

March 2020 Monthly Commentary/ 1st Qtr Letter

April. 1, 2020

Stock Market & Portfolio Performance

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First Quarter 2020: U.S. and international stocks experienced their quickest bear market in history with a sharp sell in reaction to the negative economic impact of COVID-19. While displaying unusual volatility, most bonds fell for the quarter despite the Federal Reserve's actions to reduce the Federal Funds rate close to 0%.

	Mar 2020	YTD 2020	Description:
Without Dividends:			
S&P 500	-12.5%	-20.0%	500 Largest Public U.S. Companies
Russell 2000	-21.9%	-30.9%	2000 of the smallest U.S. stocks
MSCI EAFE	-13.8%	-23.4%	international stock index
U.S. Aggr Bond	-0.6%	3.2%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-10.4%	-15.8%	non-very conservative MAM portfolios
MAM Conserv	-9.1%	-12.8%	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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I hope you and your loved ones have been safe as we deal with this terrible medical crisis. While this MAM Commentary will focus primarily on the financial implications, more important are the health risks that COVID-19 poses to all of us. We hope and pray that the actions we are taking will slow the rapid spread of the virus until medical breakthroughs are made that can treat and eventually vaccinate against it.

Stock prices plummeted in March as investors struggled to assess the economic impact COVID-19. In fact, the price decline was the quickest bear market in history, with a 20% decline in the S&P 500 reached on March 12th in a record 14 trading days. The market continued to tumble, with the S&P 500 reaching a year-to-date decline of 30.8%, on March 23rd. Stock prices then recovered nearly 40% of the year-to-date drop over the following three trading days. Clearly, there is tremendous volatility right now!

MAM Actions So Far:

- Due to fears that efforts to flatten the growth curve of COVID-19 (i.e. “shelter in place”) could lead us into a recession, on March 9th we decreased the equity allocation in most portfolios by 5%, moving the funds primarily to short-term bond funds.
- On March 18th and 19th we reduced the positioning in two intermediate bonds and moved the funds into the Schwab Value Advantage money fund. While we normally prefer holding bonds rather than cash, these are not normal times, as many parts of the bond markets are not providing the downside protection we desire.
- At this time, we are not planning any further portfolio adjustments. Portfolios are now more conservatively invested, with the average MAM portfolio holding an allocation of 63% stock and 37% bonds/cash allocation. This compares to the beginning of the year, when the average MAM portfolio had an allocation of 70% stocks and 30% bonds.

At some point, panic selling will likely provide a great opportunity to purchase equities at bargain prices. It will be very difficult to know when that time has arrived. We would first like to see signs that the measures the U.S. and other countries are undertaking to fight COVID-19 are proving effective. Of course, being forward looking, the stock market will likely start to rebound very quickly once those signs become visible. Until then, it is possible that stock prices will fall to new lows.

What to Look For: Probably the most important measure is the number of new daily cases of COVID-19 across the world. Once this number peaks and starts to descend, investors will believe the pandemic is coming under control. This could spark hope and a rapid stock-price rebound. Until then, the spread of the virus will continue and markets are likely to remain very turbulent.

How long will the global recession last? It is likely that economies will start to recover after the panic subsides. Going into this crisis, private-sector finances were reasonably strong and the financial system was sound, unlike the conditions going into the financial crisis of 2008. Stricter regulation and years of repairing balance sheets means that banks are in much better shape than they were in 2008. And while lower oil prices will hurt producers, they represent a boon for consumers and companies that use petroleum as input. In general, global growth will usually accelerates following declines in oil prices.

A More Optimistic Outlook: The recession, while potentially severe, may be fairly brief. The massive \$2 trillion CARES Act, signed into law by President Trump on March 27th, has been estimated to be equivalent to 10% of GDP. By alleviating the household hardship resulting from the sudden drop in income, these policies raise the odds of a powerful wave of pent-up demand being unleashed once the virus is contained.

It is possible to envision relatively positive views:

- The widespread use of new, rapid tests could allow governments to be far more specific with their quarantines. In fact, late last week the FDA approved a coronavirus test that can provide results in 5 minutes. The test's maker, Abbott Laboratories, said it expects to be able to deliver 50,000 tests per day beginning this week.
- Antibody tests could allow those who have been infected to return to normal life (assuming little mutation of the virus).
- Progress may be made with drugs to alleviate those suffering from COVID-19 long before a vaccine is ready. Currently a number of clinical trials are underway.
- A vaccine is likely to be developed and available within 18 months.

Time to Get More Conservative? We don't think so. While we expect stock prices to remain very volatile and further downside is possible, we think it would not be prudent to get more conservative at this time. Doing so would reduce the opportunity to participate in the recovery.

