McCarthy Asset Management, Inc.
Personalized Wealth Management

January 2020 Monthly Commentary

Feb. 3, 2020

Stock Market & Portfolio Performance

Inside this issue:

January 2020: U.S. and international stocks slipped this month due to potential economic repercussions from the coronavirus that originated in Wuhan, China. Bonds rose as the yield on the ten-year U.S. treasury fell sharply.

	Jan 2020	FY 2019	Description:
Without Dividends:			
S&P 500	-0.2%	28.9%	500 Largest Public U.S. Companies
Russell 2000	-3.3%	23.7%	2000 of the smallest U.S. stocks
MSCI EAFE	-2.1%	18.4%	international stock index
U.S. Aggr Bond	1.9%	8.7%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-0.7%	18.8%	non-very conservative MAM portfolios
MAM Conserv	-0.3%	14.6%	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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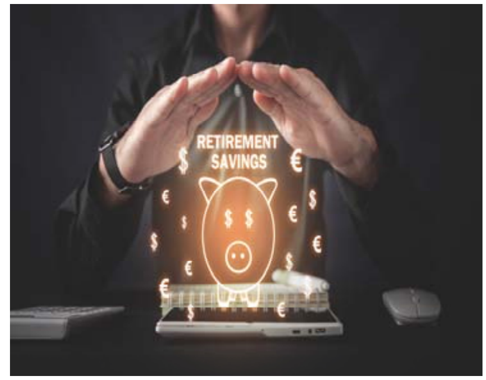
SECURE Act– Changes to Retirement Savings

The retirement savings bill, known as the SECURE Act, was signed into law by President Trump on December 20th. The bill makes significant changes to various retirement-related provisions impacting both individual taxpayers and their employers. The SECURE Act, an acronym for "Setting Every Community Up for Retirement Enhancement", was approved overwhelmingly by the House in May, but was stuck in limbo for months in the Senate until supporters pushed for the bill to be included in a must-pass year-end package, along with a massive government spending bill.



Key provisions in the retirement savings portion of the bill include:

- **Change to Required Minimum Distribution (RMD) Age:** The law increases the age for starting RMDs from 70 ½ to 72. For this provision, the new law only applies to people who turn 70 ½ after December 31, 2019. If a person turned 70 ½ in 2019, they still must have taken their 2019 RMD.

- **Contributions to Traditional IRAs After Age 70 ½:** The law ends the long-standing prohibition on contributions to a traditional IRA after age 70 ½. To be eligible to make these contributions, though, IRA owners still need to have sufficient earned income.

- **New Rules for Inherited IRA Accounts:** Under current law, inherited retirement accounts (often referred to as "Stretch IRAs") can distribute the funds over the beneficiary's lifetime. Under the new law, those assets must be distributed within 10 years ("10-Year Rule"). There are exceptions for a surviving spouse, minor children, disabled individuals, and people less than 10 years younger than the decedent. The bill does *not* affect existing inherited accounts. It only applies to accounts that are inherited in 2020 and beyond.

Tax Planning Opportunity: Under this new 10-Year Rule, the entire inherited retirement account must be withdrawn by the end of the 10th year following the year of inheritance. Within the 10-year period, however, there are no distribution requirements. Thus, designated beneficiaries will have flexibility when it comes to timing distributions from the inherited account(s) to maximize tax efficiency…as long as the entire account balance has been taken by the end of the 10th year after death. Therefore, a beneficiary can minimize the tax impact by taking the distributions in years when his/her income is relatively low.

- **Lifetime Income Disclosure:** The bill requires the Department of Labor to propose rules for a new disclosure to plan participants that will illustrate the participant's projected monthly income in retirement based on current retirement assets. The rule-making process for this is likely to take a year or more, followed by an implementation period, so it could be 2021 or 2022 before this becomes standard.

- **Annuity Options:** The new law lowers barriers to offering annuities in employer-sponsored plans, though plans will not be required to do so.

- **Change to 529 Plans:** Assets in these college-savings plans can now be used to repay up to $10,000 in student loans.

- **Provisions to Help Small Businesses:** Several provisions in the bill are designed to make it easier for small businesses to offer retirement plans to their employees, including a provision that will allow unrelated small businesses to band together in so-called "multiple employers plans" to offer a plan to employees.

