McCarthy Asset Management, Inc.
Personalized Wealth Management

August 2021 Monthly Commentary

Sept. 1, 2021

Stock Market & Portfolio Performance

Inside this issue:

August 2021: Stocks posted solid gains for the month, led once again by large-cap U.S. stocks. Bonds slipped modestly for the month and the first eight months of 2021.

	Aug 2021	YTD 2021	Description:
Without Dividends:			
S&P 500	2.9%	20.4%	500 Largest Public U.S. Companies
Russell 2000	2.2%	15.1%	2000 of the smallest U.S. stocks
MSCI EAFE	1.5%	9.7%	international stock index
U.S. Aggr Bond	-0.2%	-0.7%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	1.8%	12.1%	non-very conservative MAM portfolios
MAM Conserv	1.2%	7.3%	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.

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Various Financial Updates

I have a number of financial topics to cover this month. To fit them into this newsletter, I am keeping my comments succinct and combining them into one article.

2021 Corporate Earnings: For the second quarter in a row, S&P 500 companies are posting huge earnings increases. With over 80% of the S&P 500 companies having reported earnings for the second quarter of 2021, earnings are up nearly 90% relative to the second quarter of 2020, or about 25 percentage points above the consensus when this quarter's earnings season began. For the first quarter of 2021, earnings grew 52% compared to the prior year. Earnings are expected to continue to grow for the remainder of 2021, but at a slower pace. Currently, for full-year 2021, S&P 500 earnings are projected to be $195 per share, up from 2019's all-time high of $157 per share. The rapid increase in earnings provides some justification for elevated stock market prices, which are close to all-time highs.

Impact of the Covid Delta Variant on the U.S. Economy: The Delta variant is now the predominate Covid strain in the United States. Compared to prior strains, it is much more transmissible. While the U.S. economy has benefited from the reopening of the economy, the Delta variant is now slowing the pace of the reopening. While it remains to be seen, my hope is that the U.S. experience with this variant will be similar to that of the U.K, where Delta became prevalent about two months before it did in the United States. During the last month, the number of new infections in the U.K. has slowed rapidly. This is attributed to an estimated 90% of British adults having some degree of immunity from vaccinations or prior infection. We should know during the next month or two if the U.S. will follow a similar pattern. Unfortunately, the U.S. has a lower percentage of adults vaccinated (63%) versus those in the U.K. (75%).

Mortgage Rates Close to All-Time Lows: Mortgage rates have once again dropped back down close to historical lows. The outbreak of the Delta variant caused the rate of the 10-year Treasury bond to plummet, which in turn resulted in lower mortgage rates. Per Fremont Bank's website, recently its rate for a no-cost refinance was 2.375% for a 15-year conforming loan and 2.875% for a 30-year loan. Because it is very difficult to know how long rates will stay this low, if your current rate is much above these rates, I recommend you look into refinancing.

Federal Reserve Likely to Slow Asset Purchases: Last month, Federal Reserve officials indicated they were on track to begin reversing its easy-money policies later this year. Minutes of its July 27-28 Fed meeting shed light on the emerging consensus to begin scaling back its $120 billion in monthly purchases of Treasury and mortgage securities at one of its three remaining meetings this year. As a background, in an effort to soften the economic impact of the Covid outbreak, the Fed cut short-term interest rates to zero in March of 2020 and began purchasing $80 billion a month in Treasury securities and $40 billion in mortgage securities. The effect of slowing or "tapering" their monthly bond purchases will likely result in an increase in the rates on the 10-year Treasury and mortgages. For those who are considering refinancing their mortgage, I recommend they do so soon.

Social Security COLA likely to top 6% in 2022: Continued inflationary pressure means starting next January, retirees could receive the biggest cost-of-living increase in Social Security benefits in nearly four decades. According to Rick Rieder, chief invest officer for BlackRock's Global Field Income Investment Team, "Much of today's inflation is due to reopening factors and supply constraints, but as supply chains normalize from Covid-related shocks and inventories are rebuilt, we expect much of the recent inflation will be more transitory, with some longer-term stickiness in pricing pressure." The official COLA for 2022 will be announced in October. It is based on the increase in the average CPI for the third quarter of 2021 over the previous year's third quarter. So even if the recent inflationary spike proves to be short-lived, Social Security recipients will benefit if this spike remains throughout the third quarter of 2021.

