

# **McCarthy Asset Management, Inc.**

Registered Investment Advisor

June 2, 2011

## **Monthly Investment Commentary- May 2011**

**Stock Market Performance for May:** May was a down month for the stock market. Unadjusted for dividends, both the S & P 500 and NASDAQ fell 1.4%, the Russell 2000 dropped 2.0%, and the international equity index MSCI EAFE slipped 3.6%. Bonds, as represented by the Barclay's U.S. Aggregate Index, rose 1.3% for the month.

**MAM May Performance:** MAM portfolios slightly outperformed the S & P 500 for the month. Excluding the "very conservative" portfolios (which rose 0.2%), MAM portfolios fell 0.8% (after all fees), versus a drop of 1.2% for the Vanguard Index 500 fund (symbol VFINX) with dividends reinvested.

**Year-To-Date Performance:** For the first five months of 2011, unadjusted for dividends, both the S & P 500 and NASDAQ rose 6.9%, the Russell 2000 climbed 8.2%, and the international equity index MSCI EAFE rose 4.5%. Bonds, as represented by the Barclay's U.S. Aggregate Index, rose 3.0% for the year-to-date. Excluding the "very conservative" portfolios (which rose 4.2%), MAM portfolios rose 5.8% (after all fees), versus a rise of 7.8% for the Vanguard Index 500 fund (symbol VFINX) with dividends reinvested.

## **Semiannual Portfolio Repositioning To Be Done In June**

Starting next week we will be doing some minor repositioning to portfolios. For the first time since the stock market recovery began in March of 2009, I am considering getting slightly more conservative with the asset allocation of portfolios. I am concerned with a number of the disappointing economic reports that have been released this past month. While I still believe the economy has reached a point of self-sustainability, it now appears that growth will be quite muted. Furthermore, with the Federal Reserve ending "Quantitative Easing II" (aka "QE2") at the end of this month, the economy will no longer have the benefit of this monetary stimulus (where the Federal Reserve has been aggressively purchasing \$600 billion of long-term Treasuries). While I do not think the stock market is about to drop sharply, I believe it would be prudent to become a little more defensive at this time.

**Please let me know if there is anything you want me to consider when I adjust your portfolio(s).**

## **2011 FPA NorCal Conference**

The last two days I attended the Financial Planning Association's Northern California annual conference. The conference, which was held at the Palace Hotel in San Francisco, is known to be the best regional financial planning conference in the country. This year's sold-out event was not a disappointment for the 650 financial planners in attendance. Next month in the 2<sup>nd</sup> Quarter Letter, I plan to write about a few of the keynote speeches and sessions that I think may be of interest to clients. This will include a speech by Michael Lewis, author of best-selling

novels including “Liar’s Poker”, “Moneyball”, “The Big Short”, and “The Blind Side” (which was subsequently made into a great movie) and a speech by Neel Kashkari, former senior adviser to former Treasury Secretary Henry Paulson, who helped craft and then oversaw the government’s Troubled Assets Relief Program.

### **MoneyGuidePro- Introduction of the Retirement Analysis**

In September of 2005 I introduced the Net Worth Analysis (NWA), which was created to track a client’s Invested Assets, which are the assets that can generate income to replace earned income. Accumulating sufficient Invested Assets is the key to a financially comfortable retirement. The NWA has been very popular as we have created and/or prepared annual updates for over 100 clients. While I have been pleased with the value that the NWA has provided to our clients and expect to continue to utilize it extensively, I wanted to provide a more detailed retirement analysis which would further help determine whether clients are on target to retire. In addition, I wanted the ability for us and our clients to examine the impact of “what if” scenarios on their projected retirement. In achievement of these goals, I am very excited to announce that we recently purchased a license for MoneyGuidePro (MGP), a well-respected financial planning and retirement planning software package.

