McCarthy Asset Management, Inc.
Personalized Wealth Management

Q3 2015 Quarterly Letter
(also September 2015 Monthly Commentary)

October 1, 2015

Inside this issue:

Stock Market & Portfolio Performance

3rd Qtr & YTD 2015: Starting August 21st, the stock market experienced a sudden, sharp correction. Stock prices are now down for the first nine months of 2015 and will need a strong 4th quarter to finish up for the year.

	3rd Qtr	YTD 2015	Description:
Without Dividends:			
S&P 500	-6.9%	-6.8%	500 Largest Public U.S. Companies
Russell 2000	-12.2%	-8.6%	2000 of the smallest U.S. stocks
MSCI EAFE	-10.8%	-7.4%	international stock index
U.S. Aggr Bond	0.6%	1.1%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-7.3%	-6.3%	non-very conservative MAM portfolios
MAM Conserv	-4.3%	-4.1%	portfolios with 50%+ bond allocation

Comment: The long anticipated market correction is finally here. *See P. 2 for a discussion of how we think it is likely to play out.*

Advisor Team

McCarthy Asset Management, Inc.

Three Lagoon Drive Suite # 155
Redwood Shores, CA 94065
USA

STEVE MCCARTHY
CPA, CFP®,
Owner and Principal
650 610-9540 x 303
steve@mamportfolios.com

Lauree Murphy, CFP®, EA
Financial Planner
Tax Specialist
650 610-9540 x 304
lauree@mamportfolios.com

ANTHONY BERTOLACCI , EA
Director of Compliance
Tax Accountant
650 610-9540 x 302
anthony@mamportfolios.com

MARILYN BLANCARTE
Executive Assistant
650 610-9540 x 305
marilyn@mamportfolios.com

The Stock Market Correction Continues

The correction that started in mid-August continued through September. As mentioned in last month's Commentary, after nearly four years, the stock market experienced a 10% correction in August. Historically, 10% corrections take weeks, if not months, to run their course. One possible path for this downturn is for the stock market to retest its lows (which at this point was when the S&P 500 closed at 1868 on August 25th). The market falling back to this recent low and then not dropping further (i.e. "a successful test of the low") would be a very positive sign. The S&P 500 closed at 1920 on September 30th, 2.8% above the August low.

Compared to bear markets, the current investment environment lacks many of the issues that triggered previous sharp market drops. In particular, there does not appear to be any investment bubbles, such as technology stocks in the dot.com bust (2000-2002) and real estate in the financial crisis (2007-2009). Historically, the other cause of a bear market is a recession, which is currently a low risk. That is not to say there are not issues that are contributing to the recent decline:

- Concerns over slowdown in China's economy: We discussed China's collapsing stock market on page 4 of the July Monthly Commentary. Stabilization of China's economy could lead to a worldwide recovery in stock prices.

- Fear about the impact of Fed interest rate hikes: The Fed's decision this past month not to raise rates was probably a negative for stocks as it indicated the Fed's concern for the economy. The Fed is still expected to start raising rates before the end of 2015, which could provide a boost to stocks.

- Collapse in oil & other commodity prices: We discussed the collapse in commodity prices on pages 3 and 4 of the August Monthly Commentary. Stabilization of commodity prices would be a probable catalyst to the end of the market correction.

U.S. Economy Doing Ok: Importantly, the U.S. economy continues its slow, steady growth. Recently, the U.S. Department of Commerce raised its estimate of 2nd quarter 2015 GDP annualized growth to 3.9%. While GDP growth is expected to be lower for the third quarter, the economy should continue its slow growth due in large part to the strength of consumer spending.

