McCarthy Asset Management, Inc.
Personalized Wealth Management

September 2022 Monthly Commentary/ Q3 Letter

Oct. 3, 2022

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Stock Market & Portfolio Performance

Third Quarter 2022: U.S. and international stocks fell further due to increasing concerns about the high rate of inflation and aggressive actions by the Federal Reserve to raise interest rates. Bond experienced another difficult quarter and are on pace for one of their worst years ever.

	3rd Qtr 2022	YTD 2022	Description:
Without Dividends:			
S&P 500	-5.3%	-24.8%	500 Largest Public U.S. Companies
Russell 2000	-2.5%	-25.9%	2000 of the smallest U.S. stocks
MSCI EAFE	-10.1%	-28.9%	international stock index
U.S. Aggr Bond	-4.7%	-14.4%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-4.2%	-19.8%	non-very conservative MAM portfolios
MAM Consrv	-3.2%	-15.5%	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.

Advisor Team

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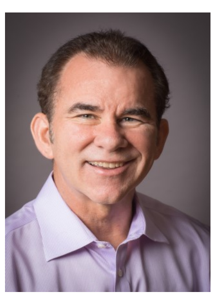

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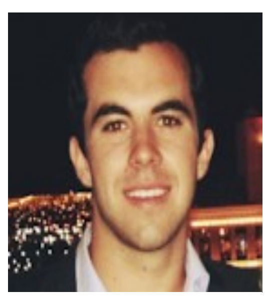

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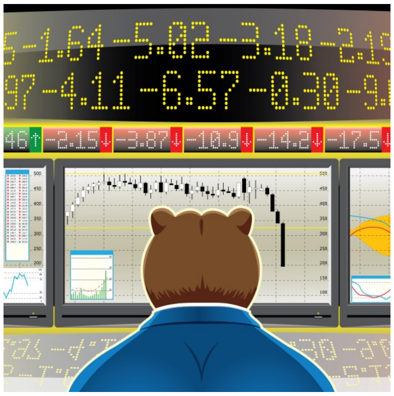
Bear Market and Recession Watch



With a 2021 decline of over 20%, the S&P 500 is now in a bear market. Unfortunately, bond allocations have not helped much in cushioning the decline in balanced portfolios with the bond market experiencing one of its worst years in history. Meanwhile, the risk of the U.S. entering a recession in 2023 has increased.

The Federal Reserve: On September 21st, the Federal Reserve announced its third consecutive 0.75% increase in the federal funds rate. The new level is 3.00% to 3.25%, which represents the highest since 2008. The current projection is the Fed will lift the rate at least another 1.25% by December, to a range between 4.25% and 4.5%, up from 0.0% to 0.25% at the beginning of 2022. These dramatic increases by the Fed are why the bond market has performed so poorly this year and why the risk of a 2023 recession has increased.

As a result of their aggressive interest rate increases, most Fed officials expect higher unemployment over the next year. They are now projecting that the unemployment rate, which stood at 3.7% in August, could rise to 4.4% at the end of 2023. That type of increase has seldom occurred without a recession.

Inflation Watch: In September, the Labor Department reported that the Consumer Price Index (CPI) rose 8.3% in August from the same month a year ago, down from 8.5% in July and 9.1% in June, which was the highest inflation rate in four decades. So-called core CPI, which excludes often volatile energy and food prices, increased 6.3% in August from a year earlier, up markedly from 5.9% rate in both June and July—a signal that broad price pressures strengthened. The August increase in the core CPI compared to the prior two months is likely why the Federal Reserve is now projected to increase rates another 1.25% before the end of 2022. In response to a slowing economy, Fed officials now project core inflation will fall to 3.1% by the end of 2023.

Recession Watch: Despite two consecutive quarters of negative Gross Domestic Product (GDP), the U.S. economy is not yet in a recession. This is because most economic indicators, such as employment, industrial production, and consumer spending, all continued to trend up in the first half of 2022 despite the decline in GDP. In fact, the U.S. economy has added an average of 438,000 jobs per month from January through August, nearly three times their 2019 prepandemic pace.

We think it is now more likely for the U.S. economy to slip into a recession in 2023. That's when the economy will feel the brunt of the Fed interest rate increases, which can take a year or more to fully impact the economy. In particular, rising interest rates are starting to trigger a downturn in the housing market. Once the unemployment rate starts to climb, a recession is likely close at hand.

When Will Inflation Drop and How Quickly? The degree to which inflation cools, and how the Fed might respond, are the key questions. Fed Chairman Jerome Powell has said the central bank wants to see clear and convincing evidence that price pressures are subsiding before slowing or suspending rate increases.

