

November Monthly Commentary

Dec. 1, 2020

Stock Market & Portfolio Performance

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November 2020: The stock market enjoyed a very strong rally, led by small cap and value stocks. The performance was sparked by very promising news regarding three coronavirus vaccines which are in Phase 3 testing. Bonds rosed modestly for the month.

	Nov2020	YTD 2020	Description:
Without Dividends:			
S&P 500	10.8%	12.1%	500 Largest Public U.S. Companies
Russell 2000	18.3%	9.1%	2000 of the smallest U.S. stocks
MSCI EAFE	15.4%	0.8%	international stock index
U.S. Aggr Bond	1.0%	7.4%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	8.3%	8.1%	non-very conservative MAM portfolios
MAM Conserv	6.9%	7.1%	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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3rd Quarter Performance of the Economy and Corporate Earnings



With Election Day over, investor focus has shifted back to the Covid-19 virus. The news here is mixed. Tragically, there has been a very sharp increase in new infections, hospitalizations and deaths. In response, states are implementing steps to close back down parts of the economy. On a positive note, though, there has been very promising news regarding the development of vaccines (see article below). The recent announcements from Pfizer, Moderna and AstraZeneca have raised hopes for a gradual return to relative normalcy as we move through 2021.

Economic Performance: For the third quarter, gross domestic product (GDP) gained 33.1% on an annualized quarter-over-quarter basis, the largest increase in post-war history. Of course, the record gain was mainly because economic activity ground to a near halt in the second quarter due to the coronavirus pandemic and related social-distancing restrictions. GDP has now reclaimed two-thirds of

its pre-pandemic losses. Assuming the successful rollout of one or more vaccines, it is possible that the economy could fully recover by this time next year.

Corporate Earnings: Meanwhile, third-quarter earnings were much better than expected. Per LPL Research, with more than 90% of S&P 500 companies having reported quarterly results so far, S&P 500 earnings are tracking to a 7.5% year-over-year decline. This is roughly 14 percentage points better than what was estimated as of September 30. Furthermore, revenue for the quarter is on pace for only a 1.7% year-over-year decline, compared to prior estimates of a 3.6% decline. Also per LPL Research, just two sectors—energy and industrials—drove the entire third quarter earnings decline. Despite a challenging environment for the U.S. economy, the earnings for the other nine S&P 500 sectors were collectively about equal to the prior year's Q3.

MAM Comments: The recent sharp spike in Covid-19 cases and the renewed restrictions that have followed could slow the pace of the economic recovery. Nonetheless if one or more effective vaccines receive approval soon, followed by a rapid distribution in 2021, the economy could stage a full recovery by late next year. Meanwhile, assuming the cost efficiencies companies gained during the pandemic continue once the pandemic is over, S&P 500 companies could set record highs for profitability once the economy is fully reopened by late 2021 or early 2022.

Update Regarding Covid-19 Vaccine Developments

In our August 2020 Monthly Commentary, we wrote an article discussing medical efforts to fight Covid-19. As mentioned then, researchers set an audacious goal last 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 took four years. Thanks to Operation Warp Speed, a collaboration of several federal government departments and the private sector, development efforts are accelerated because the US government is taking much of the financial risk of developing a vaccine.

At the time of the August article, three vaccine candidates were in Phase 3 trials (BioNTech/Pfizer, Moderna and the University of Oxford/AstraZeneca). Since then, Johnson & Johnson's candidate entered Phase 3 trials. To be approved, the Food and Drug Administration (FDA) has said a vaccine will need to prevent Covid-19 or decrease symptoms in at least 50 percent of those that receive it. It's thought that level of efficacy can help stop transmission, especially in combination with other treatments and prevention measures. In November, very promising news was released for the first three vaccines.

BioNTech and Pfizer Vaccine (Pfizer vaccine): This vaccine is being tested on an ethnically diverse group of 43,000 people. On November 9th, results were released from an interim analysis conducted by an independent data-monitoring group. The announcement was that the vaccine was found to be more than 90% effective in preventing symptomatic cases of Covid-19. In an update issued on November 18th, Pfizer announced its vaccine was 95% effective in final results of its testing. On November 20th, Pfizer filed for authorization with the FDA. The FDA is expected to grant approval by mid-December, with the expectation that distribution will commence shortly thereafter.



Update Regarding Covid-19 Vaccine Developments– Con't

Moderna Vaccine: On November 16th, Moderna announced its experimental coronavirus vaccine was 94.5% effective at protecting people from Covid-19 in an early look at pivotal study results. The trial, which is still in process, is being tested on 30,000 people. So far, 95 people in the study developed Covid-19 with symptoms. Of those, 90 had received a placebo and only five Moderna's vaccine. Researchers won't have a full set of effectiveness data until a total of 151 people in the trial develop Covid-19 symptoms. On November 30th, Moderna applied for FDA approval, which is expected to be granted before the end of December.

Oxford/AstraZeneca Vaccine: On November 23rd, AstraZeneca announced an average efficacy of 70% in large-scale trials. The average efficacy of 70% came from two different dosing schedules. It showed 90% when the vaccine was given as a half dose, followed by a full dose at least one month later. Oddly, efficiency fell to 62% when two full doses were given at least one month apart.

Cold Storage: The Pfizer vaccine needs to be refrigerated at -70 C (-94 F). Once thawed, it can last up to five days in a regular refrigerator. This compares to the Moderna vaccine, which needs to be refrigerated at -20 C (-68 F), and it can last up to 30 days in a regular refrigerator. The AstraZeneca vaccine, which was developed using more traditional vaccine methodology, can be stored in normal refrigerated conditions of 36 to 46 degrees Fahrenheit, making its rollout easier.

