McCarthy Asset Management, Inc.
Personalized Wealth Management

April 2020 Monthly Commentary

May 1, 2020

Stock Market & Portfolio Performance

Inside this issue:

April 2020: U.S. and international stocks staged a strong rebound, erasing two-thirds of the losses experienced in the sharp March sell-off. Bonds rose for the month as the Federal Reserve continued to take action to stimulate the economy.

	Apr 2020	YTD 2020	Description:
Without Dividends:			
S&P 500	12.7%	-9.9%	500 Largest Public U.S. Companies
Russell 2000	13.7%	-21.4%	2000 of the smallest U.S. stocks
MSCI EAFE	6.3%	-18.6%	international stock index
U.S. Aggr Bond	1.8%	5.0%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	7.9%	-9.1%	non-very conservative MAM portfolios
MAM Conserv	6.3%	-7.4%	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.

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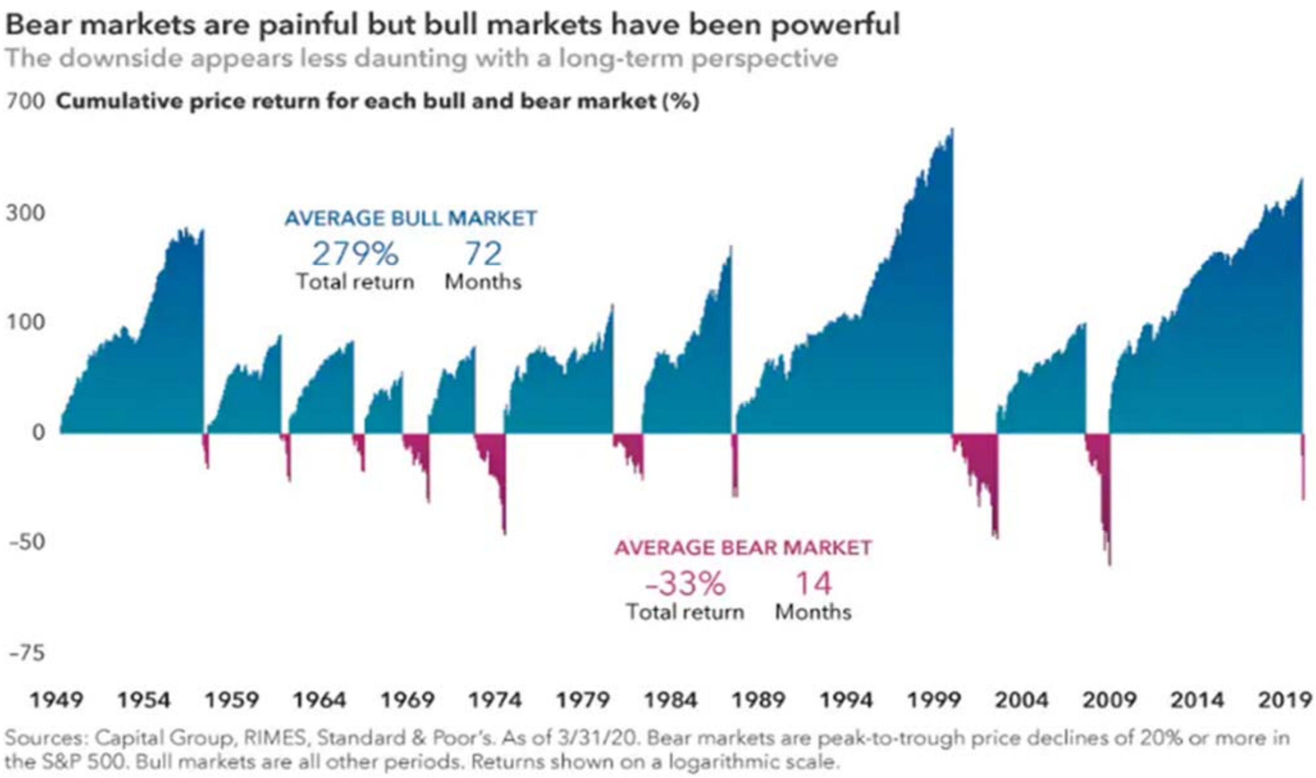
April Update to Stock Market & Economic Impact of COVID-19

I hope you and your loved ones continue to remain safe as we deal with this terrible medical crisis. Stock prices have staged a significant recovery since the S&P 500 reached a 30.8% year-to-date decline on March 23rd. Our feeling is this market rebound has gotten ahead of itself. In this article, we will discuss the recent history of bear markets and provide our outlook for the economy and stock prices.

