McCarthy Asset Management, Inc.
Personalized Wealth Management

July 2023 Monthly Commentary

August 1, 2023

Inside this issue:

Stock Market & Portfolio Performance

July, 2023: Stocks performed well in July with companies outside of the mega-cap technology companies joining this year's rally. International stocks also rose, while bonds were flat as the rate on the 10-year Treasury continued to rise.

	July 2023	YTD 2023	Description:
Without Dividends:			
S&P 500	3.1%	19.5%	500 Largest Public U.S. Companies
Russell 2000	6.0%	13.7%	2000 of the smallest U.S. stocks
MSCI EAFE	3.0%	13.0%	international stock index
U.S. Aggr Bond	0.0%	2.2%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	2.6%	10.4%	non-very conservative MAM portfolios
MAM Consrv	1.4%	7.3%	portfolios with 45%+ 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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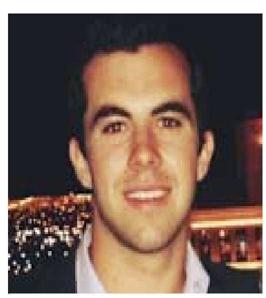

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The Stock Market Rally Has Broadened

On June 8, 2023, the S&P 500 entered a new bull market after rising more than 20% from last October's lows. In our June Monthly Commentary, we wrote the article "Mega Tech Stocks Lead This Rally" where we discussed how narrow this rally has been. In particular, for the first five and a-half months of 2023, nearly all the gains for the S&P 500 came from "The Magnificent Seven," which consists of Amazon, Apple, Google, Meta, Microsoft, NVIDA and Tesla.

In the June article, we expressed some concern about this narrow market leadership. The article concluded, "On its own, a highly concentrated stock market doesn't necessarily mean that a rally will end. Furthermore, there were signs in the month of June that the stock market rally expanded to more stocks than just the mega-tech stocks. For us to have confidence that this bull market is sustainable, though, we would like to see continued broadening of the rally to more stocks in the months ahead."

For July, the stock market rally broadened with more stocks now participating in the rally. In particular, by mid-July, more than 140 stocks in the S&P 500 have hit fresh 52-week highs. Small-cap stocks are now rising, too, as indicated by the small-cap Russell 2000 index climbing 6.0% for July, exceeding S&P 500's 3.1% rise.

Wall Street analysts often view improving breadth as a measure of health in the stock market, and an indication that the rally could last. It gives investors more confidence in the stock market, despite lingering concerns about slowing corporate profits, the potential of a recession, and the Federal Reserve's on-going campaign to tame inflation through interest-rate increases.

What is Driving the Rise in Stock Prices? There are several factors including the labor market remaining robust, consumers continuing to spend, and panic in the banking sector subsiding. In addition, there is growing hope for a soft landing for the economy—a scenario in which the Fed gets inflation under control without triggering a recession.

The latest data reflects a Goldilocks economy (i.e., "not too hot or too cold"). The Commerce Department reported last week that the gross domestic produce (GDP) grew at a seasonally and inflation-adjusted 2.4% annual rate for the second quarter of 2023. Meanwhile, the rate of inflation, as indicated by the Consumer Price Index, eased to a 3.0% increase in June from the prior year. This is the lowest level since early 2021. Hiring also slowed in June while unemployment remained historically low.

How Long Will the Rally Last? We don't know when the next bear market will arrive, but based on history, there is a chance it doesn't show up for a while. The duration of a bull market can vary significantly, but historically, they have been long-lasting. Per LPL Financial, the average S&P 500 bull market has lasted 59.2 months and produced an average cumulative gain of 169.3%. However, stock prices are volatile even in good times. Historically, bull markets have experienced an average maximum annual decline of 13.2%, similar to the average maximum annual S&P 500 decline of 14.3% in any year.

Inflation is the Key: Probably the most important determinant of how stocks perform for the foreseeable future will depend on whether inflation will continue to fall toward the Fed's 2.0% target. If inflation continues to fall and the economy slows down significantly later this year or early next year, the Fed may start lowering interest rates. This could cushion any decline in stock prices from a slowing economy.

