

August Monthly Commentary

Sept. 1, 2020

Stock Market & Portfolio Performance

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August 2020: Stocks rose for the fifth consecutive month with U.S. large-cap growth stocks again leading the way. Value stocks, small cap stocks and international stocks rose more moderately for the month. Bonds fell slightly , but have posted strong returns for the year-to-date.

| | <u>Aug 2020</u> | <u>YTD 2020</u> | <u>Description:</u> |
|--|-----------------|-----------------|---------------------|
|--|-----------------|-----------------|---------------------|

Without Dividends:

| | | | |
|----------------|-------|-------|-----------------------------------|
| S&P 500 | 7.0% | 8.3% | 500 Largest Public U.S. Companies |
| Russell 2000 | 5.5% | -6.4% | 2000 of the smallest U.S. stocks |
| MSCI EAFE | 4.9% | -6.2% | international stock index |
| U.S. Aggr Bond | -0.8% | 6.9% | index of U.S. bonds |

With Dividends, after all fees:

| | | | |
|----------------|------|------|--------------------------------------|
| MAM portfolios | 3.9% | 2.8% | non-very conservative MAM portfolios |
| MAM Conserv | 2.6% | 2.2% | 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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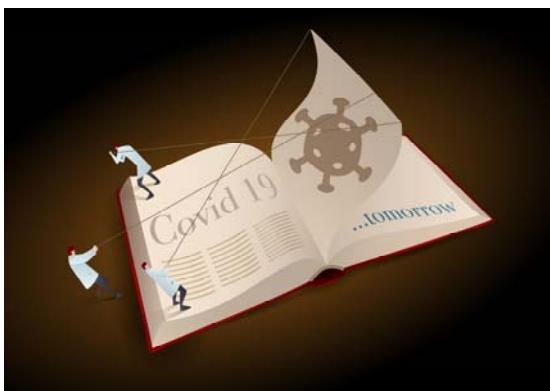


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Efforts to control the spread of COVID-19 have had a significant negative impact on the US and world economies. For the US economy to realize a sustainable recovery will probably require medical breakthroughs for the treatment of and/or vaccination against the coronavirus. The purpose of this article is to summarize some of the more promising efforts in this area.

Researchers in the US set an audacious goal in January to develop a coronavirus vaccine within 12 to 18 months. This would be a world record, as previously the fastest vaccine to be developed was the one for mumps, which took four years. How can the development of COVID-19 vaccines be done so quickly? A significant reason is because the US government is taking much of the financial risk of developing a vaccine. This allows companies to move much more quickly in development than they otherwise would. This funding is being done via Operation Warp Speed (OWS), a collaboration of several US federal government departments, including

Health and Human Services, and the private sector. So far, the US government has invested over \$9.5 billion to speed up development and jump-start manufacturing while research is still being conducted.

Furthermore, advancements in science and technology have given researchers new tools to test against the coronavirus. Scientists can deliver genetic material into the body's cells, turning them into vaccine factories and skipping time-consuming steps such as manufacturing viral proteins or growing the whole virus in their labs.

Despite this very aggressive timeline, top government officials have repeatedly promised that no steps are being skipped. A vaccine will not be considered for approval in the United States until after a large, Phase 3 trial. The Food and Drug Administration, which has the ultimate say on whether a vaccine has been proven safe and effective, says a vaccine will need to prevent COVID-19 or decrease symptoms in at least 50 percent of those who receive it. It's thought that level of efficacy can help stop transmission, especially in combination with other treatments and prevention measures. This is in contrast to Russia and China, who have reduced standards that have allowed them to authorize the use of vaccines without waiting for proof that they are safe and effective.

So far, under Operation Warp Speed, the US government has funded three vaccine candidates that are currently undergoing Phase 3 trials:

- German biotech firm BioNTech has partnered with Pfizer to develop a COVID-19 vaccine. One of their top candidates uses experimental technology known as messenger RNA (mRNA) and has entered a Phase 3 trial this summer. In the trial, 30,000 subjects are taking part in the randomized study designed to test the efficacy of the vaccine in protecting from infection. The vaccine showed promising results in an early-stage study, which found test subjects developed higher levels of antibodies four weeks after being vaccinated.
- The University of Oxford and the British-Swedish drug maker AstraZeneca together developed a vaccine candidate that was the first to enter Phase 3 trials, with over 10,000 subjects in Britain, Brazil, and South America receiving doses. A new Phase 3 trial involves 30,000 subjects in the United States. Promising early results were published in the British medical journal "The Lancet" in late July. This candidate is viewed as one of the front runners in the race to develop an effective vaccine.
- Moderna's potential vaccine completed a study that produced a positive immune response in all 45 patients in early-stage trials. All of the patients produced neutralizing antibodies, which scientists believe are important for building immunity. Moderna has commenced a Phase 3 trial enrolling 30,000 participants in the study aimed at establishing vaccine efficacy.

There are at least two additional vaccines in development which are supported by major funding:

- On July 31st, Sanofi's and GlaxoSmithKline's vaccine candidate was selected by Operation Warp Speed with up to \$2.1 billion in funding to supply the US government with 100 million doses of their COVID-19 vaccine. The Phase 1 and 2 studies are planned to start in September, followed by a Phase 3 study by the end of 2020. If data are positive, the companies can request US regulatory approval in the first half of 2021.
- On July 30th, Johnson & Johnson announced that its lead vaccine candidate protected against COVID-19 in pre-clinical studies. By late September, the Company plans to launch a Phase 3 trial with up to 60,000 participants. On August 5th, the US government entered into a \$1 billion agreement with Johnson & Johnson for the large-scale domestic manufacturing and delivery in the US of 100 million doses of the vaccine. The Company aims to meet its goal to supply more than one billion doses of the vaccine globally over the course of 2021, provided the vaccine is safe and effective.

