

September 2021 Monthly Commentary

Oct. 1, 2021

Stock Market & Portfolio Performance

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|--|---|

Third Quarter 2021: With a sell-off during September, the stock market was modestly down for the quarter. Year-to-date returns are still very positive. Bonds were flat for the quarter and down for the first nine months of 2021.

3rd Qtr YTD 2021 Description:

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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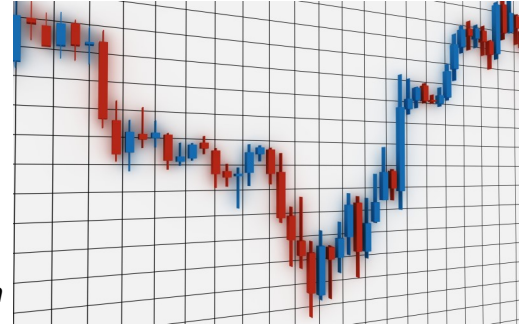
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Due for a Short-Term Market Correction?

The largest pullback for the S&P 500 this year has been 4.2%. Over the last 70 years, there have been only three other years with drawdowns of 4.2% or less. During this time, the average intra-year drop was 13.5%. It would not be surprising to see a larger correction between now and year-end, particularly with high valuations and a high degree of investor exuberance. While I am not predicting a sharp market pullback, it would be prudent to be prepared for a more significant correction. *Update: With the 1.2% drop in the S&P 500 on the last day of the quarter, the S&P 500 has now fallen 5.0% from its all-time high reached on September 2, 2021.*



What could spark a short-term market decline? Possible triggers include:

- The sharp increase in new Covid cases this summer due to the rapid spread of the Delta variant is a headwind on this year's strong economic growth.
- Supply disruptions and labor shortages also are hampering growth.
- Inflation concerns linger, with recent data on producer and to a lesser extent, consumer prices, still somewhat worrisome. The likely large cost of living increase in Social Security payments for 2022 highlights the higher cost of living.
- The Federal Reserve is likely to start tapering its monthly bond purchases next month. Doing so could cause the rate on the 10-year Treasury bond to rise.
- Finally, with stock prices near record highs, it doesn't take much to cause volatility to rise.

MAM Comments: Any market downturn is likely to be just a short-term market correction. We don't try to time these short-term movements as that is too difficult to do. My recommendation for clients is to try not to become too focused on short-term movements in stock prices. More important is to look at the longer-term trends, which over time has been a rising stock market.

Proposed Tax Increases

The U.S. House Ways & Means Committee recently approved a package of tax increases targeted on upper income Americans to help fund the \$3.5 trillion "Build Back Better Act." The Act is an economic package that includes expanded Medicare, free community college, universal prekindergarten, and more. Among the tax increases, the House proposal would:

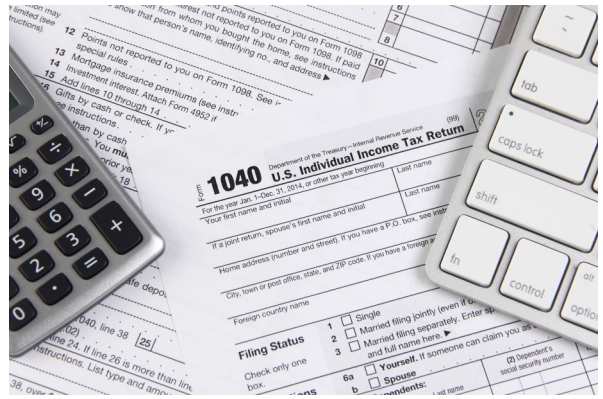
- **Top Individual Tax Rate:** Raise the top individual tax rate to 39.6% after it was reduced to 37% in the 2017 Tax Cuts and Jobs Act.
- **Long-Term Capital Gains Rate:** The rate on long-term capital gains and qualified dividends will be increased to 25% (up from 20% currently) for individuals earning more than \$400,000 (couples earning more than \$450,000). Additionally, as under current law for high-income taxpayers, this income will also be subject to a 3.8% investment surtax. The effective date of the higher rate is for capital gains and qualified dividends realized after September 13, 2021.
- **Gift and Estate Tax Exemption:** The exemption will be reduced from the current level of \$11.7 million to between \$5.8 million to \$6 million, effective in 2022.
- **Increase in Corporate Tax Rates:** The maximum corporate income tax rate will increase to 26.5%, up from the current maximum rate of 21.0%.
- **Roth IRA Conversions:** From 2022 onward, Roth IRA conversions would be prohibited for both traditional IRAs and employer-sponsored plans for taxpayers with income above \$400,000.