Morningstar's Outlook: While inflation in 2022 is set to peak at its highest level in four decades, Morningstar expects inflation to recede back to normal in 2023 and thereafter. Morningstar forecasts inflation to average 2.4% over 2023-2026 as a whole, only slightly above the Fed's 2% target. Why is Morningstar so optimistic that inflation will come down?

- A handful of categories (autos, core goods, and energy prices) are responsible for today's high inflation, and it doesn't expect pricing pressure in these categories to persist.
- It expects moderate wage growth and the absence of any long-lasting supply disruptions to keep general inflation at restrained levels.
- Fed tightening will cool off the overall economy substantially in 2023 and 2024, extinguishing the inflationary fire before it spreads to the broader economy.

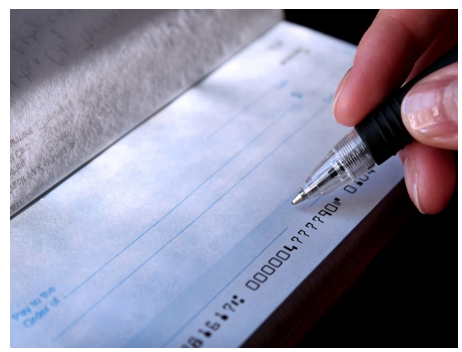
Bear Market and Recession Watch– Con't

- A key reason Morningstar is sanguine about inflation is the expected fall in energy prices. Morningstar's energy team forecasts oil prices to fall from an average $97 per barrel in 2022 to $55 in 2025—about where prices were in 2019 before the pandemic.

MAM Comments: While we respect Morningstar's opinion, its outlook for 2023 may be too optimistic. For the last few months, we have focused on the Labor Department's release of the Consumer Price Index. The June and August reports were particularly concerning. Our fear is the stock market could fall further if the reports for the next few months indicate that inflation is remaining stubbornly high. If so, the Federal Reserve could raise rates to a level that will trigger a recession in 2023. While stocks and bonds may continue to sell off over the next few months, that could change once it appears the economy is slowing and inflation is falling. At that point, the Fed may reverse course and start lowering interest rates. This could be a boom for bonds. Furthermore, stocks could start to rally as the market anticipates lower interest rates helping the economy.

Please let Steve know if you would like to discuss your current portfolio positioning.

Updated ABA Routing Number for Schwab One Checks by Marilyn Blancarte



We have received a number of messages from clients who have received an email from Charles Schwab regarding the outdated ABA routing number on Schwab One checks. We want to assure you that this is a legitimate email, and you should take the detailed action steps that Charles Schwab included in its email. With the increase in cybercrimes, it is good to use caution if you are unsure of the legitimacy of an email you receive from Charles Schwab or any other financial institution.

As of December 31, 2022, Schwab will no longer honor Schwab One Checks or electronic funds transfer (EFT) instructions that include or reference the former ABA routing number. The current ABA routing number for your Schwab One account(s) is **031100157**. Your account number found at the bottom of your Schwab One checks has not changed.

To avoid any interruption in service, please make certain that:

1. You are using the proper ABA routing number **(031100157)** for your EFT instructions (e.g., direct deposits, bills, tax refunds, & all other electronic transfers) for Schwab brokerage accounts.
2. New checks are ordered if your existing checkbook(s) do not contain the proper ABA routing information.
3. You destroy or securely discard checkbooks containing the old ABA routing number (031000053).

Please note, if you have requested a checkbook in the last year & did not receive an email from Charles Schwab regarding the change, you probably have checks with the current ABA routing number. However, it would be prudent to double check this and to make sure that you do not have any EFT instructions at other institutions using the old ABA routing number.

If you want to order new checks and deposit slips online, please do the following:

1. Go to schwab.com/checks and log in.
2. Select the Schwab One account that you have a checkbook associated with from the dropdown menu, then click "Debit Cards and Checks."

If you have any questions or concerns, please contact marilyn@mamportfolios.com.

Proposed Secure Act 2.0

On March 29, the House voted 414-5 to approve the Securing a Strong Retirement Act, a bill better known as the SECURE Act 2.0. The Act would build on the 2019 SECURE Act with the intent to get more people to save and improve retirement preparation. The Senate has not yet passed a comparable bill, but two primary legislative vehicles have been introduced in the Senate: the RISE and SHINE Act and the EARN Act of 2022.

