McCarthy Asset Management, Inc.
Personalized Wealth Management

August 2019 Monthly Commentary

Sept. 3, 2019

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Stock Market & Portfolio Performance

August 2019: U.S. and international stocks fell for the month, with particular weakness in small cap stocks. Declining interest rates helped bonds generate solid returns. For the first nine months of 2019, stocks and bonds posted strong returns.

	Aug 2019	YTD 2019	Description:
Without Dividends:			
S&P 500	-1.8%	16.7%	500 Largest Public U.S. Companies
Russell 2000	-5.1%	10.8%	2000 of the smallest U.S. stocks
MSCI EAFE	-2.9%	7.1%	international stock index
U.S. Aggr Bond	2.6%	9.1%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-1.5%	10.7%	non-very conservative MAM portfolios
MAM Conserv	-1.0%	8.7%	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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Stock Market Update– Impact of Tariffs

For much of the first half of this year, investors seemed assured that slowing global growth would be mitigated by accommodative monetary policies from the U.S., Europe and emerging markets. The general view was also that common sense would prevail with a United States-China trade deal being reached without any significant disruptions to global trade. That all changed starting in May as the prospects for a new trade agreement with China unraveled:.

- On May 10th, President Trump increased the tariffs on $200 billion of Chinese exports to the United States from 10% to 25%.

- China's finance ministry retaliated by announcing that effective June 1st, it would hike tariffs on $60 billion of U.S. goods up to 25%.

- On August 1st, Trump said the U.S. will impose a 10% tariff on another $300 billion of Chinese goods starting September 1st. If imposed, this round of tariffs would affect nearly all of China's imports to the U.S., including electronics, clothing and consumer goods.

- On August 6th, China responded by allowing the yuan (their currency) to sink 7% relative to the U.S. dollar, effectively reducing the cost of Chinese goods for Americans.

- Since then, China's government has taken steps to support the value of the yuan and Trump has announced a delay from September 1st to December 15th on much of the $300 billion in goods to be subject to the 10% tariff.

The effect of all this has been a sharp increase in the volatility of the stock market.

Importance and Timing of a U.S.-China Trade Agreement: The United States' trade with China is not that significant. Economists estimate an annual decrease of around 0.5% in U.S. Gross Domestic Product if no agreement is reached. Not reaching an agreement should not be enough to cause the U.S. economy to slide into a recession. Furthermore, odds still favor some agreement being made, but probably not this year. Achieving an agreement is in Trump's best interest if he hopes to win reelection next year.

Is the U.S. Economy about to Enter into a Recession? This is a very important question. Historically, the worst performance of the stock market is in the four to six months leading up to the start of a recession. There's no question that we will have another recession. The tricky part is accurately forecasting the timing of it. While we still feel a recession does not appear imminent, clearly the risks are rising. Trade problems are hurting business confidence and earnings, and escalating tensions could cause any weakness in trade and manufacturing to spill into the broader economy. Furthermore, last month a closely watched point on the Treasury yield curve inverted for the first time since 2007, suggesting that a recession may be around the corner. However, historically we have seen a significant lag time (on average approximately 21 months) between an inversion and the actual beginning of a recession. In addition, according to LPL Financial, historically, the S&P 500 has averaged a one-year gain of 14% following inversions.

For now, the U.S. economy is holding up well, and consumers are still in good shape. Jobs continue to be created at a robust clip, even with the unemployment rate at a 50-year low. Wages growing at a healthy rate, along with falling interest rates, should help Americans to maintain their spending. Retail sales expanded a healthy 0.7% in July from the prior month. The current expectation is that consumer spending will be up by 2.5% to 3% in the third quarter. This will significantly support overall U.S. economic growth as consumer spending makes up about two-thirds of the U.S. economy.

