McCarthy Asset Management, Inc.
Personalized Wealth Management

May 2015 Monthly Commentary

June 1, 2015

Inside this issue:

Stock Market & Portfolio Performance

May 2015: U.S. stocks rose for the month, international stocks slipped and bonds fell modestly.

	May 2015	YTD 2015	Description:
Without Dividends:			
S&P 500	1.0%	2.3%	500 Largest Public U.S. Companies
NASDAQ	2.6%	7.1%	stocks trading on the Nasdaq
Russell 2000	2.2%	3.5%	2000 of the smallest U.S. stocks
MSCI EAFE	-1.0%	7.0%	international stock index
U.S. Aggr Bond	-0.2%	1.0%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	0.6%	3.0%	non-very conservative MAM portfolios
MAM Conserv	-0.1%	1.6%	portfolios with 50%+ bond allocation

Comment: While first quarter earnings for the S&P 500 companies were expected to fall, in a nice surprise for investors, actual results were modestly positive. Analysts project that earnings growth will accelerate into 2016 as the negative impact of a surging dollar and depressed oil prices fade.

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Economic and Stock Market Update

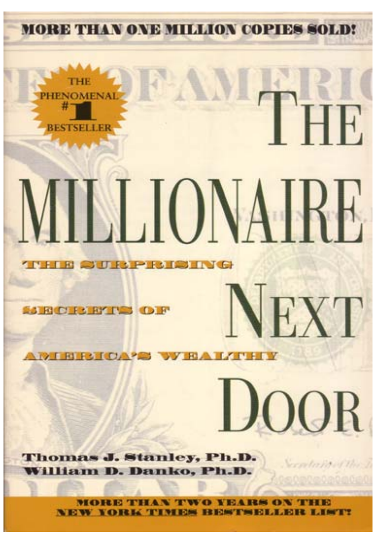
Stock Market Outlook: For the last several years, we have consistently had a positive outlook for the stock market, although with lower expectations given the age of the bull market. As we wrote last November, "With 2014 likely to be another year of good stock market appreciation, stock prices are starting to get a little stretched. While we still favor stocks over bonds, and bonds over cash, investors may want to temper their expectation for additional strong gains. At a minimum, increased stock market volatility is likely in the year ahead."

As we near the midway point of 2015, nothing has changed in our outlook. The slow economic growth (1st quarter Gross Domestic Product actually contracted 0.7%) continues to provide a good environment for stocks. Growth is positive enough (it is expected to be around 2.5% for all of 2015) to help corporate earnings growth to continue, but not so much that the Federal Research will need to raise interest rates rapidly.

Given that we are now in our 7th year of this bull market, and stocks are probably priced a little rich, we don't expect continued robust gains. On the other hand, given the steady slow-growth condition of the economy, we are not concerned that we are about to enter into a new bear market. While it is possible that we may experience a short-term market correction once the Federal Reserve starts to raise interest rates later this year, historically stocks perform well in the early stages of Fed interest rate increases.

Next Portfolio Repositioning: We expect to do minor repositioning in portfolios during the next month. As discussed below in the profile on the T. Rowe Price Capital Appreciation Fund, we expect to increase the amount invested in this outstanding moderate allocation fund. Furthermore, as discussed earlier this year, we also expect to increase the allocation to foreign equities.

Lessons from "The Millionaire Next Door"



One of my favorite personal finance books is the "Millionaire Next Door" by professors Thomas Stanley and William Danko. The 1996 book, which sold over 2 million copies, was written from a compilation of research done by Stanley and Danko on the profiles of U.S. households with a net worth in excess of one million dollars. While $1 million may not seem like that much, keep in mind that the research for the book was conducted over 20 years ago, when $1 million in net worth meant substantially more than it does now. Nevertheless, the lessons from the book are still very applicable today.

Sadly, Thomas Stanley, age 71, died in an auto accident in March of this year. At the time of his death, he was working with his daughter, a psychologist, on an update to the book, with a fresh look at millionaires in the post-financial crisis America.