When the S&P 500 hit its low on March 23rd, the dividend yield on the S&P 500 climbed to 2.7%. This compared to a yield on the 10-year U.S. Treasury of 0.9%. According to David Kelly, PhD, Chief Global Strategist at J.P. Morgan, this was probably the biggest gap in the dividend yield compared to the U.S. Treasury in 50 years. He also pointed out that if it takes three years for the S&P 500 to recover its drop from the all-time price it reached on February 19th, it would represent a 17% annual return over the three years (including reinvested dividends).

Don't Miss the Best Days: Here's another reason to not get more conservative. Per Liz Ann Sonders, chief investment strategist at Charles Schwab & Co, the majority of the best single days in the post-1950 history of the S&P 500 came either during bear markets or immediately following major drops in stock prices (when the "get out" investors likely already sold). In fact, of the 20 single best days for the S&P 500 since 1950, 15 of them came during bear markets. The remaining 5 occurred during bull markets coming immediately after a major drop, or bear markets that had just ended.

Bear Markets and Corrections: January 2000 through December 2019: The chart below from T. Rowe Price displays the recent twenty-year history of the stock market following bear markets (20%+ drop) and market corrections (10%+ drop). As can be seen, the one, three- and five-year market returns were impressive:

Event	Date	Duration	% Drop	Recovery	% cumulative gain after trough		
					1 Year	3 Years	5 Years
Tech Bubble Crash	4/7/00–10/9/02	2.5 years	-48.77	5 years	33.73%	52.86%	101.50%
Pre-Iraq War	11/27/02–3/11/03	3.5 months	-14.71	2.5 months	38.22	60.37	64.93
Global Financial Crisis	10/9/07–3/5/09	1.5 years	-56.39	4 years	66.83	99.89	174.53
Greek Debt Crisis/Flash Crash	4/15/10–7/2/10	2.5 months	-15.61	4 months	30.83	57.84	103.09
Debt Ceiling Debate/S&P Downgrade	4/29/11–10/3/11	5 months	-19.39	3 months	32.00	79.03	96.61
Post QE/China Growth Slowdown	8/10/15–2/11/16	6 months	-13.07	4 months	27.29	48.15	N/A
Jan/Feb 2018 Correction	1/26/18–2/8/18	0.5 months	-10.16	6.5 months	4.92	N/A	N/A
Q4 2018 Sell-Off	9/20/18–12/24/18	2 months	-19.78	4 months	37.10	N/A	N/A

Drop is based on the percentage drop from the highest market index value just prior to the correction to the lowest market index value. Recovery is defined as the length of time for the market to return to the previous highest market index value, rounded to the nearest number of months.

Sources: T. Rowe Price; S&P. See Additional Disclosures.

Future MAM Actions: While we aren't likely to make any adjustments for the foreseeable future, the next portfolio move may be to shift part of the cash and bond allocation back into equities. The timing of this move will depend on first seeing tangible evidence that the virus is starting to be contained. By waiting for this evidence, we will miss reinvesting at the market low. The stock market is forward looking and the end to this bear market will likely occur while much of the news related to COVID-19 is still quite negative. While trying to catch this initial upside is tempting, we feel it is prudent to wait until more of the downside risk in the market has been reduced.

Please let me know if you would like to have a conversation to discuss your portfolio(s).

2020 CARES Act - Certain Provisions Impacting Individuals

On March 27th, President Trump signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. **With a \$2.2 trillion price tag, the Act is the most expensive piece of legislation ever passed.** The Act is intended to make a significant impact on the economy by providing loan forgiveness, supporting small businesses, enhancing unemployment insurance, and providing federal loans to industries severely impacted by the pandemic. In addition, it provides tax relief and tax incentives for individuals and businesses alike. The majority of the tax relief is designed to increase liquidity in the economy, largely through the relaxation of limitations on business deductions and the deferral of taxes, but also with the introduction of recovery rebates for individuals.

The Act is very extensive with numerous provisions impacting businesses and individuals. For this Monthly Commentary, we will focus on the two areas most likely to affect MAM clients: recovery rebates and retirement plan changes. We will likely discuss additional provisions of the Act in one or more subsequent Monthly Commentaries.

Recovery Rebates

How Much Will I Get? The most well-publicized provision is the \$1,200 recovery rebate for individuals. The rebate amounts are advance refunds of credits against 2020 taxes, and are equal to \$1,200 for individuals, \$2,400 for joint filers, and a \$500 credit for each eligible child. The amount of the rebate is phased out for income in excess of a threshold amount. The threshold amount is based upon 2018 adjusted gross income (unless a 2019 tax return has already been filed). The phaseout begins at \$75,000 for single filers, \$112,500 for heads of households, and \$150,000 for joint filers. ***The rebates are completely phased out for single filers with adjusted gross income over \$99,000, heads of household over \$136,500 and joint filers over \$198,000.*** For those with children under age 17, \$10,000 per child is added to the phaseout upper limit.

