McCarthy Asset Management, Inc.

Personalized Wealth Management

April Monthly Commentary

May 1, 2017

Inside this issue:

Market & Portfolio Performance	1
Stock Market Outlook– Due for a Short-Term Correction?	2-3
MLP Update– Recovery to Continue?	3-4
Our Services	5

Stock Market & Portfolio Performance

April 2017: Stocks and bonds had another good month for April, with international stocks leading the way.

	Apr 2017	YTD 2017	Description:
Without Dividends:			
S&P 500	0.9%	6.5%	500 Largest Public U.S. Companies
Russell 2000	1.0%	3.2%	2000 of the smallest U.S. stocks
MSCI EAFE	2.3%	8.9%	international stock index
U.S. Aggr Bond	0.8%	1.6%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	0.8%	5.8%	non-very conservative MAM portfolios
MAM Conserv	0.6%	3.4%	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.

Advisor Team

McCarthy Asset Management, Inc.

Three Lagoon Drive Suite # 155
Redwood Shores, CA 94065
USA

STEVE MCCARTHY
CPA, CFP®,
Owner and Principal
650 610-9540 x 303
steve@mamportfolios.com

Lauree Murphy, CFP®, EA
Financial Planner
Tax Specialist
650 610-9540 x 304
lauree@mamportfolios.com

ANTHONY BERTOLACCI , EA
Director of Compliance
Tax Accountant
650 610-9540 x 302
anthony@mamportfolios.com

MARILYN BLANCARTE
Executive Assistant
650 610-9540 x 305
marilyn@mamportfolios.com

Stock Market Outlook– Due for a Short-Term Correction

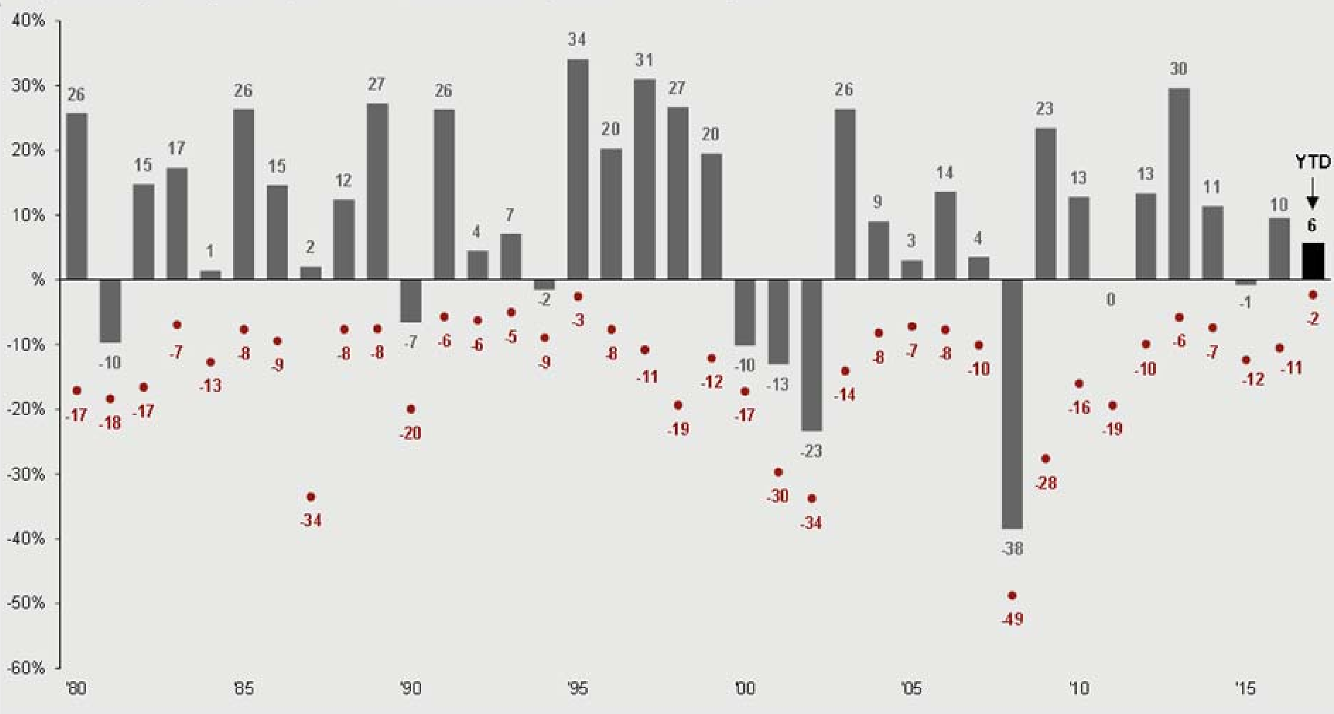
The stock market started out strongly in 2017, with robust performances for January and February. At least in part, this was due to optimism for the pro-growth economic policies of newly-elected Donald Trump. Then came the failed attempt to “repeal and replace” Obamacare. This inability of Trump to find consensus with the Republican-controlled Congress calls into question the future of tax reform and other big-ticket economic items. As such, investors are reducing their expectations for the likelihood of pro-growth policies being instituted this year.