During the last couple of months, Alexey Bulankov evaluated over a dozen financial planning software programs to select the one that would benefit our clients the most. As a CERTIFIED FINANCIAL PLANNER™ with six years of experience at Schwab Private Client Group, Alexey was well qualified for this. In fact, when searching for Billy Alhorn’s replacement last December, I was looking for an individual who possessed the skills and experience to provide us with more depth so that we could do more extensive financial analysis for clients. Here are some of the key features Alexey was looking for and we believe we have found with the MGP program:

- Is very **intuitive and easy to use**
- Is able to produce **both modular** (e.g. retirement analysis) **and comprehensive plans**
- Is thorough and comprehensive “behind the scenes”, but produces **easy-to-read, useful reports** that are not too detailed or voluminous
- Is cloud-based, **allowing clients to enter and modify information and run what-if’s** (while we will have the ability to control which information clients can enter and modify)
- Has an **interactive presentation feature**, where we can tweak numbers and assumptions to examine alternative scenarios while meeting with a client

In summary, MGP is a highly efficient and secure financial planning package which will allow us to communicate, educate and engage with clients on a new level. It is filled with clear and intuitive screens that won’t overwhelm clients with vast quantities of data.

**Cost:** Initially, I plan to use MGP to create a Retirement Analysis for clients. At a latter time we will consider creating comprehensive financial plans (which cover in addition to retirement planning, other areas such as education funding, estate planning and insurance planning). As with the Net Worth Analysis, I don’t expect to charge for the creation of a client’s Retirement Analysis. It remains to be determined whether we would charge for preparing comprehensive plans, since I expect they will be very time-intensive. I expect, though, that for most clients their needs will be met by us creating a Retirement Analysis and Net Worth Analysis for them.

**Beta Users:** We will first use MGP to create a Retirement Analysis for a select group of clients who express interest on a first-come-first serve basis. Please contact us to get the process started with Alexey sending you a questionnaire. We will also need a recently updated NWA as input for creating your Retirement Analysis. I will be very interested to receive feedback from these initial recipients of the Retirement Analysis.

### **How Do You Plan for Catastrophic Health Issues?**

I would like to remind you that we have retained the services of a firm to assist you with issues surrounding catastrophic health issues—particularly the issue of long-term care. There is no charge to you because MAM pays an annual retainer for making this service available to our clients. The firm we've retained is Superior LTC, founded by Allen Hamm, an author and expert in the field of long-term care. One important service which they provide is creating a long-term care plan where you deliberately choose your best option for paying for future care from the four available resources available to most of us: relying on your assets, insurance, the Med-Cal program, or your family. Please see the link on the MAM website ([www.mamportfolios.com](http://www.mamportfolios.com)) to listen to a webinar from Allen Hamm which discusses the creation of the long-term care plan. (The link is on the lower left of each page of the website.)

In addition to helping you with planning ahead, Superior LTC can also assess the value (or lack of value) of long-term care insurance that you already own or coverage that is offered by your employer. Furthermore, they can assist with claims that you have on an existing long-term care policy, regardless of when you bought the coverage or who you bought it from. Again, this evaluation is paid by MAM and provided as a benefit to our clients.

In a conversation I had with Allen last month, he described how his firm recently helped a family. A daughter had bought long-term care insurance for her father. A few years later the father found himself needing care, but she didn't feel that he would qualify to collect on the LTC policy. Allen encouraged the daughter to file a claim and assisted with the process. Not only was the claim approved, but benefits on the policy were paid retroactively for 9 months!

I'll be reminding you of this service from time to time. I've also asked Allen to keep me updated with other examples of how clients are using his services. If you feel you have a need for services related to catastrophic health care (including the creation of a long-term care plan), please let me know and I will connect you with Allen.

### **Planned Increase in Minimum Amount to Become a MAM Client**

Due to an increase in the amount of assets under management and the addition of a number of new clients this year (thank you for your referrals!), later this quarter I plan to increase the minimum amount of managed assets for becoming a new client to \$500,000 (up from the current minimum of \$400,000). Depending on the situation, though, I am willing to make exceptions for new clients who are not able to initially reach the minimum asset level.

*Please call or email me if you would like to discuss your portfolio(s), want to be one of the initial recipients of a Retirement Analysis, or if you would like to discuss any other financial matters.*

Sincerely,

Stephen P. McCarthy, CPA, CFP