McCarthy Asset Management, Inc.
Personalized Wealth Management

Sept. 2019 Monthly Commentary/Q3 Qtr. Letter

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Stock Market & Portfolio Performance

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Third Quarter 2019: Large-cap U.S. stocks rose, while small & mid-cap U.S. stocks and international stocks fell for the quarter. Bonds performed well as the U.S.-China trade dispute intensified and global economies showed signs of further slowing.

	3rd Qtr	YTD 2019	Description:
Without Dividends:			
S&P 500	1.2%	18.7%	500 Largest Public U.S. Companies
Russell 2000	-2.8%	12.9%	2000 of the smallest U.S. stocks
MSCI EAFE	-1.4%	10.2%	international stock index
U.S. Aggr Bond	2.3%	8.5%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-0.1%	11.7%	non-very conservative MAM portfolios
MAM Conserv	0.0%	9.5%	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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Focusing on the Long-Term Reduces Investment Risk

Most investors realize the benefit of investing in the stock market. From the origination of the S&P stock index in 1926 through 2018, the S&P has provided a 10% annual return. The original index contained only 90 stocks. It was expanded to 500 stocks in 1957. From 1957 through 2018, the S&P 500 has averaged an 8% annual return. These are the returns of a "buy and hold" investor during these timeframes.

During the last few months there has been a significant increase in stock market volatility due to the United States – China trade dispute and fears of the U.S. economy slipping into a recession. While these are legitimate fears, timing moves into and out of the stock market are very difficult to do successfully, and studies have shown that "market timers" significantly underperform "buy and hold" investors.

How can investors maintain their portfolios in times of turbulence? We recommend the following steps to help you stay invested to enjoy the benefits provided to long-term investors:

1) **Invest for the long-term.** This is the most important step, and it is the focus of this article. *The longer the investment timeframe, the lower the risk of losing money.*

2) **Invest in a diversified portfolio**. Different segments of the market don't move in sync. Allocating your portfolio among U.S. large stocks, U.S. small & mid-cap stocks, international stocks, bonds and alternative assets will reduce a portfolio's volatility.

3) **Don't invest any more aggressively than what you can stomach in a market downturn.** If you have a hard time staying invested when stock prices are falling, then utilize a more conservative portfolio by allocating more to bonds. While this will reduce the portfolio's long-term returns, it is worth it if it enables you to stay invested during the difficult times.

4) **If you are living off your portfolio (i.e. taking regular distributions), set aside three years of withdrawals in a conservative investment such as a short-term or intermediate bond fund.** This way, during a market downturn, there will be no need to sell any of the stock portion of the portfolio for up to three years to cover distributions. This is important because, historically, the stock market normally fully recovers from a bear market within three years (with one exception being the Great Depression).

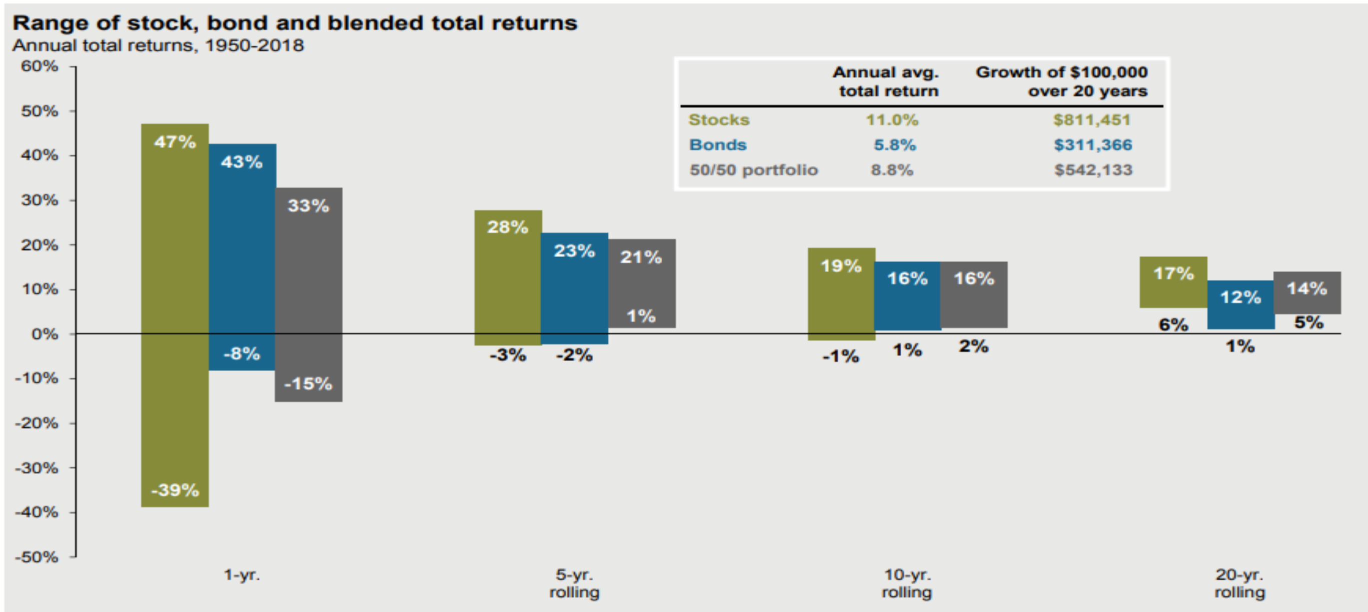
While we are able to implement steps 2 through 4, we need clients to assist with the first step. During difficult markets, it is important for them to focus on the long-term and not be overly influenced by the short-term gyrations and the negative stories being reported by the press. We can assist during these times by talking with clients. In addition, we can help focus on the long-term by providing educational pieces like this article.