Kiplinger's has developed a handy calculator to determine the amount of your rebate:

www.kiplinger.com/tool/taxes/T023-S001-stimulus-check-calculator-2020/index.php

How Will I Get the Money? The IRS will be mailing notices indicating how the payment was calculated, where it is going, and a phone number to call if the payment isn't received.

- For those who receive Social Security benefits, the rebate will be deposited into the same bank account as their Social Security payments.
 - For everyone else, if you had a Federal refund that was directly deposited in the last two years, it will be deposited into that bank account. Watch out if you used a bank account in 2018 that is no longer open.
 - If the IRS does not have a bank account on file, it will mail the rebate to the address it has on file. If you have moved and have not filed your 2019 tax return with a new address, you can update your address with IRS Form 8822.
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2020 CARES Act - Certain Provisions Impacting Individuals— con't

Other Items: The rebates are projected to be disbursed in May. The payment is not taxable. If your income was too high in 2018 or 2019 to qualify for the rebate, but your income is low enough in 2020 to qualify, you will be credited for it on your 2020 tax return. What if you qualify for the rebate based on your 2018 or 2019 return, and then have a high-income year in 2020? There is no “claw back”. You get to keep the rebate. To be eligible for a rebate, you must not be claimed as a dependent on another taxpayer’s return.

Retirement Accounts

The CARES Act makes two big temporary changes to retirement savings. One makes it easier for people with coronavirus-related hardship to tap into their retirement accounts for short-term needs this year. The other lets those who have required minimum distributions (RMDs) to skip taking their RMD for 2020.

No RMDs for 2020: For those over 70 ½ and those with inherited IRAs, the Act suspends 2020 required minimum distributions. If you already received your 2020 RMD, you can roll it back into your account if the distribution occurred within the last 60 days. Those who received their 2020 RMD more than 60 days ago can still roll their distribution back into their account if they have had one of the coronavirus-related hardships listed below.

Penalty Free Withdrawal from an IRA or Employer Plan of up to \$100,000: The new law allows people with a coronavirus-related hardship to take a 2020 withdrawal of up to \$100,000 from their IRAs, 401(k) or another workplace retirement plan. Examples of circumstance that would qualify:

- You have been diagnosed with COVID-19.
- Your spouse or dependent has been diagnosed with COVID-19.
- You experienced financial hardship as a result of being quarantined, furloughed, laid off, or have had your work hours reduced because of COVID-19.
- You are unable to work because you have no childcare as a result of the pandemic.
- You own a business that has been closed or is operating at reduced hours because of the pandemic.

Withdrawals from IRAs and employer plans are still taxable. However, you can avoid the tax if you roll the amount you withdrew back into the plan within three years of taking the distribution.

Alternatively, if you don’t roll the money back into your retirement plan, the amount you withdraw in 2020 will be taxed over three years instead of one year. Or you can elect to have it all taxed in 2020. The 10% early withdrawal penalty for those under 59 ½ is waived with a coronavirus-related hardship.

Tax Filing Deadline and Payment Changes Due to COVID-19

(As of 3/31/20)

Federal Changes



Tax filing deadline:

The filing deadline for 2019 individual and all business tax returns has been extended until July 15, 2020. You are not required to file an extension in order to wait until July 15th to file your tax return. Those expecting refunds are encouraged to file on time.

Tax payment deadline:

Individuals have until July 15th to pay their 2019 tax due regardless of the amount owed.

For those who make estimated payments, the first quarter 2020 estimated payment is now due July 15th.

Related items:

The deadline for making IRA (including Roth IRAs) and HSA contributions is July 15th.

The date for second quarter estimated payments (usually June 15th) has not been addressed but is expected to be pushed out as well.

California Changes

Tax filing deadline:

The tax filing deadline for 2019 individual and business taxes has been extended to July 15, 2020. The same date as Federal.

Tax payment deadline:

Individuals have until July 15th to pay their 2019 tax due. Business taxes and LLC fees are due July 15th as well. The payment is extended regardless of the amount due.

Estimated payments for both Q1 2020 and Q2 2020 are now due July 15th.

Other States

Most other states have also delayed their April 15, 2020 filing and payment date to July 15, 2020.

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:

- July 15th is the deadline for filing 2019 individual income tax returns and making 2019 IRA, SEP-IRA, Roth IRA and Education Savings Account contributions.
- July 15th is also the deadline for first quarter 2020 Federal and State estimated payments.
- April 10th is the deadline for California property tax payments for the first half of 2020.



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