In writing their book, Stanley & Danko set out to create a composite of the modern American millionaire by conducting a survey of 1,000 high-net-worth individuals. At the time, Stanley was a professor of marketing at Georgia State University and Danko was Stanley's former research assistant who would go on to also become a marketing professor. What they found was that most millionaires shared a number of key traits in common, all of which create a lifestyle "conducive to accumulating money":

1. **They live below their means.** This is the number one lesson. In their research, Stanley and Danko found that most millionaires weren't heavy spenders. One surprising finding: two-thirds of the millionaires they surveyed said they followed a household budget.

Lessons from "The Millionaire Next Door"– Con't

2. **Income does not equal wealth.** Yes, higher-income households tend to have more wealth than lower-and-middle-income households. But the size of a paycheck explains only approximately 30% of the variation of wealth among households. What really matters is how much of the income is invested. **On average, millionaires saved and invested nearly 20% of their annual income.**

3. **They allocated their time, energy and money efficiently, in ways conducive to building wealth.** For example, the authors found that millionaires were more likely to invest time planning their household finances, than, say, shopping for a car. On the flip side, many people would be more likely to allocate time comparing car prices than sitting down with a financial planner to figure out how much they need to save to achieve a financially-secure retirement.

4. **They believe that financial independence is more important than displaying high social status.** "They inoculate themselves from heavy spending by constantly reminding themselves that many people who have high-status artifacts, such as expensive clothing, jewelry, cars and pools, have little wealth", the authors wrote.

5. **Their adult children are financially self-sufficient.** The book has a simple message to every child and parent, and that is to **not let your children solely depend on you**. Providing financial assistance like paying for college is fine, but if you continue to give your children financial assistance as they grow old, it reduces the chance of them having great careers and becoming self-sufficient.

6. **The Rich are happier.** Some may wonder whether living below your means is worth it. Sure, millionaires have bigger portfolios—but are they happier? Stanley and Danko's research indicates they are. According to their research, "Financially independent people are happier than those in their same income/age cohort who are not financially secure." There's a peace of mind that comes from living below your means and having financial security. But they also don't expect "status" purchases to improve their happiness, because evidence shows they don't.

The New College Graduate's Guide to Money

A number of MAM clients have a son, daughter, niece, nephew and/or family friend who has recently graduated from college. Unfortunately, many of the new grads have not been properly prepared for the financial aspects of becoming independent. "The Millionaire Next Door" book discussed above would make a great gift with timeless financial advice for new grads (they don't teach this stuff in school!). In addition, the May 2015 Money Magazine included a nice, succinct 5-page article "The New Grad's Guide to Money" which discussed the following:

- Budgeting
- Credit Cards
- Housing
- Student Loans
- Your Job
- Health Insurance
- Emergency Cash Fund
- Savings

A copy of the 5-page Guide has been attached to the email for this May Monthly Commentary. Please forward it on to any new graduate who could benefit from the financial advice.

Fund Profile– T. Rowe Price Capital Appreciation

T. Rowe Price is an excellent mutual fund family. According to Morningstar, 88% of all of T. Rowe Price's funds landed in the top half of their respective Morningstar Category for the 10-year period through November of 2014. That's very good consistency. My favorite fund of theirs is Capital Appreciation Fund (symbol PRWCX), which is a moderate allocation fund. The goal of the Fund is to beat the S&P 500 with less volatility.

David Giroux has been the manager of the Fund since June of 2006. He has a variety of asset classes he is able to invest in, including equities, traditional investment-grade and high-yield bonds, leveraged loans, convertible bonds, preferred stocks and cash.

Performance: Since David Giroux started managing the fund in June of 2006, it has outpaced all but one of its moderate-allocation peers (and 96% of peers on a risk-adjusted basis). It's also been a highly consistent performer: Over 42 rolling five-year periods during Giroux's tenure, the Fund has beaten the S&P 500 69% of the time, and surpassed the Morningstar Moderately Aggressive Index (a mix of stocks and bonds) 100% of the time. The Fund has beaten at least 75% of its peers in every one of those periods.