U.S. Consumers are Doing Well: Consumer spending has been good. Compared to the prior month, personal spending rose 0.4% in August, 0.4% in July, and 0.3% in June. This is significant as consumer spending makes up approximately 2/3 of the U.S. economy. Two factors driving consumer spending are:

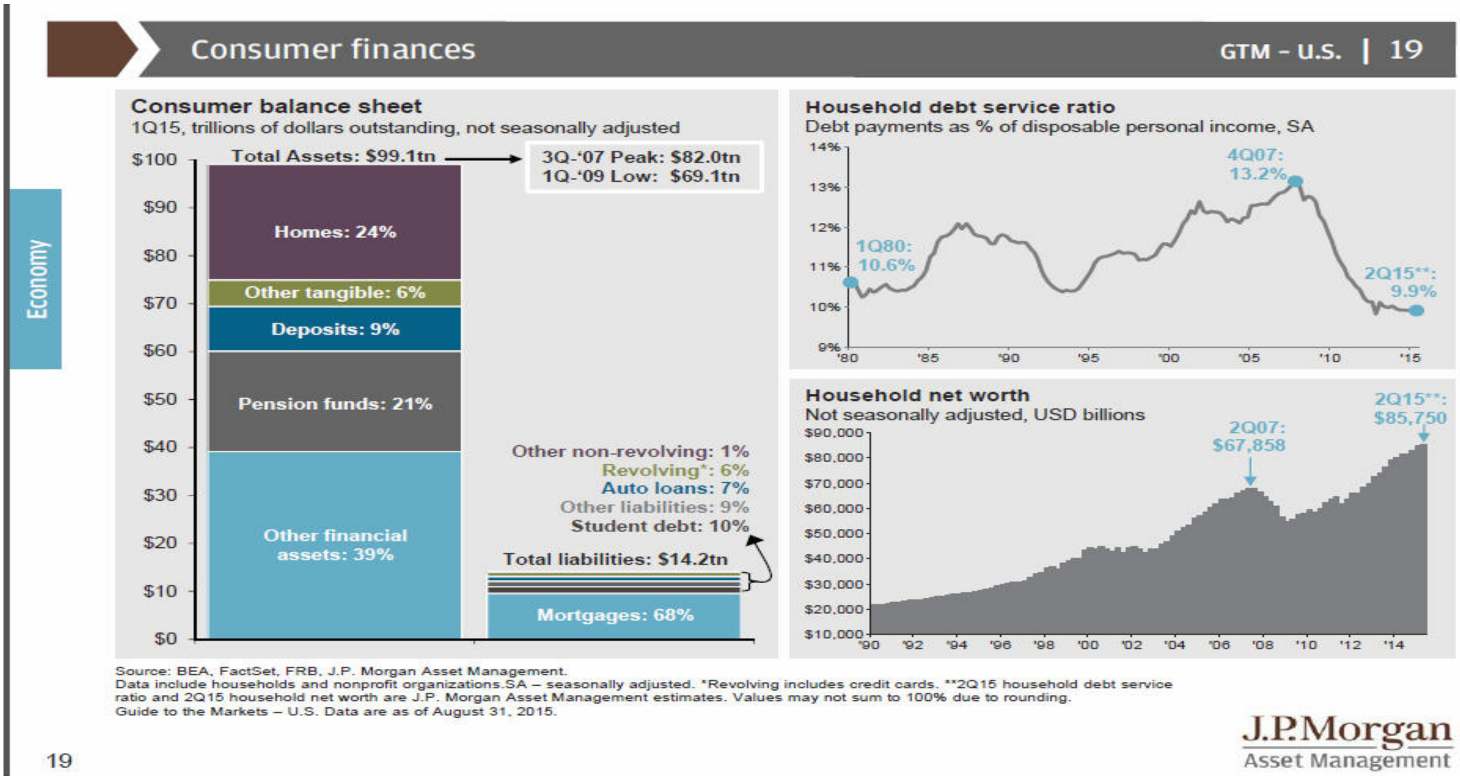
- **Solid Growth in Employment.** The Labor Department reported that employers added 173,000 jobs in August while the U.S. unemployment rate fell to 5.1%, the lowest it has been in seven years.

- **The Consumer's Balance Sheet Has Improved:** The table and graphs on the next page from J.P. Morgan depict how much American consumers have improved their Balance Sheet since the financial crisis. As of the 1st quarter of 2015, American consumers had $99.1 trillion in assets, up from a financial crisis low of $69.1 trillion and a previous peak (3rd quarter of 2007) of $82.0 trillion. Meanwhile the household debt service ratio (debt payments as a percentage of disposable income) decreased to 9.9%, the lowest it has been in over 35 years (thanks in part to very low interest rates). Finally, American's household net worth is now at an all-time high.

