#) at IRS.gov homepage.
- 2) Select the "Create or View Your Account" button.
- 3) Click "Create Account".
- 4) Pass the "Secure Access" authentication. This is a rigorous process to verify that you are who you say you are. You will need to authenticate your identity to continue.
- 5) Create a profile.

All password-protected IRS tools for taxpayers are protected by multi-factor authentication. In my case, when I log into my IRS account, a text is sent to my cell phone with a code that I must then enter to access my IRS online account.

I would be interested in hearing your feedback if you set up and view your IRS online account.

Advance Child Care Credit Payments

Although few of our clients have children young enough to be eligible for child care tax credits, many of them may have grandchildren whose parents receive the credits. Please feel free to share this article with anyone who may be claiming child care tax credits. This article discusses enhancements to the credit for tax year 2021, advance payments of the credits by the IRS, and how to opt out of receiving the advance payments. We recommend anyone who may need to repay the advance payments to opt out of receiving them.



Enhanced Child Care Credit: The American Rescue Plan Act (ARPA) was signed into law by President Biden in March. One of its provisions was a significant overhaul of the Child Tax Credit, but only for the 2021 tax year. Under prior law, the amount of the Child Tax Credit was equal to \$2,000 per child, but only \$1,400 was refundable (meaning the credit is paid even if there are insufficient taxes to be credited against). ARPA increases the credit to \$3,000 per child (or \$3,600 for a child under the age of six) and makes the credit fully refundable. ARPA also increases the maximum age of qualifying children to include 17-year-olds. Phaseout: The excess amount of the credit over the prior-law \$2,000 amount is phased out starting at income over \$75,000 for single filers, \$112,500 for head of household filers and \$150,000 for joint filers.

Advance Payments: On July 15, the IRS began issuing monthly Child Tax Credits totaling up to 50% of the amount of the estimated 2021 credit. The advance credits are based on the taxpayer's status, number of qualifying children, and AGI shown on the taxpayer's processed 2020 tax return.

Unenrolling from the Advance Payments: While being able to receive advance credits may be great news for many taxpayers, the downside is that taxpayers who receive advance amounts for which they are not eligible may be required to repay these advances when they file their 2021 return. The most common reason for this would be the taxpayer's 2021 income being higher than their 2020 income. If a taxpayer opts out of receiving the advance payment but ends up being entitled to it, they will receive the credit on their 2021 tax return.

How to Unenroll: Taxpayers should go to the Child Tax Credit portal on the IRS's website to unenroll. The portal can be accessed at: www.irs.gov/credits-deductions/child-tax-credit-update-portal

Taxpayers who do not have a secure access account on the IRS website (see article on P. 4 "Creating an IRS Online Account") will have to authenticate their identity by creating an ID.me account on the IRS website. They will also have to provide a text number or landline to allow for multifactor authentication and will have to provide a photo of their driver's license, state ID, or passport.

Advance Credit Summary: In January 2022, the IRS will mail taxpayers Letter 6419 to provide the total amount of advance Child Tax Credit payments that were disbursed to them during 2021. Taxpayers should retain this letter for when they file their 2021 tax return.

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

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.



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