

March 2019 Monthly Commentary/ 1st Qtr Letter

April 1, 2019

Stock Market & Portfolio Performance

First Quarter 2019: With the best quarter in nearly a decade, U.S. and international stocks rose sharply. Meanwhile bonds performed well due to the Federal Reserve indicating a likely halt in its interest rates hikes for the remainder of the year.

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	Mar 2019	1st Qtr 2019	Description:
Without Dividends:			
S&P 500	1.7%	13.1%	500 Largest Public U.S. Companies
Russell 2000	-2.3%	14.2%	2000 of the smallest U.S. stocks
MSCI EAFE	0.1%	9.0%	international stock index
U.S. Aggr Bond	1.9%	2.9%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	0.9%	9.1%	non-very conservative MAM portfolios
MAM Conserv	0.9%	7.0%	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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Happy 10th Birthday to the Bull Market



The bull market celebrated its 10th birthday on March 9. During that time, the S&P 500 has climbed more than 300% since hitting its financial-crisis low on March 9, 2009. That low represented the end of the worst bear market in stocks since the Great Depression. Few believed it possible at the time, but that marked the beginning of the longest bull market since World War II.

This bull market has also been one that has struggled to get respect. All along, there have been many doubters as to its resiliency. In fact, this is the only bull market ever with two 20% or more declines based on intraday prices. In October 2011 and again in December 2018, the S&P 500 fell 20% from prior highs, only to rally by the daily close to narrowly avoid entering a bear market (and ending the bull market's run).

To what can we attribute this extraordinary length of the rise in the market? A very accommodating Federal Reserve, holding interest rates close to zero for a number of years, has been a big factor. However, we believe the slow growth in the U.S. economy has been the primary factor. As LPL Financial pointed out in a recent report, "In past economic cycles, slow but steady growth has won the race. Since 1970, cycles with annual gross domestic product (GDP) growth higher than 4% lasted about five years on average, where cycles with annual growth lower than 4% lasted about nine years on average. While slow growth in this cycle has been frustrating at times, especially after a swift and painful downturn, it has helped extend the life of this cycle and keep excesses in check."

As discussed in Bob Brinker's March Marketimer Report, "During this extraordinary 10-year stock market run, U.S. annual real GDP growth has averaged slightly above 2%, but remains below the post-World War II average of 3.2% that prevailed prior to the 2008 financial crisis...As we have seen over the past decade, slow to moderate real GDP growth is ideal for stock market investing." Currently, the Federal Reserve and economists expect this slow growth to continue for the foreseeable future. The Brinker report added, "This is due to the two key components of real GDP growth. These are: (1) the low rate of population growth in the U.S. which remains close to levels last seen in the 1930s with growth stuck at 0.7% annually over the past several years. This compares with annual population growth of 1.8% in the 1950's and 1.2% in the 1990s' and (2) below trend productivity growth, with the average annual rate of manufacturing productivity growth from 2008 through 2018 of 0.6%, well below the long-term 30-year average of 2.6%."

MAM Comments: While continued slow but steady U.S. economic growth bodes well for sustaining this bull market, we feel future gains are likely to be modest. Our long-term outlook for average annual stock market returns remains in the 5% to 7% range.

Umbrella Insurance— Why Purchase and How Much?

We last wrote about umbrella insurance in our March 2013 Monthly Commentary. These policies were created to provide additional liability coverage when a lawsuit is brought over injuries and/or property damage that exceed the liability limits on auto, home, boat, etc. insurance policies. **We highly recommend that most MAM clients have a policy because:**

- They provide additional lawsuit coverage of \$1 million or more.
 - They provide added coverage for legal defense costs, which can easily amount to \$100,000 or more.
 - Those with young drivers, a dog, a swimming pool, or even a trampoline, have potential dangers that add to their risk profile.
 - These policies provide "catastrophic coverage" that is unlikely to ever be needed, and they cost as little as \$250 to \$500 per year. This cost is well worth the peace of mind the coverage provides.
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Umbrella Insurance— Why Purchase and How Much?- Con't

Why don't more people have umbrella policies? While we know that most MAM clients have a policy, many relatively affluent people don't have coverage. Why is that? Banks require homeowners to buy home insurance when they have a mortgage and states require drivers to buy auto insurance. However, no one mandates buying a policy that could turn out to be the most important one you purchase.



How much coverage should be purchased?