We don’t see this as the beginning of the end of the bull market. Economic growth is still positive, and business and consumer confidence surveys continue to be quite strong.

Additionally, expectations for an excellent earnings season for the first quarter of 2017 are highlighted by FactSet reporting that analysts are projecting first quarter S&P 500 earnings to rise 9.1% year-over-year, which would be the highest growth since 2011.

While solid earnings and economic growth should enable the long running bull market to continue, history suggests this market is overdue for a correction. It has now been 14 months since the most recent correction ended in February of last year. The following chart from J.P. Morgan displays the maximum S&P 500 intra-year decline (in red) and the calendar year return (in black) since 1980. As can be seen, market corrections occur regularly.

Annual returns and intra-year declines GTM – U.S. | 13



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2016, over which time period the average annual return was 8.5%. The 2017 bar represents the year-to-date return and is not included in the average annual return calculation.
Guide to the Markets – U.S. Data are as of March 31, 2017.

On average, 10% corrections occur about every two years and 5% corrections occur about every 7 months. As I have said in the past, we don’t try to avoid these frequent corrections as successfully timing them is too difficult to achieve.

Stock Market Outlook– Due for a Short-Term Correction– Con't

Despite possible near-term risks, we remain relatively optimistic in our medium-term outlook for equities. Leading economic indicators in the United States are positive. Meanwhile, worldwide growth appears to be solidifying with the global economy on course for its best performance in several years despite trade tensions and looming geopolitical threats. In fact the International Monetary Fund recently nudged up its forecast for world growth this year a tenth of a percentage point to 3.5%, which would be the fastest rate in five years.

Furthermore, we are not seeing the warning signs that have historically signaled the end of past bull markets:

- **Deteriorating Market Breath:** Market breath, which is measured by the number of stocks advancing versus declining, indicates that the bull market continues to be broad and durable. Historically, market breath begins to deteriorate months before the large-cap S&P 500 index reaches its peak.

- **Excess Optimism:** Investor confidence/sentiment surveys can indicate if investors are becoming too bullish, which tends to happen near a market top. Healthy, short-term market corrections can help keep investors' outlooks in check. One fairly reliable barometer is the weekly survey conducted by the American Association of Individual Investors. For the week ending April 19th, only 25.7% of those polled said they expected the market to rise over the next six months. By contrast, 38.7% expected the market to fall. These are rather extraordinary numbers, especially the low percentage of bulls. It's now at its lowest level since just before last November's election.

In summary, while we wouldn't be surprised to see a short-term market correction, in all likelihood we have not seen the end of this 8-year bull market. We are realistic, though, with our expectations. With the stock market now richly valued, the best gains from this bull market have already occurred and further gains are likely to be much more modest.