Bear Markets: As can be seen in the chart below from the Capital Group, including the current one, there have been 10 bear markets since 1949, with an average maximum drop ("drawdown") of -33% and an average duration of 14 months.



Bear markets can be categorized into one of three types:

1. **Structural Bear Market** (Average length: 42 months, Average drawdown -57%)- This is triggered by structural imbalances and financial bubbles. Examples include the 2000-2002 dot-com crash and 2008 financial crisis.

2. **Cyclical Bear Market** (Average length: 28 months, Average drawdown -32%)- This is typically triggered by a slowing economy or high inflation. Examples include 1980-1982, 1990.

3. **Event-Driven Bear Market** (Average length: 8 months; Average drawdown -29%)- This is triggered by an external shock that can, but does not always, lead to a recession. Examples were 1987 (Black Monday), 1961 Cold War tension build-up, 1956 Suez Crisis.

April Update to Stock Market & Economic Impact of COVID-19– con't

The COVID-19 bear market is an **event-driven bear market** due to an external shock, rather than a reaction to an overheated economy or financial bubble. As such, it is likely to have a shorter duration than most prior bear markets.

Will We Have a Depression? Some are concerned that the dramatic decline in economic activity due to efforts to slow the spread of COVID-19 could lead to a depression. We don't think so. The Great Depression of the 1930s was caused by significant policy errors that allowed a severe recession to deteriorate into a depression. In contrast, this time, the government's policy responses have been very positive. Here's a comparison of what the Federal government did in the 1930s to what they are doing now:

- **Monetary policy:** In the 1930s, the Federal Reserve (Fed) made the mistake of reducing the money supply in the period leading up to the Great Depression. This time, the Fed is dramatically increasing the money supply, reducing interest rates to nearly zero, making huge bond purchases to stabilize the bond market, and conducting a series of lending backstops to support money market funds.

- **Fiscal policy:** In the 1930s, the government increased taxes on individuals and corporations to balance the budget. In contrast, the CARES Act and other legislation have been passed to invigorate the economy with massive fiscal stimulus in excess of $3 trillion. While this will result in an exorbitant increase in the Federal deficit, that is a problem for a future time.

- **Trade war:** In the 1930s there was a global trade war, which caused tariffs to soar and inflict damage to the global economy. Recently, the Trump Administration has eased some trade restrictions and deferred certain tariff payments.

The Recession of 2020: The U.S. & economies around the world rapidly fell into a recession in March due to the economic ramifications of efforts to slow the spread of COVID-19. This is important because, historically, the worst bear markets are accompanied by a recession. The "shelter-in-place" restrictions have quickly triggered a massive increase in unemployment and a significant reduction in consumer spending. Whether the recent 5-week recovery in stock prices is sustainable depends on how long this recession will last. Optimists speculate that the economy will experience a "V" shaped recovery, as an eventual relaxing of the "shelter in place" rules, combined with massive government stimulus, will lead to a sharp, rapid economic recovery. For the following reasons, we are not as confident that a brisk economic recovery will occur:

- A significant number of small businesses are likely to permanently close this year. Because small businesses are a major source of work for U.S. employees, unemployment could reach 20%. While it is likely that many of these workers will be hired back once the economy opens back up, it may take a while for unemployment to fall back to previous low levels.

- The lasting emotional impact of the economic shutdown could usher in a more frugal consumer—one that is more biased toward savings over consumption. Even a moderate decrease in consumer spending could be impactful as consumer spending makes up nearly 70% of the United States' gross domestic product (GDP).