Comments from the Manager of T. Rowe Price Capital Appreciation Fund

T. Rowe Price Capital Appreciation Fund (symbol "TRAIX") continues to be our favorite fund. It is also the largest position in most MAM portfolios. We last profiled it in our January 2021 Monthly Commentary. The Fund continues to be rated "5 stars" and "Gold" by Morningstar. With this article, we provide an update on the performance of the Fund and the current outlook of its manager regarding the stock and bond markets.

The basic goal of the Fund is to deliver over a full market cycle, S&P 500-like or better returns, while taking substantially less risk than the S&P 500. Despite holding a mix of equities and fixed-income investments, the Fund's 9.3% annual gain from July of 2006 (when Giroux started managing it), matches the return of the all-stock S&P 500 index, but with less volatility.

In 2008, we started using the Fund in some portfolios. In 2014, the Fund closed to new investors to keep assets at a manageable level. Fortunately, in 2015, T. Rowe Price granted an exception to MAM to allow us to add it to all portfolios. Since then, it has become our largest holding.

Performance: The Fund has been remarkably successful since David Giroux became the manager in June of 2006. Since then, the Fund has outpaced all of its peers in the "50-70% equity category" on both an absolute and risk-adjusted basis. The Morningstar chart below displays the performance of the Fund (shown in blue) relative to three other excellent moderate allocation funds (Dodge & Cox Balanced, Vanguard Wellington and Vanguard Wellesley) during Giroux's tenure:

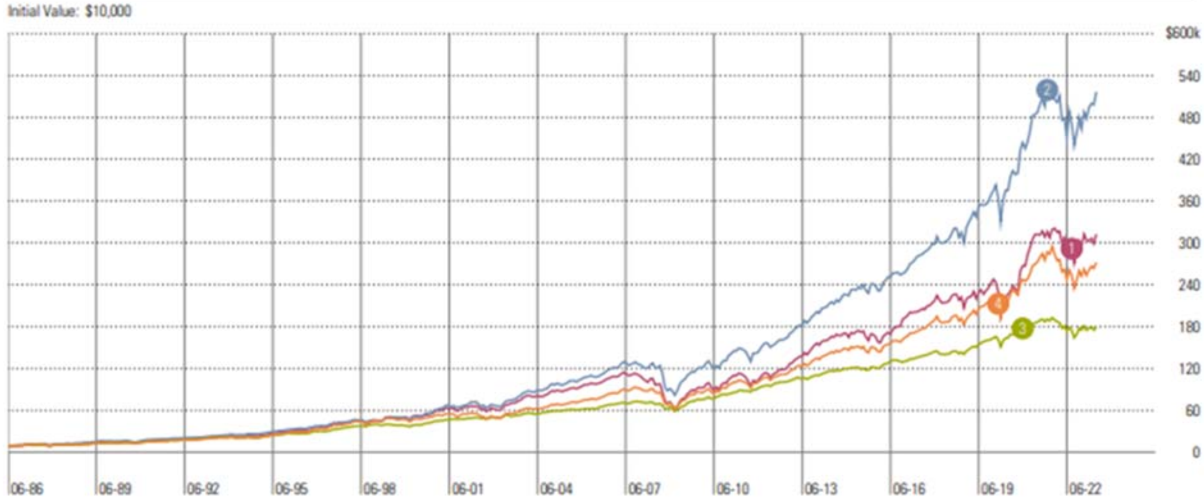
Release date 06-30-2023 | For Internal Use Only Page 1 of 13