Our Outlook for the Stock Market: We continue to feel that it is likely the recent drop in stock prices is a temporary market correction that will run its course over the next month or two. A possible negative issue, though, is the risk of a Federal government shutdown later this year.

Stock Market Correction Continues– Con't

Possible Government Shutdown: On September 30th, Congress agreed to fund the government through mid-December. However, there is now a higher risk that a shutdown will occur in December given the surprising September 25th announcement by House Speaker John Boehner that he will resign his seat in Congress. Our expectation is that, as with previous risks of a shutdown, Congress will ultimately pass a timely resolution and the U.S. will not default on its debt, although a brief government shutdown is possible late this year.



The Conversation We Meant to Have (by Lauree Murphy)

Is your spouse in the dark about your financial affairs? How about your children?

Recently, I met with someone who lost her husband very unexpectedly. He handled the finances. She was happy to be free of that task. It was one less thing she had to worry about. Now he is gone and she is scrambling to figure things out. On top of grieving the sudden loss of her husband, she has the added burden of trying to reconstruct her financial situation. This isn't the first time I have seen this happen. Couples typically split up household duties amongst themselves. Although "divide and conquer" is a great idea for most household duties, it's very important that both spouses know what is going on with their finances. I'm sorry to say that women in particular tend to be the one left in the dark. If you are single, you need a trusted relative or friend who could access information in an emergency. Maybe it is time to share this info with your children.

If something happened to you today, would your spouse be able to locate last year's tax return, your will, and trust documents? Do he/she know how much you have in assets, where those assets are held, and what the account numbers are? What about the household's debts and monthly spending? Is your spouse aware of the life insurance policies you hold? Does he/she know the passwords to electronically open important files or log into your financial accounts?

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Suggestion: Act now. When you pay this month's bills, have your spouse write the checks or go online with you and make the payments. Make a list of all your assets and debts with the account numbers. Do the same for all your insurance policies. Add contact information and phone numbers for your insurance agent, tax preparer, investment advisor, lawyer, etc. Store this info in a safe deposit box, secure online depository, or somewhere safe at home. If you keep documents on a computer at home, be sure your spouse can find and access that information.

Online Tools: We have been researching online tools that are available. Everplans.com is a website that can help you gather the information and keep it current. You can set up "deputies" who can have access to some or all of the information. There is a free version as well as a paid one, which allows you to upload files. PrincipledHeart.com and AfterSteps.com offer similar online services with short free trial periods. Given the rash of breaches to online databases, there is a risk to maintaining your sensitive financial information online. For a good alternative, Everplans has a handy checklist in PDF form that is fillable. To help you get started I have attached the checklist to the email that was sent with this Monthly Commentary. *I recommend you fill out the checklist and keep it in a secure place that your spouse or other trusted relative or friend knows about.*

Things change over time. Keep your spouse up-to-date on any changes. At least once a year, review all of this so no one is in the dark. Have a "state of the household" meeting. Put it as a recurring item on your calendar. If something tragic happens, being prepared might alleviate some of the stress. None of us know how many tomorrows we have left, don't wait until it's too late.

Medicare Open Enrollment Period Begins October 15th

What is the Medicare open enrollment period? This is when people with Medicare can make new choices and pick plans that work best for them. Each year, Medicare plans typically adjust what they cost and cover. In addition, your healthcare needs may have changed over the past year. The open enrollment period is your opportunity to switch Medicare health and prescription drug plans to better suit your current needs.

When does the open enrollment period start? It starts October 15th and runs through December 7th. Any changes made during this open enrollment will be effective January 1, 2016.

What should you do? Now is a good time to review your current Medicare plan. As part of the evaluation, you may want to consider several factors. For instance, are you satisfied with the coverage and level of care you are receiving with your current plan? Are your premium costs or out-of-pocket expenses too high? Has your health changed, or do you anticipate needing medical care or treatment?