- Certain industries, such as travel & entertainment, may take years to fully recover.

Our outlook is for a more moderate return to growth (a "U-shaped" recovery), possibly starting in the third quarter of 2020.

April Update to Stock Market & Economic Impact of COVID-19– con't

When Will the Bear Market End? It would be unprecedented for a bear market to last less than a month. Furthermore, history also tells us that after massive stock market sell-offs, there are often retests of the market lows. The year 1987 is known for the market crash in October (Black Monday), but the actual S&P 500 lows didn't occur until December of that year, after a nearly 15% rally failed. Another major low took place in October 2002, only to be tested again in March 2003. During the Financial Crisis, lows were reached in October 2008, and then a 27% recovery took place late in 2008, to be followed by the ultimate lows in March 2009. Reaching the market "bottom" in a recession is a process, with many ups and downs along the way. While we hope the market hit its low in March, we aren't convinced that the bear market is over. It is possible the recent 30% rally in stock prices is a "bear market bounce."

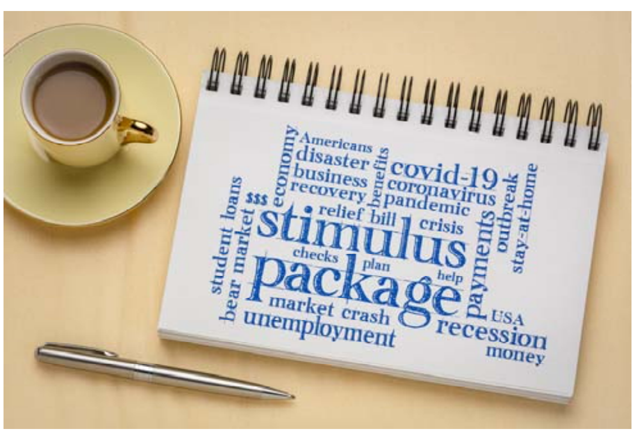
What Will It Take? Ultimately, an effective vaccine is the key to defeating COVID-19. Although most medical experts believe a vaccine will be developed, it will probably take at least another 12 months. What is needed now are effective treatments and coronavirus testing on a massive scale—including antibody testing. This could help identify those who have the virus, help quarantine those who have been exposed, and identify people who have recovered and have antibodies. This may include point-of-care testing that can be done at high risk locations—such as at schools, places of work and airports, with results received in 15 minutes or less.

Future MAM Actions: In most portfolios, we continue to hold an extra 5% level of cash. We are waiting to deploy this cash back into equities once we are more confident the bear market is close to ending. As of April 30th, the S&P 500 was down only 9.9% year-to-date. This seems like an unreasonably low level of decline relative to the damage COVID-19 is inflicting on the economy. While we realize the stock market is forward-looking, it seems unlikely it has fully digested a massive spike in unemployment, a sharp GDP contraction, and a large decline in corporate earnings. As such, we expect to see more turbulence in stock prices with possible further downside.

On a more optimistic note, if efforts to contain the virus succeed, this could be a relatively short recession, with growth returning later this year. This assumes mass COVID-19 testing allows more people to return to work. In recessions since WWII, on average stocks bottomed about five months before the end of the recession, as investors were able to look past the current negatives and sense better times ahead. **As such, most likely our next step will be to reinvest the excess cash in portfolios back into equities. Although we are optimistic in our longer-term market outlook, we would like to see lower stock prices as a better entry point to redeploy this cash.**

Please let me know if you would like to have a conversation to discuss your portfolio(s).

2020 CARES Act and Other Federal Stimulus Measures



In response to the economic impact of the COVID-19 pandemic, Congress and the President have taken a number of actions to stimulate the economy. Most of these provisions have previously been discussed in either our March Monthly Commentary or our April 9th email "CARES Info for Businesses". The purpose of this article is to summarize the more important of these measures.

Tax Filing & Payments Due Dates: The Treasury Department and IRS have extended until July 15, 2020, the due date for filing and payment of taxes owed for 2019 individual and business tax returns. First and second quarter 2020 estimated payments are also now due July 15, 2020. Most, if not all, states have conformed to these filing and tax payment extensions.