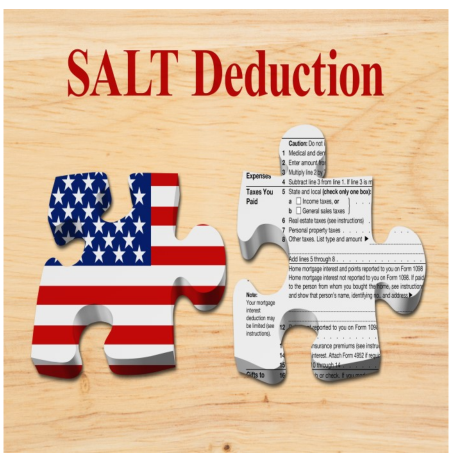
Various Financial Updates- Con't

Data Breach at T-Mobile Affects Over 40 million: Last month, T-Mobile said hackers stole the Social Security numbers and other personal information of more than 40 million current and prospective customers. The cellphone carrier said the stolen data includes first and last names, birth dates, Social Security numbers and driver's license information. The victims include people who applied for credit with T-Mobile, regardless of whether they ended up doing business with the carrier. Investigators said that stolen data have already been offered for sale in online forums to commit fraud such as identity theft and SIM swapping—a form of identity theft in which hackers seize control of a victim's mobile phone number.

Sadly, these data breachers are becoming all too common. When the huge Equifax breach occurred in 2017, I recommended MAM clients freeze their credit with the three credit-reporting bureaus. Here's a link to the article I wrote which explained how you can freeze your credit. I still stand by my recommendation. While it can be a hassle as you may need to temporarily unfreeze your credit from time to time, I find that my credit is frozen gives me peace of mind when I read about these data breaches.

Tax Planning: Delay paying 4th Quarter State Estimated Payments and Property Taxes Until January 2022? For the last few years, taxpayers' deduction on their federal tax return for state & local taxes (SALT) has been limited to $10,000. There are currently efforts in Congress to repeal the $10,000 SALT limitation. It is too early to know if these efforts will succeed. If they do, they won't be effective until 2022. For those who have a 4th quarter 2021 state estimated payment, I recommend they wait until January of 2022 to make the payment. The same applies to property taxes—don't prepay them by December 31, 2021.We should know more about this as we get closer to the end of 2021.

State Tax Deduction Workaround for Certain Business Entities



This article pertains to a new tax-saving technique that will only be available to certain business entities. While it is a very enticing strategy, unfortunately, it does not apply to the vast majority of MAM clients. Specifically, it will only benefit those who have an interest in an S corporation, partnership, or LLC taxed as a partnership or S corporation that is doing business in California. It also does not apply to single-member LLCs.

California recently enacted Assembly Bill 150, allowing it to join sixteen other states that have also enacted an elective passthrough entity tax. Taxes paid in accordance with the bill may be used by passthrough entity owners as a workaround to avoid the $10,000 deduction limit on their personal Federal tax returns for state and local taxes (the "SALT" limitation). The passthrough entity may make an election to pay California income tax equal to 9.3% of its qualified net income.

In essence, this allows the K-1 recipient to reduce their federal adjusted gross income by their share of the California taxes paid by the entity. This avoids having a state tax deduction on their Schedule A, which would be subject to the $10,000 SALT deduction limit. For federal purposes, the owner will reduce net income by the amount of the tax. For California, the tax will be added back into net income, but the owners will receive a California tax credit equal to the state taxes paid by the passthrough entity on behalf of the owner.

The Internal Revenue Service recently gave its "stamp of approval" to these types of passthrough entity taxes in IRS Notice 2020-75. The IRS further stated it intends to issue proposed regulations clarifying the tax treatment of the taxes on the tax returns for both the entity and the owners.

Note: As mentioned in the prior article, there is currently an effort in Congress to repeal the $10,000 state and local tax deduction limitation. California's elective passthrough tax will be repealed if federal legislation is enacted that repeals the SALT deduction limitation. Meanwhile, we will monitor events to determine what needs to be done for eligible entities to take advantage of this new tax break.

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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 2021 estimated payments are due on September 15th.