McCarthy Asset Management, Inc.
Personalized Wealth Management

November 2022 Monthly Commentary

Dec. 1, 2022

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Stock Market & Portfolio Performance

November 2022: The recovery in U.S. and international stock prices that started in October continued in November due to indications that inflation is starting to fall. Bond prices rose modestly due to hopes that Federal won't raise rates as high as previously feared.

	Nov 2022	YTD 2022	Description:
Without Dividends:			
S&P 500	5.4%	-14.4%	500 Largest Public U.S. Companies
Russell 2000	2.2%	-16.0%	2000 of the smallest U.S. stocks
MSCI EAFE	11.1%	-16.8%	international stock index
U.S. Aggr Bond	3.8%	-12.3%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	5.2%	-11.3%	non-very conservative MAM portfolios
MAM Consrv	4.1%	-9.8%	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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Finally, Some Good News on Inflation

While still elevated, inflation eased in October to its slowest pace since January. Specifically, the Labor Department said that its consumer-price index (CPI) increased 7.7% in October, from the same month a year ago, down from 8.2% in September. The CPI is also down from June's 9.1% rate, which was the highest in four decades. The so-called core CPI—which excludes volatile energy and food prices—climbed 6.3% in October from a year earlier, down from 6.6% in September, which was the biggest increase since August 1982.

Bear Market Bounce? On November 10th, the day the October CPI report was released, stock prices surged, and bonds yields fell sharply, as traders welcomed signs of ebbing price pressures. Specifically, the S&P 500 rose 5.5% and bond yields staged their steepest one-day decline in more than a decade. Investors are hoping that easing inflation means the Fed might not have to raise interest rates as high as previously feared.

Was this the start of a sustainable stock market recovery, or is it another "bear market bounce"? During a bear market (when stock prices drop at least 20%), it is not uncommon for the market to experience "false dawns." This past summer, there was a bear market bounce when between June 16th and August 15th, the S&P 500 rose 16.9%, before falling to new lows.

In determining the sustainability of this recovery, the big question is how quickly and significantly will inflation decline? If inflation pressures remain high, the Federal Reserve has signaled it will continue to raise rates and keep them elevated until there are material signs of progress, even at the cost of triggering a recession.

Inverted Yield Curve: Recently the bond market's best-known predictor of recessions is showing its clearest signal yet that there is trouble ahead for the U.S. economy. It's known as an "inverted yield curve," which is when the yield on short-term bonds is higher than the yield of long-term bonds. In particular, since early July, yields on U.S. two-year notes have been above that of the 10-year note. Since then, the gap has widened. An inverted U.S. Treasury yield curve doesn't predict how deep or how long a recession may last, or even when a recession will begin. Nonetheless, it indicates that bond investors are expecting an economic slowdown.

Mixed Economic Signals: Meanwhile the U.S. economy is providing mixed economic signals. Consumer spending, which makes up nearly 70% of the U.S. economy, remains strong, as does employment growth. On the other hand, the U.S. Index of Leading Economic Indicators have now fallen for eight straight months.

MAM Comments: While we are pleased to see a good CPI report, we were a little surprised to see how positively the stock and bond markets took the news. Despite October's moderation, inflation is still very high. While we have expected that inflation would start to ease, we would like to see a series of monthly CPI reports confirming that the Fed is getting inflation under control. Although we believe inflation has peaked for this cycle, the path down to the Fed's 2% core inflation target will likely be long and difficult in the absence of a recession. We also believe there is an elevated risk of the U.S. economy slipping into a recession next year due to lagging impact of the sharp increase in interest rates implemented by the Federal Reserve this year. For now, at the very least, investors should brace for volatility.

There's no doubt the stock market will recover over time. The timing of that recovery is too difficult to predict. For most investors, we think the best move for now is to not make any dramatic changes to their portfolios.

Why a Spending Plan may Provide More Value than a Budget– By Ryan McCarthy

Both a budget and a spending plan can help an individual assess whether they are living above, within, or below their means. However, the process in which a budget and spending plan accomplishes this goal contain subtle, but key differences.