MLP Update– Recovery to Continue?

Much has happened to MLPs since we last wrote about them in our August 2015 Monthly Commentary. At the time, the price of MLPs had dropped dramatically in response to plunging oil prices. Prices continued to fall further until early 2016. Since then, MLPs have staged a strong rebound. The purpose of this article is to provide an update on MLPs and explain why we still are bullish on them long-term.

Description of MLPs: MLPs are master limited partnerships that trade on the major exchanges just like a stock. To qualify for MLP status, a partnership must receive at least 90% of its income from what the IRS deems to be "qualifying" sources, primarily the transport or processing of national resources such as: oil, natural gas, and coal. The simplest way to think of MLPs is that they own and operate the oil and gas pipelines.

MAM Investment in MLPs: MLPs have a very favorable tax treatment, as most of their distributions are non-taxable. The tax reporting, though, for owning an individual MLP is complicated as the income distributions are reported on a Schedule K-1, rather than a Form 1099. In early 2009, JP Morgan introduced AMJ as the first exchange-traded fund to offer exposure to MLPs. This simplified the tax reporting via a Form 1099. MAM first initiated a position in AMJ in the November 2011 repositioning. Generally, we use AMJ for retirement accounts and either Eagle MLP or Salient MLP for taxable accounts.

MLP Update– Recovery to Continue?– Con't

Why we like MLPs:

- **Performance & Diversification:** Since the initial launch of the Alerian MLP Index on June 1, 2006, MLPs have outperformed the S&P 500. Furthermore, while MLP prices have been volatile, their low correlation to the S&P 500 improves the diversification of a portfolio.
- **High Yield:** MLPs have a high yield, and unlike with bonds, the distributions generally increase over time. The current yield on AMJ is 6.2%.
- **Performance Not Highly Correlated to Energy Prices:** Most MLPs do not take title to the commodity itself. Instead they make money simply by charging a tariff on the volume of product flowing through their pipelines. These tariffs are cost-indexed, giving investors a built-in inflation hedge. Unfortunately, in the short-run, investors lump MLPs in with other energy investments and penalize them when oil prices fall sharply (as they did in 2008 and again from mid-2014 until early 2016).

Update on MLPs:

- **OPEC Price War:** Starting in November of 2014, OPEC implemented a strategy to lower oil prices by increasing their production. Their goal was to force much of the U.S. shale oil production from the market. As OPEC increased their production, oil prices plummeted, creating havoc for energy companies and causing U.S. shale production to drop. Unfortunately for OPEC, though, U.S. production costs fell significantly starting at this time, making the U.S. energy industry more competitive with OPEC.
- **OPEC Cuts:** In November of 2016, OPEC essentially cried “Uncle” and agreed to a 6-month, 1.2 million barrels per day production cut, along with a nearly 600,000 barrels per day cut by certain non-OPEC countries (primarily Russia). As a result, oil prices increased from the mid-$40 level to the current low-to-mid $50 level and U.S. oil and gas production is once again increasing.
- **Impact of Trump**: Another recent positive for MLPs was Donald Trump’s presidential victory, as he is very supportive of U.S. energy and pipeline investments.
- **Recent Performance:** After two dismal years, MLPs bounced back in 2016 with the Alerian MLP Index generating a total return of 18.3%. Positive performance continued in the first four months of 2017.

Long-Term Outlook: We feel that the long-term outlook for MLPs is very positive. Dividend growth should be strong. This is because the U.S. is expected to require significant energy infrastructure investments during the next couple of decades as it not only moves toward energy independence, but becomes a major exporter of oil and gas.

Sincerely,

Stephen P McCarthy, CPA, CFP®,

McCarthy Asset Management, Inc.

Three Lagoon Drive Suite # 155
Redwood Shores, CA 94065
USA

Phone: 650-610-9540
Fax: 610-9541
E-mail: Steve@mamportfolios.com

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.

Discover the difference with a Registered Investment Advisor.