Scaling Up Distribution of Vaccines:

- The US government plans to begin shipping the first Covid-19 vaccine within 24 hours after the FDA authorizes its use.
- Pfizer projects that 50 million vaccine doses will be available by the end of 2020 and 1.3 billion in 2021. Two doses are needed per individual.
- Moderna expected to have 20 million doses available by the end of 2020 and 500 million to 1 billion doses next year. Two doses are needed per individual.
- The AstraZeneca vaccine could be available in limited volumes by year-end, with hundreds of millions more doses available each month thereafter.

Unknowns: There are still unknowns about the vaccines including:

- How long immunity from the vaccines will last?
- To what extent will the vaccines work in elderly people?
- What if a large portion of the population refuses to take a vaccine?

MAM Comments: News about these vaccines were very positive developments, raising hopes in the U.S. and abroad that the end of the pandemic may be in sight. Furthermore, the economic implications for both the economy and stock market are also very positive as there is hope we can open back up the U.S. economy as we move through 2021.

Essential Retirement Questions to Ask Yourself

By Lauree Murphy

As a financial planner, I have spent a lot of time digging into clients' financial situations to help them determine if they are ready for retirement. We compare their income and assets with their retirement spending goals and calculate the probability of success. We help them figure out when to take Social Security benefits. We look at the tax ramifications of retirement income and tackle other retirement considerations. Certainly, it's important to be in good financial shape when you retire. However, that is not the whole story. After decades of working, entering into retirement is an enormous life transition. Before you dive in, it's wise to examine what that new life will look like. For couples, it's critical to talk these things over and understand your partner's viewpoint.

When will you stop working?

Some people want to retire as soon as they can. Others want to keep working as long as they are capable. Considerations include job burn out from stress on the job or the physical toll the job may take on your body. Then there is the social aspect of your job.

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If you enjoy the people you work with and the clients you serve, you may be less inclined to leave it all behind. Additionally, you must consider how realistic it is to continue working. In certain fields, employers want younger workers. Some workers may have a job that can be scaled down to part-time. You can potentially convert to a consultant or independent contractor. This can be an excellent way to ease into retirement, especially if you need some income or want to keep your foot in the door.

Where will you live?

This is a big decision to make when you retire. You may want to leave the hustle and bustle of the Bay Area and go someplace quieter and less expensive. You may want to be closer to your children. Or it may go the other way, you don't want to leave your family and friends and start a new life somewhere else. Selling a home

you have lived in for decades can evoke a strong emotional response.

What does a typical day look like when you retire?

Humans are creatures of habit. Most people have a daily routine. Replace your work day routine with a retirement day routine. It will look different and will be more flexible. Routines reduce the stress of deciding what to do each day and can keep boredom at bay. You may schedule long stretches for traveling. Fill your day with hobbies, such as: golf, hiking, gardening, DIY projects, baking, reading, the list is endless. Do volunteer work. Volunteering at something you enjoy can replace some of what you gave up at work. Learn something new. Take a class, get a degree, or master a new skill. It can help you establish a new social network and keep your mind active.

Do you have a bucket list?

When you are in the workforce sometimes there is just not enough time to pursue your life long dreams. Make a bucket list and start achieving those deferred goals. Also consider that as you age, your life will change as well. You may be an adventurous traveler in your 60s, but find navigating a foreign country or climbing a mountain too difficult in your 80s. If you want to visit Machu Picchu, it might be better to do that early on and save a cruise around the world for later.

Are the stars aligned?

Are you and your spouse on the same page with goals and expectations? If you are both working, will you retire at the same time? Dorian Mintzer, author of "The Couple's Retirement Puzzle: 10 Must-Have Conversations for Creating an Amazing New Life Together," has put together a short quiz to help couples prepare for retirement. Taking the quiz will help start a discussion and open the lines of communication. My husband and I first took the quiz in 2007 and found it useful. Our answers have changed some over the years. We have attached a copy of the quiz to the email that was sent for this Monthly Commentary.

Do you have a Plan A and Plan B?

Presently, we are in the middle of an extended "lockdown" period. We have all made adjustments in our lives. Some adjustments may be good. We are spending more time with our families and spending less money. On the other hand, big events like weddings and travel abroad have had to be delayed or downsized. Sometimes things don't work out as you expect. You or your spouse may have health issues. Your spouse may die unexpectedly. COVID-19 or another unanticipated event restrains your plans. If for one reason or another retirement doesn't go as planned, you will have to adapt. Make a Plan B.

What is my plan?

Personally, I am about to step out of the fulltime workforce and into retirement. I have a loosely constructed lifestyle plan. I will continue to do a little work on my own in the tax field. I may do some volunteer work in a finance related field. I plan to take an art history class. I have lots of hobbies I want to pursue. I enjoy doing crafts and gardening. I love hiking. I might never make it to Machu Picchu or the Camino de Santiago, but I still have many National Parks here in the U.S. left to visit. My husband and I have had big plans to travel abroad, although for now those plans are on hold. Instead, we will implement our Plan B for travel. We may go back to our home state of Massachusetts for a month next year, and visit with family and friends. Something we might not have done if not for international travel restrictions. Who knows, I may find something totally new with which I really enjoy filling my days.

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

- 1) **CA Property Tax payments** are due December 10, 2020.
- 2) **Roth IRA Conversions:** Please contact us ASAP if you would like to discuss. The deadline for 2020 conversions is December 31, 2020.



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