

October Monthly Commentary

Nov. 2, 2020

Stock Market & Portfolio Performance

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October 2020: With the exception of small-cap companies, stocks fell for the month due to concerns about a spike in new COVID-19 cases. In a continuation of September performance, growth stocks led the decline. Bonds slipped as the 10-year treasury rate rose.

	Oct 2020	YTD 2020	Description:
Without Dividends:			
S&P 500	-2.8%	1.2%	500 Largest Public U.S. Companies
Russell 2000	2.0%	-7.8%	2000 of the smallest U.S. stocks
MSCI EAFE	-4.1%	-12.6%	international stock index
U.S. Aggr Bond	-0.5%	6.3%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-1.2%	-0.2%	non-very conservative MAM portfolios
MAM Conserv	-0.9%	0.2%	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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Financial Considerations Related to the Election



The 2020 election tomorrow is a big one with the potential for changes in the control of the White House and Congress. Among the possible impacts if we have a new Administration are significant changes to income and estate taxes.

Possible Income Tax Increases: A “blue wave” would occur if Joe Biden wins the Presidency and Democrats gain control of Congress. This would likely result in a more progressive tax system with reduced taxes on lower-income individuals and increased taxes on higher-income individuals. If this “blue wave” does happen, I will write more extensively about the possible tax increases in our November Monthly Commentary. Among the recommendations would be for high income taxpayers with income over \$1 million to consider realizing capital gains on highly appreciated positions before the end of 2020. For investors, this could put some short-term pressure on the stock market, particularly technology stocks that have performed very well in the last few years.

Possible Estate Tax Changes: As Ryan discusses in his article on P. 3, Biden’s proposal for estate and gift taxes would reduce in half the current \$11.58 million lifetime exclusion amount that applies to both estate and gift taxes. If Biden wins and Democrats gain control of the Senate, wealthy individuals and couples may want to consider using up the current high exemption by making a gift to their heirs before the change in estate tax law.

CA Property Tax Provisions: This only applies to California homeowners. Under current law:

- A parent and child can transfer (by sale, gift, or inheritance) eligible properties between each other and they won’t be reassessed for property tax purposes. This can be very significant because if a property has been held for many years, the current assessed value can be a fraction of the current market value.
- Eligible properties include a principal residence of any value, plus additional properties—such as a vacation, rental or commercial property—with a combined assessed value up to \$1 million. Properties receiving this tax break can have a market value far exceeding \$1 million.
- A child who receives an eligible property from a parent can keep the property’s low tax base whether they live in it, rent it out, or leave it vacant.

Under Proposition 19 (if passed by California voters this November):

- Would abolish this tax break on parent-child transfers of any property that was not used as a principal residence or farm. Any such property transferred on or after February 16, 2021 would be reassessed at market value.
- On transfers of a primary residence or farm, the property would not be reassessed if the new owner also uses it as his or her primary residence or farm and the difference between the assessed value and market value does not exceed \$1 million.
- If the difference does exceed \$1 million, the primary residence or farm will be reassessed based on a convoluted formula, according to the Legislative Analyst’s Office.

Tax Planning for CA Real Estate: If Prop. 19 passes, families with substantial real estate holdings should consider transferring property before February 16, 2021. However, there’s a trade-off. For those who plan to leave the property to their children as an inheritance, the children will lose the step-up in basis that property receives under current law when it is transferred at death. This step-up allows heirs to avoid capital gains taxes on inherited property if they sell it right away. However, Joe Biden has proposed eliminating this step-up in basis, so stay tuned.

Potential Estate Tax Implications of a Biden Victory

By Ryan McCarthy

Tomorrow will be the culmination of weeks of voting, as America will decide who will control the White House for the next four years. While this election has a number of significant short-term and long-term implications, this article will focus on the current estate tax law and potential changes, should Joe Biden win the election and the Democrats gain control of the Senate.



Current Estate Tax Law: Currently, for the 2020 tax year, there is a \$11.58 million gift and estate tax lifetime exclusion amount per person. For married couples, this amount is doubled, increasing the total to \$23.16 million. This exclusion amount is derived from the Tax Cuts and Jobs Act, which was signed into law at the end of 2017. The current gift and estate tax exemption rates are due to expire on 12/31/2025. If no action is taken by Congress, the exemption amounts will revert back to 2017 values, with inflation adjustments. It is estimated that the inflation adjusted exemption in 2026 would be about \$6 million per individual, and \$12 million for a married couple.

Possible Estate Tax Changes: Biden has come forward with a proposal to reduce the \$11.58 million gift and estate tax lifetime exclusion amount in half. Senator Bernie Sanders also put a plan forward, called “The 99.8% Act,” in which he proposed lowering the lifetime exclusion amount to \$3.5 million person.