Investment Growth

06-30-1986 to 06-30-2023

Currency
USD

Initial Value: $10,000



Investment	Cumulative Return % (Net of Fees)	Annualized Return % (Net of Fees)	Amount at End of Period $ (Net of Fees)
1 Dodge & Cox Balanced I (USD, DODBX)	3,023.41	9.75	312,340.94
2 T. Rowe Price Capital Appreciation I (USD, TRAIX)	*5,064.86*	*11.25*	516,486.17
3 Vanguard Wellesley® Income Inv (USD, VWINX)	1,689.74	8.11	178,973.57
4 Vanguard Wellington™ Inv (USD, VWELX)	2,619.05	9.34	271,904.55

Comments from the Manager of T. Rowe Price Capital Appreciation Fund– Con't

The following are excerpts from a June 21, 2023 conference call with David Giroux regarding his current thoughts about the stock and bond markets:

- He is neutral in his outlook for the stock market as he feels it is between fairly and richly valued. Recently, he has been adding to utilities and health care stocks where he sees compelling risk-adjusted returns, and has been trimming technology and cyclical stocks. His fund historically has 60% to 70% of the beta (i.e., volatility) of the S&P 500. Currently, it is slightly below this due to his cautious outlook.

- He feels fixed income is quite compelling and he sees good value with higher quality (BB) High Yield and Leveraged Loans both offering 75%-80% of equity returns with just 15-20% of the volatility of equities. He also has a 9-10% allocation to Treasury bonds, and will add to them if interest rates move higher.

- The normal annual return for the stock market over a 5-year full cycle is 8.0-8.5%, with 7% coming from earnings growth and 1-1.5% coming from dividends. His current 5-year stock market outlook is moderately lower than this given that he feels the stock market is trading a little above fair value.

- He feels that Wall St. tends to over-predict the occurrence of recessions. Generally, they are rare, and typically last for 11-12 months. Currently, the odds of a recession are higher than normal due to the inverted yield curve and Fed rate increases. If we have a recession, it is likely to be mild.

- He feels inflation will return to a 2-3% annual range.

- Question: Do you have any geopolitical concerns? Yes. He is worried about China/U.S. relations due to Taiwan. He can't place the odds on this becoming a significant issue, but he is minimizing the exposure to China within the portfolio.

- What about Artificial Intelligence? He feels it will be deflationary as it will allow workers to be more productive. The stock market, though, is too focused on the short-term. He is able to take advantage of mispricing's in the stock market due to this short-term focus.

How Has It Performed So Well? Giroux's ability to identify mispricing across a wide array of asset classes—and act quickly when he does—is partly to thank for this strong track record. Equities have ranged from 57% to 73% of assets, with Giroux upping risk when stock prices were depressed in 2008, 2011, 2018 and early 2020, and scaling back when markets became overheated, as in 2007 and late 2019. In a similar manner, he opportunistically manages the rest of the portfolio, which can include high-yield bonds, leveraged loans, investment-grade credit, Treasuries, cash, and covered calls.

Giroux and the team conduct deep fundamental research to build a high-conviction, 40-50 stock portfolio. The equity sleeve outperformed the S&P 500 by 4.4% annualized over the last decade. His actions in 2020 show how he can skillfully steer the fund amidst extreme volatility. He entered the year with about 20% in cash and an 8% underweighting in equities. As the markets plummeted in March and April, he cut his cash stake in half, and moved to an 11% equity overweighting, emphasizing higher-beta names, such as semiconductors and industrials. He then gradually eliminated the equity overweighting as stock prices recovered in 2020. The Fund's performance for 2022 reflects its downside protection. For 2022, the Fund lost 11.9%, compared to a loss of 19% in the S&P 500 and 13% for the U.S. Aggregate Bond Index.

MAM Thoughts: We continue to be very pleased with the performance of the Fund and feel fortunate that we are able to use this closed fund in portfolios. We like the flexibility Giroux has to adjust the equity allocation, which is a major advantage he has over index and balanced funds such as those with Vanguard, which maintain a rigid equity allocation. Furthermore, we take comfort that while the fund has performed in line with the all-equity S&P 500, it has done so with significantly less risk due to the downside protection provided by the bond allocation.

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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 there are any topics you would like to have us cover or any questions answered in a future Monthly Commentary.