<u>**Historical Worst Returns by Holding Period - 1950 to 2018**</u>: The chart below is very insightful. It shows for different timeframes the range of annual returns from 1950 through 2018 for an all-stock portfolio, an all-bond portfolio and a portfolio made up of 50% stocks and 50% bonds. As shown in the graph, the longer investments are held, the risk of losing money decreases rather drastically:

1) *Maximum loss for all-stock portfolio:* While the maximum loss was 39% for 1 year (i.e. 2008), for 5 years, the maximum annualized loss was 3% and for 10 years, it was a 1% loss. *For 20 years, the worst annualized performance was an annualized gain of 6%.*

2) *Maximum loss for Blended portfolio:* For a 50% stock, 50% bond portfolio, the maximum 1-year loss was 15%. For 5 years, the worst performance was an annualized gain of 1%, for 10 years, it was a gain of 2%, and for 20 years, it was a gain of 5%.

Focus on the Long-Term Reduces Investment Risk– Con't



Source: Barclays, Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2018. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Barclays Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2018.
Guide to the Markets – U.S. Data are as of June 30, 2019.

J.P.Morgan
Asset Management

Futility of "Market Timing": I have often written about the futility of trying to "time the market." Successfully doing so entails getting two decisions right. The first is when to sell and the second is when to buy back in. As long as investors have set aside three years of anticipated portfolio withdrawals, they will likely be able to wait for a bear market to end and stock prices to recover before selling any equities.

Future Market Returns: While it is very difficult to predict future market returns, our expectation is that over the next 10 to 20 years, stock market returns will be relatively muted with annual returns for a balanced portfolio averaging in the range of 4% to 6%.

In Summary: This article provides four steps to reducing the risk of investing. While we are able to handle most of the actionable items, the one thing we ask of clients is for them to focus on the long-term and try not to worry about short-term market volatility.

Good News for High-Deductible Health Insurance Plans and Chronic Disease

High-deductible insurance plans with health savings accounts are now more attractive to those with chronic illnesses. Until recently, people who enrolled in high-deductible plans had to pay out-of-pocket for the medications and services used to manage their conditions until they met their plan's annual deductible.

This summer, in response to an executive order from the White House, the IRS issued a new federal rule which strengthens care and reduces costs for Americans enrolled in high-deductible health plans. It does this by requiring insurance companies to treat as preventative-care benefits, a range of medications and services used to treat common chronic diseases, including heart disease, diabetes and asthma. People with the named conditions may now be able to receive certain treatments at no cost or at a lower cost, depending on their insurance plan. This is significant because chronic disease treatment represents the single largest component of U.S. healthcare expenditures.

Good News for High-Deductible Health Insurance Plans and Chronic Disease– Con't

Enrollment in high-deductible plans designed for use with health savings accounts has grown dramatically in recent years, from 4.2% of adults with employer-based coverage in 2007 to 18.9% in 2017, according to the Centers for Disease Control and Prevention.

As you choose your health coverage during open enrollment this fall, find out what preventive-care benefits your high-deductible plan option is offering. Before making your selection, consider all plans' premiums, deductibles, provider networks and other coverage details. The effect of this new IRS rule, though, is that high-deductible plans are now a more attractive option than before.

Medicare Open Enrollment

For 2020 Medicare coverage, the annual enrollment period ("Open Enrollment") will run from October 15, 2019 to December 7, 2019. During this time, you can make changes to various aspects of your coverage, such as switching from Original Medicare to Medicare Advantage, or vice versa. For additional information about what changes can be made, check out this link to Medicare Open Enrollment.

As most of you know, MAM has retained the services of Eileen Hamm and her firm to help our clients with issues related to Medicare. Because we pay Eileen's firm a fee, this service is available at no charge to you. Quite a few clients have already utilized Eileen's services either when they first became eligible for Medicare, or for those already enrolled, during the annual Open Enrollment. For those who have worked with Eileen in the past, she will be in contact to see if they would like to have her review their coverage.

Here is what Eileen can help you with during Open Enrollment:

- Reviewing your Medicare supplemental coverage to see if it has met your needs during the past year and evaluating other options as appropriate.

- Reviewing and making recommendations for any changes to your Part D prescription drug plan.

Per Eileen, "If you are on a Medigap-type supplemental plan and are happy with it, no change should be needed. However, the Part D prescription plans can change from one year to the next. Your insurer should mail you a notice about any changes, so pay close attention to the letter. Your premium may be going up next year, or the cost of your medications could increase, or some medications may no longer be covered under your plan. Even if you are currently happy with your Part D plan, it makes sense to evaluate your coverage every fall."

If you would like to work with Eileen, let us know and we will send an introductory email. Alternatively, you can email her directly at eileen@superiorltc.com.

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

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

Discover the difference with a Registered Investment Advisor.