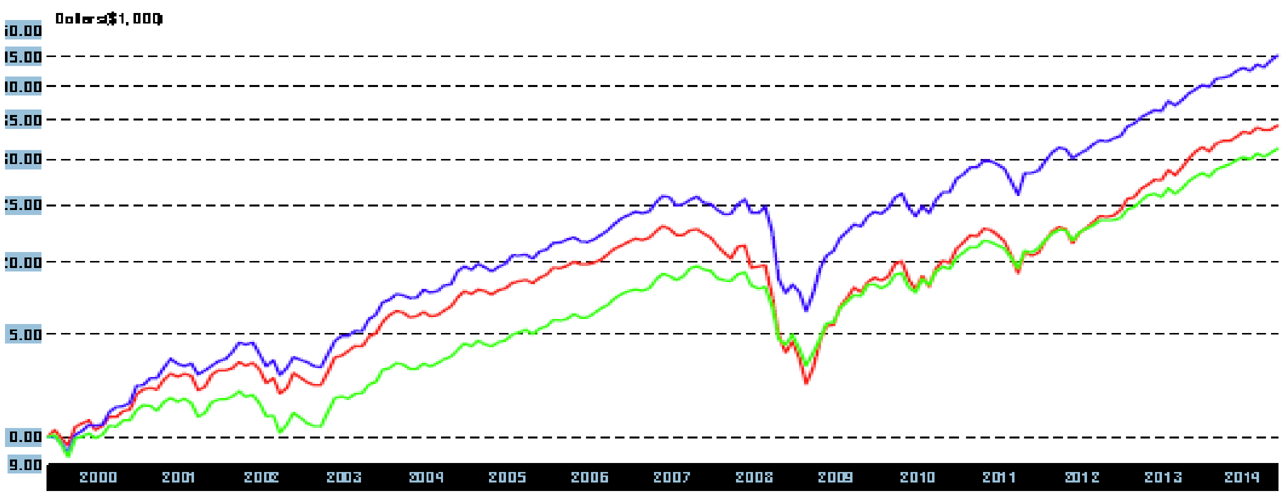
The chart below from Morningstar shows the performance of the Fund (shown in blue) relative to two other excellent moderate allocation funds (Dodge & Cox Balanced and Vanguard Wellington) from 12/1/99 through 11/30/14:

Graph: Page 1 of 1 For internal and/or client reporting purposes only Release Date: 11-30-2014

Growth of $10,000:

Holding(s) from 12-01-1999 to 11-30-2014

Fund/Index	Total Return%	Annualized Return %	Amount at End of Period $
Dodge & Cox Balanced	243.25	8.57	34,325
T. Rowe Price Capital Appreciation	352.32	10.58	45,232
Vanguard Wellington™ Inv	213.03	7.90	31,303



Process: Giroux typically keeps 55%-65% of the Fund's assets in stocks, but that can exceed 70% of assets when he finds a lot of cheap companies, as he did in early 2009. (Recently the equity weighting was 62%.) Unlike with index funds and ETFs, we like that Giroux has the flexibility to be more aggressive when he feels the stock market is undervalued and more conservative when he thinks it is overvalued.

Operating Expenses: The annual operating expenses are 0.71%. This earns it a Morningstar Fee Level of "Below Average" for no-load moderate-allocation funds, and is 0.21% cheaper than the group's median.

Fund Profile– T. Rowe Price Capital Appreciation– Con't

Fund Closed to New Investors, Exception Made for MAM, Inc. Clients: In an effort to keep assets at a manageable level, T. Rowe Price closed the Fund to new investors in June of 2014. Given that in excess of $2 million of MAM-managed assets are invested in the Fund, T. Rowe Price recently granted an exception for MAM clients to establish a position in the Fund. As a result, we expect to substantially increase the amount of MAM-managed assets in the Fund.

MAM Action: Given the sharp rise in stock prices since March of 2009 (i.e. we are probably in the latter stages of this bull market), this is a particularly attractive Fund as it has more than kept pace with the S&P 500 with much lower volatility. For portfolios valued in excess of $300,000 to $400,000, we plan to establish a position in the Fund during the semi-annual portfolio repositioning that we will be doing this next month. We are not establishing a position in the Fund in smaller portfolios because, like all T. Rowe Price funds, Schwab charges a transaction fee to purchase it ($25 for purchases up to $25,000; $50 maximum fee for purchases in excess of $50,000).

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.**

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 several 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) - Allen Hamm**
- **The Savvy Life® Classes, Workshops , and One-on-One Consultations**

Reminders/Updates

1) Estimated Tax Payments: Second quarter of 2015 estimated payments are due on June 15th.

2) ClientView Portal: Please let us know if you have any questions regarding accessing your ClientView Portal.