McCarthy Asset Management, Inc.
Personalized Wealth Management

November 2023 Monthly Commentary

Dec. 1, 2023

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Stock Market & Portfolio Performance

November, 2023: U.S. and international stocks posted strong returns triggered by good news from the release of October's inflation report. Bond prices rose as the yield on the 10-year Treasury fell due to hope the Federal Reserve is done raising short-term rates.

	Nov 2023	YTD 2023	Description:
Without Dividends:			
S&P 500	8.9%	19.0%	500 Largest Public U.S. Companies
Russell 2000	8.8%	2.7%	2000 of the smallest U.S. stocks
MSCI EAFE	9.0%	9.2%	international stock index
U.S. Aggr Bond	4.6%	1.9%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	6.2%	9.4%	non-very conservative MAM portfolios
MAM Consrv	4.4%	6.3%	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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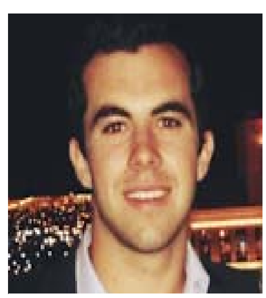

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Economic and Stock Market Update

Economy: Six months ago, the consensus among economists surveyed by the Wall Street Journal was that the economy would enter a recession over the next 12 months. This has now changed. In October's survey, the average forecast of economists was for no recession. This so called "soft landing" would be highly unusual. In the past 80 years, the Federal Reserve has never managed to substantially reduce inflation without sparking a recession.

Gross domestic product grew at a 4.9% annual rate in the third quarter, up from 2.1% for the second quarter. That was the fastest rate since late 2021 and much stronger than economists were anticipating just a few months ago. The main reason for the impressive growth was consumer spending rose at an annual rate of 4.0% in the third quarter, which significantly surpassed the 0.8% growth in the prior quarter. This was also the fastest rate since late 2021.

Inflation: The strong economic rebound following the pandemic, combined with other factors, lifted inflation to a four-decade high of 9.1% last year. In response, the Fed initiated a series of interest rate increases, starting in March of 2022, to aggressively reduce inflation to its target level of 2%. By this summer, the Fed had raised short-term rates to a range between 5.25% to 5.5%, the highest level in 22 years.

The Fed's efforts have been effective. October's consumer price report showed inflation had dropped to 3.2%. More encouraging, over the five months ended in October, inflation excluding the volatile food and energy components, ran at just a 2.8% annual rate, which was well below the 5.1% annual rate for the first five months of 2023.

A soft landing still isn't guaranteed:

- Inflation hasn't made it all the way down to 2%. The economy might yet crumble under the delayed impact of higher interest rates.
- Early warning signs are developing in the labor market. The unemployment rate is up half a percentage point since April. Such an increase usually comes right before a recession.
- The U.S. consumer, whose spending has sustained recent growth, might be running out of steam. October's fall in retail sales was the first since March.
- Finally, outside forces like energy prices or a financial crisis could intervene.

Interest Rates: In early November, the Federal Reserve extended its interest rate pause for a second straight meeting. Since that meeting, the release of October consumer prices showed a broad slowdown in inflation continued in October. With this report, core prices have increased for five straight months at much cooler levels than in the previous two years. This string of lower readings is what Fed officials have long said would be necessary to convince them they don't need to raise rates further. As such, it is very possible that the Fed is now done with its historic series of interest rate increases.

Stock Market Update: After a strong start to the year, stock prices stagnated in the summer, and then stumbled in the fall. The S&P 500 officially entered correction territory in late October after falling over 10% from its summer high. Rising interest rates and expectations of a "higher-for-longer" level of rates were the primary reasons for the selling pressure. The unexpected Israel-Hamas war also added to concerns.

This quickly changed in November with the good news from October's inflation data, reenforcing the widespread belief the Fed has finally reached the end of its rate-hiking cycle. Will the November rally continue through year-end?

Economic and Stock Market News– Con't

Narrow Stock Market Leadership: As we have discussed in previous Commentaries, until recently, just a handful of mega-cap technology stocks have been driving the entire market's performance. As a result, large-cap stocks have dramatically outperformed small cap stocks this year. For instance, by the end of October, the Russell 2000, an index of small companies, was down 5.5% since the start of the year, compared to a rise of 9.2% in the S&P 500. Fortunately, the stock market rally broadened in November, with the S&P 500 rising 8.9% and the Russell 2000 index rising 8.8% for the month.