Where can you get more information? Determining what coverage you have now and comparing it to other Medicare plans can be confusing and complicated. Pay attention to notices you receive from Medicare and from your plan. Take advantage of help available by calling 1-800-MEDICARE or by visiting the Medicare website, www.medicare.gov. *Alternatively, the services of Eileen and Allen Hamm, Healthcare in Retirement experts, are available to MAM clients at no cost.* See the next page for the article that Eileen wrote about Medicare Advice. If you are interested in talking with her, please let Steve or Lauree know and we will send an introductory email.

Medicare Advice– Pitfalls and Dangers Abound (written by Eileen Hamm)

A generation ago, when 65 was the common age for retirement, people signed up at the same time for their Social Security benefits and Medicare Part A and Part B. However, the world has changed dramatically since then. More and more people are postponing taking Social Security until they have attained their highest benefit levels. Other people are continuing to work late into their 60's, or even longer, to remain productive. This can be where the confusion begins about how and when to enroll in each of the parts of Medicare.

A popular misconception that adds to the confusion is the belief that Social Security (SS) and Medicare are one and the same thing. One reason for the confusion might be that you enroll in Medicare through the Social Security Administration. But SS can be applied for as early as age 62, or as late as age 70. Medicare, on the other hand, is the healthcare program for people who are 65 and older. **Unless you are still working for an employer with 20 or more employees, you MUST enroll in Medicare.** Otherwise you will not be able to obtain health insurance.

Some people also falsely believe that they must be signed up for SS in order to receive Medicare. Not true. But if you ARE planning on postponing signing up for your SS benefits and you need Medicare Health coverage, then you need to actually ENROLL in Medicare before your 65th birthday. The government will not send you a notice that you should enroll in Medicare. But here's a hint: 6 months before your 65th birthday your mailbox will start to be stuffed with sales brochures from Medicare Supplement programs. **That's the time (or months before) to talk with our firm, Eileen and Allen Hamm, Healthcare in Retirement experts. MAM, Inc. has retained our services as a free benefit for their clients.**

Just because you're turning 65 doesn't automatically mean you should enroll in Medicare. Everyone's situation is different. If you plan to work after you turn 65, it's *imperative* that you speak to the Human Resource or Benefits Administrator at your company. Some of the questions to ask include:

- Should I sign up for Medicare? Just Part A, or Part A *AND* Part B?
- Can I keep my current health plan when I turn 65?
- How does my employee plan work with Medicare? Will my coverage change when I turn 65?
- What will my premium be? (You'll want to compare your employer's plan with the options available with Medicare.)
- Will a Medicare Supplement plan offer me better coverage? (You will probably need to determine this yourself or speak to a Medicare resource specialist.)
- Will my dependents still be eligible for coverage if I decide to drop it and get a Medicare Supplement plan?

Some employers recommend that you enroll in Part A since it's free and it may help if you have a major hospitalization that your employer's coverage won't fully cover. On the other hand, if you have excellent coverage through work, then you may be able to wait and enroll in Part A and Part B when you retire. However, if you work for a company with LESS than 20 employees, you must enroll in BOTH Part A and Part B since Medicare is the primary payer. (With 20 or more employees, the employer's coverage is the primary payer.)

People who retired before age 65 and have retiree coverage through their former employer, or are on COBRA, should also speak to their benefits administrator several months before they turn 65 and ask the same questions listed above. Make sure you understand your options and the consequences of failing to enroll in Medicare when you are eligible.

If you would like to talk with us to help you get through the Medicare maze, let Steve or Lauree know, and they will put you in touch with us.

Sincerely,

Stephen P McCarthy, CPA, CFP®,

McCarthy Asset Management, Inc.

Three Lagoon Drive Suite # 155
Redwood Shores, CA 94065
USA

Phone: 650-610-9540
Fax: 610-9541
E-mail: Steve@mamportfolios.com

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

Please let us know if you would like to have us show you how to access the information that is available on your MAM portal.

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