Proposed Tax Increases- Con't

- **3% Surtax on Income Above \$5 million:** An additional 3% tax will be imposed on certain income for individuals with modified adjusted gross income in excess of \$5 million and for trusts or estates with income in excess of \$100,000.

MAM Comments: It is early in the legislative process for this proposed set of tax and significant changes may be made. Senate Democrats will produce their own separate draft bill that will likely have material differences with the House's version. With a 50/50 split between Democrats and Republicans in the Senate, all 50 Democrats will likely need to approve the tax increases. West Virginia Sen. Joe Manchin, an influential moderate Democrat, has already said he does not support the bill, as a \$3.5 trillion price tag is too high. We will provide updates in future MAM Commentaries as this tax legislation moves through Congress.



Medicare Open Enrollment

The annual enrollment period ("Open Enrollment") for 2022 Medicare coverage will run from October 15, 2021 to December 7, 2021. 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.

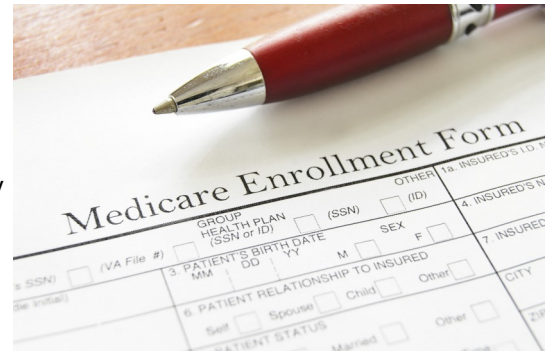
As most of you know, we have retained the services of Eileen Hamm and her firm to help our clients with issues related to Medicare. Because we pay Eileen's firm a fee, this service is available at no charge to MAM clients. Quite a few clients have already utilized Eileen's services, either when they first became eligible for Medicare, or for those already enrolled, during the annual Open Enrollment. For those of you who have worked with Eileen in the past, she will be in contact to see if you would like to have her review your 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 have Eileen help you for the first time, let us know and we will send an introductory email. Alternatively, you can email her directly at eileen@superiorlrc.com.



Stock Options

By Ryan McCarthy

Employee compensation is a major expenditure for most corporations; therefore, many firms find it easier to pay at least a portion of it in the form of stock. This type of compensation has two advantages: it reduces the amount of cash that employers must dole out, and also serves as an incentive for employee productivity.

Stock options normally have a vesting schedule attached to the option grants that specify when the employee has the right to exercise the stock options. While companies may offer a large number of different equity compensation plans, the four most typically offered are:

1. Incentive Stock Options (ISOs)
2. Nonqualified Stock Options (NSOs)
3. Restricted Stock Awards (RSAs)
4. Restricted Stock Units (RSUs)



Since these four types of equity compensation plans have key differences and unique characteristics, we have written a whitepaper for each one. The whitepapers are intended to provide information on the key features and tax treatment of each type of plan. Included in this newsletter is our whitepaper on Restricted Stock Units (RSUs), as that compensation plan has become more common in recent years. All four whitepapers can be accessed on our website [here](#).

Restricted Stock Units (RSUs)

By Ryan McCarthy

Features:

- RSUs are an unsecured right to receive shares of stock at a future date or upon a future event, such as vesting.
- Vesting may be service-based or performance-based.
- Many similar features to Restricted Stock. However, the non-existence of the stock at the time of the grant is a critical distinction between normal Restricted Stock and RSUs.
- Dividend equivalents may be paid and are taxable as compensation.

Tax Treatment:

- Grant - The granting of RSUs is not a taxable event. A Section 83(b) election cannot be made for RSUs because there is a non-existence of stock at time of grant for RSUs, as they are the company's promise to give an employee shares of stock.
- Vesting - FMV of RSU shares is income for tax purposes and is subject to income tax, FICA and Medicare Tax withholding.
- Receipt of shares - FMV of vested shares received is compensation income to the employee. Tax withholding is required.
- Sale - Excess of sale proceeds over FMV of shares upon receipt is taxed as a capital gain. Holding period determines whether short-term or long-term.



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. For those who are tax clients, included is a copy of your tax returns.



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Registered Investment Advisor.