The Senate is anticipated to pass a bill sometime this fall and then a conference committee will be established to reconcile the House and Senate versions of the bills. There's broad bipartisan support to enact another major retirement savings bill, so a final bill could be enacted by the end of 2022.

Here are a few comparisons between the House SECURE Act 2.0 and the two Senate bills:

Required Beginning Date for RMDs: The House proposal would increase the required beginning date for RMDs from age 72 to age 73 starting in 2023, age 74 starting in 2030, and age 75 starting in 2033. The Senate proposals would increase required beginning date for RMDs from age 72 to age 75, beginning with the 2032 calendar year.

Catch-Up Contribution Caps: Beginning with the 2024 taxable year, under the House proposal, 401(k) and 403(b) plan limits would be increased from $6,500 currently, to $10,000 for individuals who are age 62, 63 or 64. Under the Senate proposals, beginning with the 2024 tax year, 401(k) and 403(b) plan limits would be increased from $6,500 currently, to $20,000 for individuals who are between age 60 and 63. Both the House and Senate bills would require catch-up contributions to be made with after-tax dollars.

Mandatory Employee Enrollment: The House proposal would require employers starting new 401(k) or 403(b) plans to automatically enroll their employees in the plan with a minimum employee contribution rate of 3%. There would be an automatic 1% increase each year (up to 15%), but the plan participant could opt out or select a different percentage. Exceptions would be made available to new businesses, small businesses, and government and church plans. The Senate bills do not include any such mandate.

Recent Comments from David R. Giroux of the T. Rowe Price Capital Appreciation Fund

As you may know, T. Rowe Price Capital Appreciation Fund (TRAIX) is our favorite fund. The goal of the fund, which is closed to new investors, is to produce S&P 500-like returns while taking on less risk than the S&P 500. For the last 1-, 3-, 5- and 10-year periods ended June 20, 2022, the Fund outperformed its Lipper and Morningstar peers over every period, and is ranked in the top 1% of funds over the last 5 years, 10 years, and since Giroux took over management of the Fund in 2006. For the first nine months of 2022, the Fund declined 16.4%, compared to a 23.9% loss in the S&P 500.

David Giroux made the following comments in the June 30, 2022 Semiannual Report for the Fund. Given his outstanding track record in managing the Fund, we often find his market comments insightful.

In response to the current issues facing the stock & bond market, Giroux said "These are all very scary headlines and concerns we should not dismiss. These headlines and concerns have contributed to a decline in the forward S&P 500 multiple from 21x to a low of around 14x; we are currently around 16x. These valuations are well below where the market traded during much of 2021 as well as in the three years prior to the pandemic. With the S&P 500 down around 20% in the first half of this year, the market is now pricing in substantial bad news—though not a truly ugly recession in which the market multiple contracts even further and earnings crater like in the Great Financial Crisis (GFC)."

Recent Comments from David R. Giroux of the T.Rowe Price Capital Appreciation Fund– Con't

"History suggests this is a good buying opportunity. The market is down 20% and is pricing in at least a modest recession and/or elevated levels of inflation. Buying when the market is down, sentiment is bad, and insider buying is elevated, has tended to produce good returns one year later."

"I think the most likely outcome is that inflation starts coming down in the fourth quarter of 2022 and continues coming down throughout 2023. I don't believe it will be below where it was pre-pandemic, but it is unlikely to be in the headlines nearly as much as it is today. And whether we skate by without a recession or go through a modest one, it does not appear that the U.S. economy is on the precipice of a major downturn such as the GFC."

In evaluating how the fund has succeeded historically of producing equity-like returns with less risk than the market over a full market cycle, Giroux said "Based on annualized returns of 9.72% for your fund versus 11.31% for the S&P 500, your fund generated 86% of the market's return over the last five years while taking on 67% of the market's risk. If we extend the analysis to encompass (the) 2008 (bear market) and measure the last 13.5 year of fund performance, we delivered 102% of the market's return while taking only 69% of the market's risk."

Regarding his overall outlook on the Fund, Giroux explained that "I have found these market downturns to be excellent times to add risk assets when they are on sale and to reshape the portfolio to take advantage of amazing opportunities. While no one can be certain how the future will play out, buying stocks when volatility is high and the market is down historically has worked extremely well for our shareholders…Today the Capital Appreciation Fund is approximately 500 to 600 basis points (bps) overweight equities, a big change from our 300 bps underweight coming into 2022. However, at the trough of the market in March 2020, the fund was 1,000 to 1,100 bps overweight equities. We could clearly get back to there if the market goes that low again."

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.