

March 2021 Monthly Commentary (1st Quarter Letter)

April 1, 2021

Stock Market & Portfolio Performance

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First Quarter 2021: Stocks posted solid gains led by small cap and value companies. Bonds posted relatively large losses as the 10-year Treasury bond reached it's highest level since prior to the start of the pandemic 12 months ago.

		<u>Mar 2021</u>	<u>YTD 2021</u>	<u>Description:</u>
Without Dividends:				
	S&P 500	4.3%	5.8%	500 Largest Public U.S. Companies
	Russell 2000	0.9%	12.4%	2000 of the smallest U.S. stocks
	MSCI EAFE	1.8%	2.8%	international stock index
	U.S. Aggr Bond	-1.3%	-3.4%	index of U.S. bonds
With Dividends, after all fees:				
	MAM portfolios	2.2%	3.7%	non-very conservative MAM portfolios
	MAM Conserv	1.7%	2.4%	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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On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (“the Act”) into law. The Act provides much needed relief to those financially impacted by COVID-19, as well as relief to many who weren’t financially impacted. The massive \$1.9 trillion bill includes extensions of enhanced unemployment relief, increased funding for COVID-19 testing and vaccination programs, aid to state and local governments, and assistance to schools to help get students back into classrooms. The Act also includes a number of tax provisions, including a third round of direct stimulus payments, enhancements of many personal credits meant to benefit people with lower incomes and children, extensions of highly popular employer payroll tax credits, and changes related to retirement plan funding.

The following are the provisions that are most likely to impact our individual tax clients:

Recovery Rebates: One of the central pieces of the Act is a third round of so-called “Stimulus Checks” in the amount of \$1,400 per eligible individual. Eligibility in this set of payments has been expanded from including just children under the age of 17, to all dependents in the household (which can include children in college still claimed as dependents). Like the previous stimulus payments, this third round is subject to income limitations. The payments start phasing out for adjusted gross income (AGI) over \$75,000 for single filers and \$150,000 for joint filers. The payment amount phase down to \$0 for single filers with \$80,000 of AGI and for joint filers with AGIs over \$160,000. This is a much more rapid phaseout than the two previous sets of stimulus payments.

Planning Note: The AGI amounts reported on 2020 Federal tax returns are used in applying the phaseout, but 2019 amounts will be used in lieu of 2020 amounts for taxpayers who have not yet filed their 2020 return. A consideration for taxpayers who had an increase in adjusted gross income in 2020 as compared to 2019: they should delay filing their 2020 Federal return if they qualify for a payment based on their 2019 income and won’t qualify based on their 2020 income.

Unemployment Relief: The Act includes an extension of enhanced weekly unemployment benefits first made available in the prior pandemic relief bills. The extension, originally set to expire in March, will now run through early September, but with some changes. The notable change for tax purposes, makes the first \$10,200 of unemployment relief received in 2020 exempt from tax for households with less than \$150,000 of income. It appears the \$150,000 AGI limit applies uniformly to all filing statuses. Also, it appears the \$150,000 AGI limit is a true “cliff” threshold. A plain reading of the ACT indicates that a taxpayer with \$149,999 of AGI can have up to \$10,200 of unemployment compensation excluded from their gross income. If the same taxpayer earns just a single dollar more, however, the full amount of the unemployment would be taxable.

Note that this is a retroactive tax law change that for those affected (i.e., received unemployment benefits and under the income phaseout limit), may require the need to amend their 2020 Federal tax returns if already filed.

Child Tax Credit: The Act includes 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 of that amount was refundable (meaning the taxpayer receives the credit even if there is an insufficient amount of taxes to be credited against). The Act increases the amount to \$3,000 per child (or \$3,600 for a child under the age of six) and makes the credit amount fully refundable. The bill also increases the maximum age of qualifying children to include 17-year-old children.

The excess of the amount of the credit over the present-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.

COBRA Coverage Assistance: The Act includes premium assistance for COBRA continuation coverage through September 30, 2021. It calls for a 100% reduction of COBRA premiums for eligible individuals. The assistance is provided by reimbursing the employer through a credit against payroll taxes. The Act excludes the premium reductions from income.

Dependent Care Assistance: For the 2021 tax year only, the credit is increased to 50% of expenses up to \$8,000 (\$16,000 if more than one qualifying dependent), the phaseout threshold is increased, and the credit is made refundable.

Earned Income Credit: The Act includes several enhancements to the earned income tax credit (EITC). Given that none of our clients have income low enough to qualify for the credit, we won’t go into detail on the numerous enhancements.

Premium Tax Credits: The Act makes several changes to the premium tax credit for 2021 and 2022.

IRS Extends 2020 Tax Filing Deadline to May 17th

The IRS announced the federal due date for individuals for the 2020 tax year has been automatically extended from April 15, 2021, to May 17, 2021. Individual taxpayers can also postpone federal income tax payments for the 2020 tax year due on April 15, 2021, to May 17, 2021, without penalties or interest.

IRA Deadline Has Been Extended: The deadline for making 2020 IRA and Roth IRA contributions has also been extended to May 17, 2021.

2021 Estimated Payments Not Delayed: This relief does not apply to estimated tax payments that are due on April 15, 2021. These payments are still due on April 15th.

State Tax Returns: The federal tax filing deadline postponement only applies to individual federal tax returns. It is up to each state whether it will extend its deadline. The California Franchise Tax Board has already announced the filing and payment due dates for 2020 CA individual returns has also been postponed to May 17, 2021.



What on Your MAM Portal?



In 2014, we introduced the MAM Client Portal. In the May 2014 Monthly Commentary, I wrote an article describing what is on the Portal. Since I have come to realize that many clients don't know that we store a PDF copy of tax returns for those who are tax clients, I think it is time to remind clients what is available on their Portal. Here is what is there based on the tabs at the top of the screen once you log in:

Accounts Tab:

We do a daily Portfolio Update to reflect the prior day's value for your portfolio(s). For Friday's values, the updates generally aren't done until Monday morning.

Document Vault Tab:

- 1) Estate Planning Documents: A copy of a client's estate planning documents are shown here for those who have provided us with an electronic copy of their documents. *For those clients who haven't provided us with a copy, we highly recommend they do so. This will provide them ready access to these important documents.*
- 2) Tax Documents: If you are a tax client, we have uploaded a PDF copy of your tax returns. We have these for tax returns going back as far as 2013.
- 3) Monthly Commentary: The three most recent Monthly Commentaries are displayed.
- 4) Net Worth Analysis: If we have prepared a Net Worth Analysis for you, it can be found here.
- 5) Risk Assessment Questionnaire: A copy of your completed Risk Assessment Questionnaire is kept here.

What's on Your MAM Portal?– con't

Portfolio Reports Tab:

- 1) Monthly Portfolio Reports: On a monthly basis (generally the first day after month-end), we upload the monthly performance reports for client portfolios.
- 2) Quarterly Reports: While we still mail or email quarterly reports to those clients that prefer it, we upload the quarterly report for all clients to their Portal. We retain the most recent four quarterly reports on the Portal.

Access to Your Portal:

Your username is the primary email address we have for you. Your password is one that you have created. If you do not know your password, please email Marilyn at Marilyn@mamportfolios.com and she will create a temporary password for you. The temporary password will be good for 24 hours. Alternatively, you can select the “Forgot Password?” link at the login page.

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:

- May 17th is the deadline for filing 2020 individual income tax returns and making 2020 IRA, SEP-IRA, and Roth IRA contributions.
- April 15th is the deadline for first quarter 2021 Federal and State estimated payments.
- April 10th is the deadline for California property tax payments for the first half of 2021.



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