Recovery Rebates: The most well-publicized provision of the CARES Act is the $1,200 recovery rebate for individuals. By late April, the IRS had issued over 88 million of these rebates. The rebate amounts are equal to $1,200 for individuals, $2,400 for joint filers, and $500 credit for each eligible child. The amount of the rebate is phased out for income in excess of a threshold amount. The threshold amount is based upon 2018 adjusted gross income (unless a 2019 tax return has already been filed). The phaseout begins at $75,000 for single filers, $112,500 for heads of households, and $150,000 for joint filers**.** The rebates are completely phased out for single filers with adjusted gross income over $99,000, heads of household over $136,500 and joint filers over $198,000. For those with children under age 17, $10,000 per child is added to the phaseout upper limit.

2020 CARES Act and Other Federal Stimulus Measures– con't

Expanded Unemployment Benefits: Unemployment assistance is administered at the state level. While each state has its own set of rules, the federal government has provided funds to the states to expand benefit coverage up to 39 weeks and payment of an additional $600 per week through 6/30/20. Unemployment benefits are now available to self-employed individuals.

No RMDs for 2020: For those over 70 ½ and those with inherited IRAs, the Act suspends 2020 required minimum distributions. If you already received your 2020 RMD, you can roll it back into your account if done by July 15, 2020.

Penalty Free Withdrawal from an IRA or Employer Plan of up to $100,000: People with a coronavirus-related hardship can take a 2020 withdrawal of up to $100,000 from their IRAs, 401(k) or another workplace retirement plan. Withdrawals from IRAs and employer plans are still taxable. However, you can avoid the tax if you roll the amount you withdrew back into the plan within three years of taking the distribution.

Alternatively, if you don't roll the money back into your retirement plan, the amount you withdraw in 2020 will be taxed over three years instead of one year. Or you can elect to have it all taxed in 2020. The 10% early withdrawal penalty for those under 59 ½ is waived for those with a coronavirus-related hardship.

Paycheck Protection Program (PPP) Loans for Small Businesses: The CARES Act set aside $349 billion of Federal guaranteed loans for small business (including self-employed individuals). These loans are issued by qualified SBA lenders. The most valuable feature is the loan is forgiven to the extent the business incurs payroll and certain other costs during the 8 weeks subsequent to the approval of the loan. The amount forgiven is not considered taxable income for Federal tax purposes (at this time, CA has not conformed to making it non-taxable). Because of these attractive features, PPP loans have been extremely popular. The initial funding was fully depleted within 13 days. Last week Congress and the President added an additional $320 billion to the program. **This new funding is also likely to be quickly depleted, so interested businesses should apply ASAP.**

Employee Retention Credit: The CARES Act provides businesses a credit applied against employment taxes equal to half of the wages paid to employees during the time period after 3/12/20 and before 1/1/21. The maximum credit is $5,000 per employee. To be eligible, the business must have fully or partially suspended operation during any calendar quarter in 2020 as a result of orders from a government authority due to COVID-19 or experienced a significant (50% or more) decline in gross receipts. This credit is not available to self-employed individuals or those who receive a Paycheck Protection loan.

Economic Injury Disaster Loan (EIDL) and EIDL Emergency Advance: EIDL is a longstanding program that provides disaster aid to small businesses with employees. The emergency advance provides up to $10,000 of economic relief ("grants") to businesses facing temporary difficulties related to COVID-19. The amount of the forgivable advance/grant is based on the number of employees at $1,000 each with a maximum grant of $10,000. The program opened back up April 27th following further funding approved by Congress on April 24th. While businesses can apply for both a PPP loan and an EIDL loan or advance, those interested should apply ASAP due to expected very high demand.

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

Tax Reminders:

- July 15th is the deadline for filing 2019 individual income tax returns and making 2019 IRA, SEP-IRA, Roth IRA and Education Savings Account contributions.
- July 15th is also the deadline for first and second quarter 2020 Federal and State estimated payments.