A budget focuses on where you are today. A budget has more of a short-term focus, as it involves tracking daily, weekly and monthly expenses. A critical step in the budgeting process is to establish a set dollar amount that can be spent each month. The goal of a budget is to ensure that total expenses don't exceed the set dollar amount established during the creation of the budget. The mind set of "I can't spend more than this" can make budgeting seem restrictive.
A budget places its focus on where you have to cut back expenses, which can imply sacrifice and limitations. The central focus of a budget is cutting costs and ensuring that total expenses do not exceed the set amount.

A spending plan focuses on where you are going. A spending plan has more of a longer-term focus, as a spending plan allows you to set a course toward funding financial and lifestyle goals that are 5, 10, or 20 years in the future. A critical step in the spending plan process is deciding where you want to spend your money each month. The goal of a spending plan is to direct your resources in a way that allows you to accomplish what you want. The mind set of "I am going to spend this much on this" is more empowering and active than the language associated with a budget. A spending plan allows you to prioritize the goals and expenses most important to you. A spending plan's main focus is ensuring that you're living within your means, directing your resources in a way that most benefits your future goals, and assessing your progress toward those longer-term financial goals.

Our Retirement Analysis that we prepare for clients compliments a spending plan. Just like a spending plan, our Retirement Analysis is forward looking. They both look at future spending goals, future income streams, and future life goals. Our Retirement Analysis and a spending plan encourage periodic updates to each plan as your financial situation and goals change. Life is the furthest thing from static, and having a dynamic plan with the ability to adapt with changes in your life, financial goals, and needs provides significant value.

Series I Savings Bonds

Series I savings bonds ("I Bonds") are a non-marketable, interest-bearing U.S. government savings bond that earns a combined fixed interest rate and variable inflation rate (adjusted semiannually). Series I bonds are meant to give investors a return plus protection from inflation. They have recently garnered increasing interest due to the current high rate of inflation.

Here are some additional attributes of Series I bonds:

- They are considered low risk because they are backed by the full faith and credit of the U.S. government and their redemption value cannot decline.
- The minimum purchase is $25, and the maximum annual purchase is $10,000 per Social Security number. I Bonds can be held for as little as one year or as long as 30 years, but if they are redeemed after fewer than five years, the holder sacrifices the last three months' worth of interest.
- They can only be purchased online from the U.S. Treasury, using the TreasuryDirect website. You can also use up to $5,000 of your federal tax refund using IRS Form 8888.
- To show the increased popularity of Series I bonds, over the last 12 months, some 3.7 million new accounts were created on the TreasuryDirect website. This is more than the 2.4 million for the prior 10 years combined.
- Starting November 1st, I Bonds are paying a 6.89% annual rate for six months. This rate will be adjusted next May. Interest earned on a I Bond is paid in a lump sum when the bond is cashed in.
- As a U.S. bond, the interest earned on an I Bond is not subject to state taxes. It is subject to federal income tax. The holder of the I Bond has the option of reporting the annual interest each year on their tax return, or wait until they cash in the bond and report all of the interest earned.

Series I Savings Bonds– Con't

Downsides of Series I Bonds:

- As mentioned above, there are limitations as to how much can be purchased each year.
- I Bonds can be cumbersome. Not only must they be held with the U.S. Treasury, and thus separated from your other financial assets, but the individual accounts cannot be mingled, even within a family.
- The administrative troubles extend after one's death. One issue for heirs is even knowing they exist. Unlike brokerage accounts, I Bonds don't leave a robust paper trail. Also, with I Bonds, secondary beneficiaries are not allowed. This increases the risk of these assets going into probate.

MAM Comments: While I Bonds are currently paying a competitive rate of interest, personally I find them only moderately attractive due to their limitations as explained above. Nonetheless, for those savers who desire to have a conservative investment, I Bonds could be an attractive choice.

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, 2022.

2) **Roth IRA Conversions:** Please contact us ASAP if you would like to discuss. The deadline for 2022 conversions is December 31, 2022.

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Discover the difference with a Registered Investment Advisor.