Update Regarding COVID-19 Medical Efforts—con't

Treatment Efforts: Efforts aimed at improving the treatment of COVID-19 patients have contributed to the reduction of the mortality rate since spring:

- Dexamethasone reduced deaths by 33% among patients on ventilators, and by 20% among those receiving oxygen therapy, based on a report in Scientific American.
- Remdesivir, developed by Gilead Science, has been approved for emergency use in some patients as it has shown reductions in hospital stays by 26%.

Among the most promising treatments being tested is one from Regeneron Pharmaceuticals. They have initiated late-stage clinical trials to evaluate REGN-COV2, an investigational double-antibody cocktail for the treatment and prevention of COVID-19. The Phase 3 trial will evaluate the ability of the drug to prevent infection among uninfected subjects who have had close exposure to a COVID-19 patient. The study is a joint project with the National Institutes of Health. The Phase 3 prevention trial is being conducted in close to 100 sites and will enroll 2,000 subjects in the United States. In addition to possibly providing an effective treatment, this monoclonal antibody cocktail strategy is viewed as a promising approach to the development of a successful COVID-19 vaccine.

MAM Comments: Unfortunately, efforts to contain the spread of the coronavirus in the US through the practice of wearing a mask and social distancing have fallen short. For the US economy to be on the road to a full recovery, I believe will require the development and distribution of effective vaccines and/or treatments. With the unprecedented resources being poured into these efforts, I am hopeful that this will start to occur in the first half of 2021 with life gradually returning to normal through the course of 2021.

How Financial Sound is the Social Security Trust Fund? By Lauree Murphy

State of Social Security before COVID-19:

Each year the Trustees of the Social Security Fund prepare a report projecting the financial outlook of the Trust Fund. In the latest report, the Trustees noted that net inflows into the Trust Fund will turn negative next year, commencing a demise that projects the Trust Fund will go broke in 2035. At that time, payroll taxes will cover only 79% of promised retiree benefits. Even worse, the Trustees stated in the annual report that “the projections and analysis in this year’s report do not reflect the potential effects of the COVID-19 pandemic on the Social Security program”. Clearly, claims will increase as more workers retire early or claim disability, while payroll taxes will fall with the rise in unemployment.



Negative effects COVID-19 may have on the Social Security Trust Fund:

- With a recession and loss of jobs, fewer payroll taxes are collected, and in turn, fewer dollars go into the Social Security Trust Fund.
- It is likely we will see a surge of new benefit claims by workers who have lost jobs. Many workers who were planning to delay starting retirement benefits will be forced to claim benefits earlier to replace lost wages. Before the Great Recession, over the past 20 years the number of individuals aged 62 claiming Social Security as soon as they could had been trending down. In 2007, 37.6% of individuals aged 62 started collecting benefits. During the financial crisis, the trend reversed, as 42.4% of those turning 62 claimed Social Security benefits in 2009. A repeat of this phenomenon would further strain the Trust Fund.
- Additionally, the Federal Reserve has lowered interest rates to stimulate lending. This lowers the interest earnings for the Trust Fund.

How Financially Sound is the Social Security Trust Fund?

By Lauree Murphy— con't

A paper titled, "Social Security's Financial Outlook: The 2020 Update in Perspective," by Alicia H. Munnell of the Center for Retirement Research, suggests that if unemployment related to COVID-19 causes the Trust Fund's payroll tax revenue to drop by 20% for two consecutive years, the depletion rate would move forward by about two years. This would cause the Trust Fund to be depleted in 2033 rather than 2035.

Corrective Actions Needed:

Social Security's plight has been obvious for decades, and the longer Washington procrastinates, the more difficult the solutions. The Trust Fund Trustees stated that ensuring solvency over the next 75 years would require a 3.1% rise in the current payroll tax of 12.4%, which is split between employees and employers. Even less politically attractive would be an immediate 19% across-the-board cut in benefits. The Trustees calculated that waiting for the Trust Fund money to run out in 2035 would require a 4.1% increase in the combined payroll tax or a 25% cut in benefits.

There are two ways to balance the fund: bring in more revenue or pay reduced benefits. Who will pay the price, younger workers or retirees? The answer depends on which actions are taken. To appease everyone, a mix of actions will probably be necessary. Additionally, these changes could be phased in over time giving people time to adapt.

Increase Revenue:

- Raise the Payroll Tax Rate
- Reduce or Eliminate the Wage Cap (currently \$137,700 for 2020)
- Tax Benefits at a Higher Rate

Reduce Benefits:

- Increase Full Retirement Age
- Reduce the Cost of Living Adjustment (COLA)
- Reduce Benefits for Retirees
- Lower Benefits for High-Income Retirees

A website by the American Academy of Actuaries allows you to play with solutions and see how your choices turn out.

<http://socialsecuritygame.actuary.org/#make-your-choice-now>

Should I wait or file for Social Security benefits as soon as possible?

If you do not have adequate savings and you must retire early, you may find it necessary to start collecting your Social Security benefit. Otherwise, we still recommend that you wait as long as possible to collect your benefit. Ideally, wait until age 70. This is because at your full retirement age (66-67, depending on when you were born) you receive 100% of your benefit. If you start early, your benefit is permanently reduced. If you wait beyond your full retirement, you get an extra 8% per year in benefits up until age 70. To break even between collecting at full retirement and collecting at age 70, you need to live until about age 80. If you live a long life, waiting until age 70 will pay off. With many people living into their 90s, a higher Social Security benefit is likely to make a difference later in life, especially for those who have depleted their savings.

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

- Estimated Tax Payments: Third quarter of 2020 estimated payments are due on September 15th.
- MAM Portal: Please let us know if you have any questions regarding accessing your ClientView Portal.