MAM Outlook: The markets have seen these ups and downs before, but it can be uncomfortable when the near-term outlook seems uncertain. At this point, we are not planning to make any portfolio changes in response to the increased volatility. If over the next few months it looks more likely the U.S. is getting close to entering a recession, we will probably increase the downside protection in portfolios. Meanwhile, please let me know if you would like to discuss your portfolios.

The Capital One Data Breach and What to Do About It

Data breaches are becoming all too common. The most significant one was Equifax two years ago. Additional breaches include Marriott, Target and Home Depot. On July 29th, Capital One reported a hacker accessed the personal information of 100 million Americans and 6 million Canadians. Most of the impacted parties were consumers or small businesses who had applied for a Capital One card between 2005 and 2019. If you have a Capital One credit card, or have applied for one in that time frame, your information is part of this data breach.

Leaked Information: The information leaked includes names, addresses, zip codes, phone numbers, email addresses, dates of birth and self-reported income. Consumer data including credit scores, credit limits, balances, payment history and some transaction data are also part of the breach. Also exposed were about 140,000 Social Security numbers and 80,000 linked bank account numbers.

What Can Be Done with This Info? The leaked information can be used to apply for loans or credit cards. From an identity-theft perspective, the Capital Once breach is not as significant as the Equifax breach, because many more Social Security numbers were hacked in the Equifax breach.

If You Were Affected, What Should You Do? Capital One has offered two years of free credit monitoring for those affected. However, privacy experts say credit monitoring only looks for changes on a credit report, indicating that someone is using your personal information to open new accounts in your name. But it does not *prevent* someone from taking out a loan or credit card in your name.

Freeze Your Credit: As we recommended with the Equifax breach, the single most effective action potential victims can take is to freeze their credit. A credit freeze does not impact your credit score. What it does is restrict access to your credit report, which in turn makes it more difficult for fraudsters to open new accounts in your name. Lenders need to see your credit report prior to extending credit or approving a new loan. While freezing your credit can be a hassle because you will need to unfreeze it every time someone needs to run a credit check on you—it will prevent someone from taking out new credit in your name. A credit freeze locks your credit file at each bureau with a special PIN that only you know. The PIN must be used in order for anyone to access your credit file, or add new credit in your name. **Be sure to save your PINs in a safe place.**

To set up a security freeze, you must contact all three bureaus individually. This process can be done online or over the phone. You will be asked some questions to confirm your identity, but it only takes a few minutes and is free. I have heard from a number of clients who took this action after the Equifax breach. While some were able to do so easily, others were asked to mail additional information to one or more of the credit bureaus to complete their freeze.

You can freeze your credit by using the following phone numbers or links:

- **Experian**: 888-397-3742
  Freeze your credit
- **TransUnion**: 888-909-8872
  Freeze your credit
- **Equifax**: 800-685-1111
  Freeze your credit

To lift your freeze, simply contact the bureau used by the lender and provide your PIN. This can also be done online or over the phone. It may take a few days for the freeze to be lifted, so be sure to do it a few days in advance of when needed.

The Capital One Data Breach and What to Do About It– Con't

Enable Two-Factor Authentication: Adding an extra layer of security to your logins can help prevent scammers from gaining access to your accounts. The common form of two-factor authentication is when a business texts you a one-time code that enables you to access your account. This means that a hacker would need to have access to your mobile phone as well as your account information in order to gain access to your accounts.

Don't Get Phished: Much of the information that was accessed in the Capital One breach—names, addresses, dates of birth, etc.—could be used in a "phishing" scam. This is where calls, emails or text messages that could appear like Capital One or another firm offering protection, is actually a fraudster trying to get more data from customers.

Change Your Passwords Regularly: Consumers can also protect themselves by regularly changing their passwords.

Regularly Monitor Your Financial Accounts: Even if your data was not breached, we think it is a good idea to regularly monitor the activity on your credit cards and bank accounts. Be certain to report any unusual or suspicious activity to the financial institution.

Please let me know if you have any questions or comments regarding any of this.

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 have any topics or questions you would like to have us address in a future Monthly Commentary.