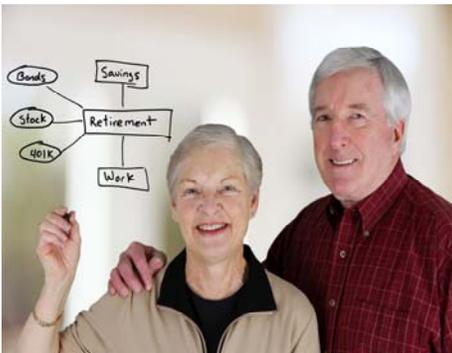
Even with a legitimate cause for a lawsuit, most potential plaintiffs won't go to court for massive damages unless the defendant has significant assets. Suing someone without assets is pointless. However, when the defendant is even moderately wealthy, the chances of litigation are higher even when the cause is frivolous.

With lawsuits costing upwards of \$300,000, having an insurance company with an obligation to defend you in court is a major benefit of umbrella insurance. For those with assets sufficient to make them a target for lawsuits, umbrella insurance is very important.

A coverage amount equal to your net worth is one starting point. However, if your net worth is \$1 million and you are subject to a \$2 million settlement, you could still be wiped out if you only have a \$1 million policy. According to [one study](#), "13% of personal injury and liability awards and settlements are \$1 million or more." For most, somewhere between \$2 million and \$5 million is a good amount of coverage.

Disclaimer- We do not sell insurance or have an insurance license. The information in this article is intended to help you get a conversation going with your property insurance agent.

The Power of Working Longer



Studies have shown that more than 50% of Americans have not saved enough for a financially-comfortable retirement. In many cases, they either started saving too late or have not been saving enough. For those still working who find themselves in this situation, which option do you believe would be more beneficial:

- Increasing your savings rate?
- Delaying the start of retirement?

While both of these actions would help, a recent working paper from the National Bureau of Economic Research examined the trade-off between working longer and saving more. The paper titled "[The Power of Working Longer](#)" was written by John B. Shoven, a Stanford economist, and three of his former students: Gila Bronshtein, an associate at Cornerstone Research, Jason Scott, a retirement expert at Financial Engines; and Sita N. Slavov, a professor at George Mason University.

The Power of Working Longer— Con't

Say you are 56 and realize that you will need more retirement income when you stop working in 10 years. According to the working paper, you can save 1% more every year from age 56 until age 66, or achieve the same result by working just one extra month.

In an [article](#) they wrote for the July 2018 issue of the American Association of Individual Investors Journal, they provided these other findings

- Postponing retirement by one year, from age 66 to age 67, increases the inflation-adjusted sustainable standard of living by approximately 8%. A larger Social Security benefit and 401(k) balance contribute to this significant increase in standard of living.
- Even in a low rate of return environment, working three or four years longer can increase sustainable retirement resources by approximately 24% to 33%.
- Once the average earner reaches his/her 50s, substantially increasing sustainable retirement resources by saving more has a significantly smaller impact than working longer does.

A major reason why working longer has such a positive impact is that Social Security payments increase 8% for every year you delay collecting Social Security benefits until age 70. In an interview, Professor Shoven said that “some affluent people might not need to worry about these issues. Social Security is unlikely to account for a major part of retirement income for very high-income people—those who earn, say, \$500,000 a year.” But, Professor Shoven emphasized, “Social Security is a very important, and often the most important, source of retirement income for 85% of the people in the United States, and that’s a conservative estimate.”

Shoven explained that increasing the monthly Social Security check can have an outsize impact for the majority of Americans. And because Social Security is progressive—replacing a higher proportion of income for lower-income people—the impact of working longer is greater for those with less money.

MAM Comments: The Shoven working paper provides some interesting insights into how to better prepare for a more financially-comfortable retirement. We have the following two comments:

- While working longer can have a tremendous financial benefit, we don’t want to provide a disincentive for clients to aggressively save for retirement. Even though someone may have the right intentions to delay retirement, circumstances could dictate otherwise (layoffs, health issues, etc.).
- Recent research has shown there can also be cognitive and emotional benefits for delaying retirement. Work often gives people a sense of purpose in life, a boon to well-being and mental health. Work may even help stave off dementia. A large [study](#) of nearly half a million self-employed workers in France suggests that delaying retirement may put a person at less risk of developing dementia, including Alzheimer’s disease.

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

Tax Reminders:

- April 15th is the deadline for filing 2018 individual income tax returns and making 2018 IRA, SEP-IRA, Roth IRA and Education Savings Account contributions.
- It is also the deadline for first quarter 2019 Federal and State estimated payments.
- April 10th is the deadline for California property tax payments for the first half of 2019.



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