MAM Comments: While the majority of the provisions of the new bill are positive for retirement savings, the biggest negative component is the limitation of Inherited IRA withdrawals to 10 years. The added flexibility, though, to take the withdrawals at any point within the 10 years provides a tax planning opportunity to minimize the tax impact of the withdrawals. This adds another tax planning item to consider as we work with clients who obtain an inherited IRA after 12/31/19.

Appealing Future for Utility Stocks?

David Giroux, Portfolio Manager of the T. Rowe Price Capital Appreciation Fund (PRWCX) recently wrote a white paper entitled "Utilities: A Potential New Growth Section (The Rise of Renewable Energy is Transforming the Industry)." I wrote this article to provide insight into the investment thinking of one of my favorite portfolio managers.

T. Rowe Price Capital Appreciation Fund (PRWCX): Morningstar rates PRWCX as a 5-star, Gold fund. The basic goal of the fund is to deliver, over a full market cycle, S&P 500-like or better returns, while taking substantially less risk than the S&P 500. According to the most recent Morningstar report on the fund, "David Giroux has led the fund since mid-2006 with incredible skill… Giroux's execution sets the fund apart. He stays a step ahead of the market, acting on opportunities before most competitors…The fund amassed one of the most impressive records among allocation—50% to 70% equity Morningstar Category peers: Out of 108 rolling one-year periods during the last decade, it placed in its peer group's top quartile and beat Vanguard Balanced Index (by an average of more than 2%) about 90% of the time. This fund remains a true gem…His ability to generate unique, contrarian, and often correct insights, along with a willingness to act on them before most competitors do, sets him apart and readily earns the fund a High People rating."

Showing our confidence in the fund, PRWCX is the largest position in most MAM portfolios. Showing Mr. Giroux confidence in utility stocks, the sector recently made up 13% of the equities in the fund, more than triple the weighting that the utility sector has in the S&P 500.

Key Insights from the white paper- The following are excerpts from Mr. Giroux's white paper:

- "Utilities offer investors potentially appealing growth opportunities with dividend yields that are still attractive."
- "A steady decline in renewable energy costs is transforming the utility sector, lowering operating expenses and fueling faster earnings growth."
- "We believe utilities now have the potential to provide returns comparable with the broad U.S. equity market with less volatility, which could raise valuations."

New Era for Utilities: "Utilities long have been perceived as a defensive sector, offering investors relatively attractive dividend yields but little or no earnings growth. Those industry dynamics are changing, however, and the conventional view is outdated. In fact, we believe utilities now may provide some of the most favorable long-term, risk-adjusted return opportunities of any U.S. equity sector."

"This new era is being driven by several developments:

- Lower natural gas prices spurred by fracking technology,
- Conversion from coal plants to cheaper gas generation,
- more earnings-friendly regulatory policies in many states, and
- the recent emergence of low-cost renewable energy sources, such as wind and solar power, that increasingly replacing coal and natural gas."

Appealing Future for Utility Stocks?- Con't

Low-Cost Renewables Are Transforming the Industry: "Renewables accounted for about 18% of all the electricity generated in the Unites States in 2017. With renewables becoming more cost-effective, we believe that percentage could rise to 60% to 70% over the next 20 years. The trend should accelerate with improvements in battery storage technology. Actual outcomes may vary significantly, of course."

Relative to Other Defensive Sectors: "Among the defensive sectors of the market—those that historically have been relatively less exposed to the economic cycle—the utilities sector is the only one, in our view, that is not threatened by significant secular risks—such as the emergence of a new competitive force or a technological innovation that would damage topline growth and profit margins. While telecoms, consumer staples, and parts of health care all face secular challenges of one form or another, utilities are actually benefiting from secular change."

"It is also noteworthy that compared with the broader U.S. market, utilities face relatively few economic or political risks and, as a largely domestic industry, are less vulnerable to exchange rate fluctuations that might reduce the dollar value of foreign earnings. Finally, utilities historically have tended to be much less volatile than the market overall."

MAM Comments: It will be interesting to see how Mr. Giroux's optimism for the utility sector works out. Given his very solid track record, we feel fortunate to be invested in PRWCX which is closed to new investors (although we are able to get new MAM clients into the fund).

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

ADV Part II: You were provided a copy of our ADV Part II when you became a MAM client. As a Registered Investment Advisor, we file this document with the Securities and Exchange Commission. Along with other items, it contains information regarding our fees and our educational backgrounds. Each year, the SEC requires us to offer clients the opportunity to receive a copy of our most recent ADV Part II. **Please let us know if you would like to receive a copy.**

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