What This Means: If Biden wins and the Democrats earn control of the Senate, these changes may be enacted as quickly as the beginning of 2021. This means that individuals would only have until 12/31/2020 to utilize the current \$11.58 million gift and estate tax exclusion amount.

What to Do: If these potential changes apply to you, it is best to start planning today. If changes are made to the estate tax law for the 2021 tax year, there will be a very small window between the election and end of the calendar year to make large gifts at the current exemption rates. Planning today will reap benefits should you need to act before the end of 2020.

Credit Reports

By Lauree Murphy

Monitoring your credit reports

Your credit report is a critical piece of financial information. It is used by banks when applying for any type of credit, including credit cards, auto loans, mortgages, and lines of credit. Additionally, landlords, insurance companies, utilities, and cell phone companies also use your credit report.

Your credit scores

Credit scores are calculated using data contained in your credit report. Credit scores range from 300-850. The two major credit scores are the FICO score and the Vantage score. A good score for FICO is 670 and above, with a score above 739 being very good or excellent. Vantage scores are considered good when they are 700 and above, while scores above 749 are considered excellent. Such a score will qualify you for the best interest rates and lower auto and homeowner's insurance premiums.

If your credit score is lower than you expect, check your credit report for late payments, or accounts in collections. These will drag down the score. Adverse accounts with problems are usually listed first. Credit card utilization also factors into your credit score. Credit card utilization is the outstanding balance due compared to your credit limit. The lower your utilization, the better your score. Keeping your credit card outstanding balances at 20% of your limit will improve your score. Other factors affecting your credit score include the length of your credit history, the mix of credit types you have, and how many credit inquiries you have from potential lenders.

Obtaining your credit reports

It's essential to monitor your credit report periodically for mistakes or fraudulent accounts opened in your name. Ordinarily, you can get a free report from all three credit reporting agencies once a year at annualcreditreport.com. However, in response to the coronavirus emergency, the credit reporting agencies are allowing a free credit report once a week until April 2021. The three credit reporting agencies are TransUnion, Experian, and Equifax. Equifax and Experian also will give you a free credit score if you sign up for a free account.

Credit Reports

By Lauree Murphy– con't

I suggest downloading each report so you can review them. Recently, I downloaded my 3 credit reports and 2 free scores. It took about 30 minutes. You have to download them separately, which means going back to the annualcreditreport.com website three times. If you request a credit score, you will need to provide a cell phone number where an authentication code will be sent. Each report looks a little different. For instance, Experian will show different versions of the names being used on your accounts. My report had 6 versions of my name. Some using my middle initial, some including my maiden name, and one misspelled version.

What to look for when reviewing your credit report

- Accounts or lenders that you do not recognize.
- Although there may be legitimate variations of your name, make sure that you don't have an account listed that belongs to someone else who has a similar name.
- Check your Social Security number, previous addresses, date of birth, and other info listed within the report.



Disputing a credit report error

If you see anything that looks wrong, first you should try to get it fixed at the source by contacting the lender. Also, report the error to each credit bureau which has the erroneous account listed. Your credit report has a “dispute it” button right on the credit report website.

The consumer financial protection bureau has sample letters to use for disputing errors, as well as a list of what kind of information you should provide in your dispute.

There are credit repair companies, but many of these have poor reputations and overcharge for their services. You can read an article about how to tell the good from the bad credit repair companies at <https://www.lexingtonlaw.com/credit-repair/legitimate>.

How to establish credit if you have no credit record

Often, banks will give college students with accounts at the bank a student credit card with a small line of credit of \$500 or so. If they use the credit wisely, the bank will gradually increase the credit line.

Another option is to get a secured credit card. If you have no credit history, this is a good starting point. You essentially give the bank money, which they keep as collateral. Then they let you borrow it back. You can't borrow above the amount you have secured. After about 6 months, if you pay your bill promptly and show you can manage your money responsibly, the bank will return your secured amount and will likely increase your credit limit. Look for a credit card with no annual fee.

CARES Act

The CARES Act has provisions for homeowners with federally backed mortgages (Fannie Mae or Freddie Mac mortgages) who have a hardship related to coronavirus. Homeowners can request that their mortgage be suspended or reduced for up to 1 year. If you are current on your payments before starting an accommodation under this program, your credit report will not be harmed.

Other Resources:

To request free credit reports: <https://www.annualcreditreport.com/requestReport/landingPage.action>

Gerri Detweiler is an expert on debt. Her website has a wealth of knowledge, including a free book about debt collection laws: <https://www.gerridetweiler.com/>

To learn more about the details of your credit report:

<https://www.consumerfinance.gov/consumer-tools/credit-reports-and-scores/>

For help for homeowners impacted by COVID-19: <https://myhome.freddie.mac.com/getting-help/relief-for-homeowners.html>

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

Year-End Tax Planning: For those of you who are tax clients, please let us know if you would like to have us do any tax planning, such as determining the amount of 4th quarter estimated payments or making a Roth IRA conversion.



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