MAM Comments: Will November's solid performance of the stock market continue? For this to occur, we believe broader market leadership will be important, with both large-cap and small-cap stocks performing well. Also, time will tell if investors are too optimistic that the economy will cool enough for the Fed to begin reducing interest rates next year, without prompting a dramatic slowdown in consumer spending or a sharp reduction in employment. For now, we feel the jury is still out whether a soft landing will occur. Meanwhile, we feel a good strategy is to invest in a diversified portfolio with bonds providing some downside protection in case the economy weakens substantially.

Donor-Advised Funds

With the end of the year approaching, now is a good time to finalize your 2023 charitable contributions. For taxpayers who plan to make significant contributions over time and want to maximize the tax benefits, donor-advised funds can be an attractive option. We previously wrote about them in the article "Schwab Donor-Advised Fund Accounts" for our November 2015 Monthly Commentary. Since that was eight years ago, it is time to revisit what can be a great way to donate to charities. In this article, we will cover some of the basics of these funds, as well as how to decide whether they make sense for you.

The Basics of Donor-Advised Funds

A donor-advised fund is a vehicle that allows an investor to receive a tax deduction for the fair market value of a highly-appreciated security they contribute, while being able to delay the decision of which charity or charities to donate the proceeds to. Furthermore, they will not be subject to capital gains tax on the appreciation of the contributed security.

Donor-advised funds have become very popular. According to the National Philanthropic Trust, assets in donor-advised fund accounts totaled more than $50 billion for the first time in 2013, an increase of nearly 20% from 2012. That growth handily outpaced all other giving vehicles, including private foundations and charitable trusts, as well as the growth in overall charitable giving. By the end of 2021, assets in donor-advised funds skyrocketed to $234 billion.

The three biggest providers of these funds are Fidelity Charitable, Schwab Charitable and Vanguard Charitable. We discuss below the benefits, drawbacks and other aspects of these charitable funds.

The Pros

Tax advantages are one of the major benefits of donor-advised funds. That's especially true after the 2018 tax-law changes made it more difficult to deduct charitable contributions due to a near doubling of the standard deduction. A taxpayer can funnel multiple years of charitable contributions by making a large contribution to a donor-advised fund in one year. The taxpayer can take an immediate tax deduction for the full value of the securities they contribute (subject to a 30% of Adjusted Gross Income limitation). Additionally, there are no rules or regulations about how quickly the money has to be distributed to the charities.

Donor-Advised Funds– Con't

The Cons

- **Cost:** While there is no cost for setting up an account, Fidelity, Schwab and Vanguard all charge 0.60% annually for the first $500,000 of assets held in the donor-advised fund accounts.

- **Minimums:** Although Schwab and Fidelity now allow investors to set up a donor-advised fund with any dollar amount, Vanguard Charitable currently requires a $25,000 initial contribution. Grants made to charities are also subject to a minimum donation amount. Schwab and Fidelity both require minimum grants of $50, while Vanguard requires a minimum of $500 for each grant.

Other Aspects

- **Documentation:** Schwab Charitable handles the distribution of the grant to the charity, generates the tax receipts, and confirms the tax-exempt status of the charity. We believe Fidelity and Vanguard Charitable provide the same services.

- **Transferring Appreciated Securities from Existing Schwab Account**: If you want to use a highly appreciated security (stock, mutual fund or ETF) in a non-retirement account that we manage for you to fund your charitable account, we can prepare the paperwork that Schwab Charitable will need to accomplish the transfer.

- **Cash Can Be Contributed:** While contributing appreciated securities to a donor-advised fund provides the greatest tax benefit (because the donor will not be subject to capital gains tax on the contributed security), cash can also be used to fund an account.

MAM Comments: Please let us know if you would like to discuss whether a donor-advised fund would be a good choice for you.

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

1) **CA Property Tax payments** are due December 10, 2023.

2) **Roth IRA Conversions:** Please contact us ASAP if you would like to discuss. The deadline for 2023 conversions is December 31, 2023.

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