McCarthy Asset Management, Inc.
Personalized Wealth Management

October 2022 Monthly Commentary

Nov. 1, 2022

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Stock Market & Portfolio Performance

October 2022: U.S. and international stocks staged a partial recovery due to hopes that the Federal Reserve will slow down or end its series of interest rate increases early in 2023. Bond prices fell modestly as the 10-year Treasury continued to climb.

	Oct 2022	YTD 2022	Description:
Without Dividends:			
S&P 500	8.0%	-18.8%	500 Largest Public U.S. Companies
Russell 2000	10.9%	-17.7%	2000 of the smallest U.S. stocks
MSCI EAFE	5.3%	-25.1%	international stock index
U.S. Aggr Bond	-1.3%	-15.5%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	5.1%	-15.7%	non-very conservative MAM portfolios
MAM Consrv	2.6%	-13.3%	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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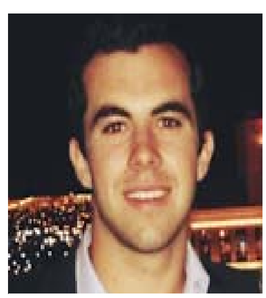

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Stock Market and Economic Update

Since our update last month, stock prices have rallied amid excessive volatility. The volatility is probably due to divergent views about the economy as the Federal Reserve slams on the brakes. At the moment, unemployment is low, and inflation is high. We don't expect a sustained recovery to occur until signs emerge that the Federal Reserve is getting a handle on inflation. Until then, there will likely be increasing fears that the Fed interest rate increases will trigger a recession in the U.S. during 2023.

Inflation Watch: In October, the Labor Department reported that the Consumer Price Index (CPI) rose 8.2% in September from the same month a year ago. The monthly CPI has drifted moderately lower since reaching a 40-year peak of 9.1% in June. So-called core CPI, which excludes often volatile energy and food prices, increased 6.6% in September from a year earlier, up markedly from the 5.9% rate in both June and July—a signal that broad price pressures are persisting.

The Fed prefers core CPI over CPI to measure inflation, because core CPI excludes volatile energy and food prices. A very significant factor in core CPI is the cost of rental housing, as it makes up 40% of the index. Housing costs tend to move slowly, since the cost of leases are typically negotiated once a year. That lag means housing costs could keep core CPI high for months, even though private-sector rent measures are declining.

The Federal Reserve: The disappointing October inflation report will likely keep the Fed on track to increase interest rates by another 0.75% at its meeting in early November. If so, this will be the fourth consecutive 0.75% increase in the federal funds rate. The new level would be 3.75% to 4.00%, which is up from 0.0% to 0.25% at the start of 2022. This is a tremendous increase in a short period of time, and is why the bond market is suffering what may be its worst year on record. At its December meeting, the Fed is expected to raise the federal funds rate by at least another 0.50%.

Recession Watch: We think it is now more likely than not for the U.S. economy to slip into a recession in 2023. That's when the economy will feel the brunt of the Fed interest rate increases, which can take a year or more to fully impact the economy. In particular, rising interest rates are starting to trigger a downturn in the housing market. Recently, mortgage rates reached 7.0%, the highest level in decades. A year ago, the average rate was 3.0%.

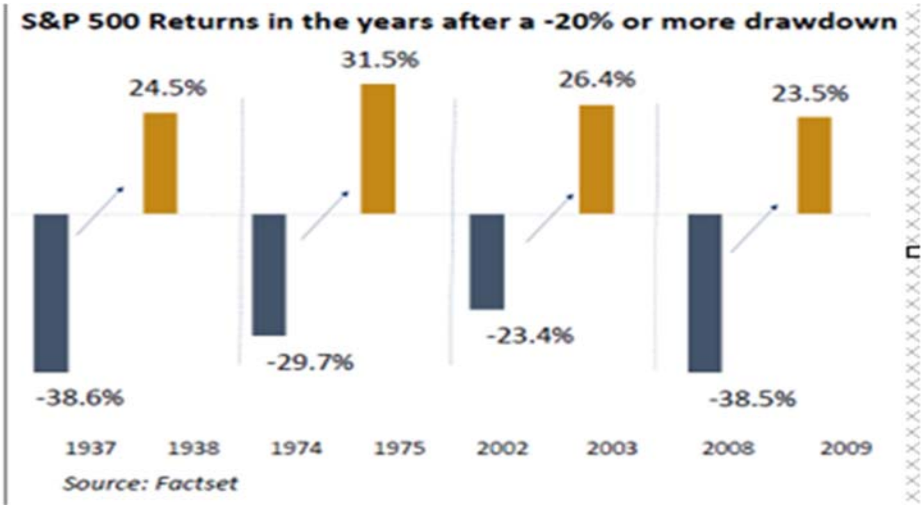
When Will Inflation Drop and How Quickly? The degree to which inflation cools, and how the Fed might respond, are the key questions. Fed Chairman Jerome Powell has said the central bank wants to see clear and convincing evidence that price pressures are subsiding before slowing or suspending rate increases. Given that the effect of restrictive monetary policy has a 6-to-12-month lag, there's a good chance that inflation will be much lower by mid-2023.

MAM Comments: As we wrote last month, we have been focusing on the Labor Department's release of the Consumer Price Index. The last few monthly reports have been concerning. Our fear is the stock market will fall further if the reports for the next few months indicate that inflation is remaining stubbornly high. If so, the Federal Reserve could raise rates to a level that will trigger a recession in 2023. While stocks and bonds may continue to sell off over the next few months, that could change quickly once it appears the economy is slowing and inflation is falling. At that point, the Fed may reverse course and start lowering interest rates.

Given that we feel the bulk of the decline in stock and bond prices have already occurred, we are not looking to make any asset allocation changes at this time. While it may feel safer to move to the sidelines for a while, doing so would likely result in missing the initial recovery in stock prices, which historically, occurs quickly.

Furthermore, as can be seen in the chart below, since 1937 there have been four years the S&P 500 fell by 20% or more for the year. Each time, the returns in the following year were positive and averaged 25%.

Stock Market and Economic Update– Con't



During this turbulent period, the challenge is to remain patient as stock & bond prices vacillate up and down and the news is negative. For long-term investors, this bottoming out process means that stock prices will recover, and likely with returns much stronger than average.

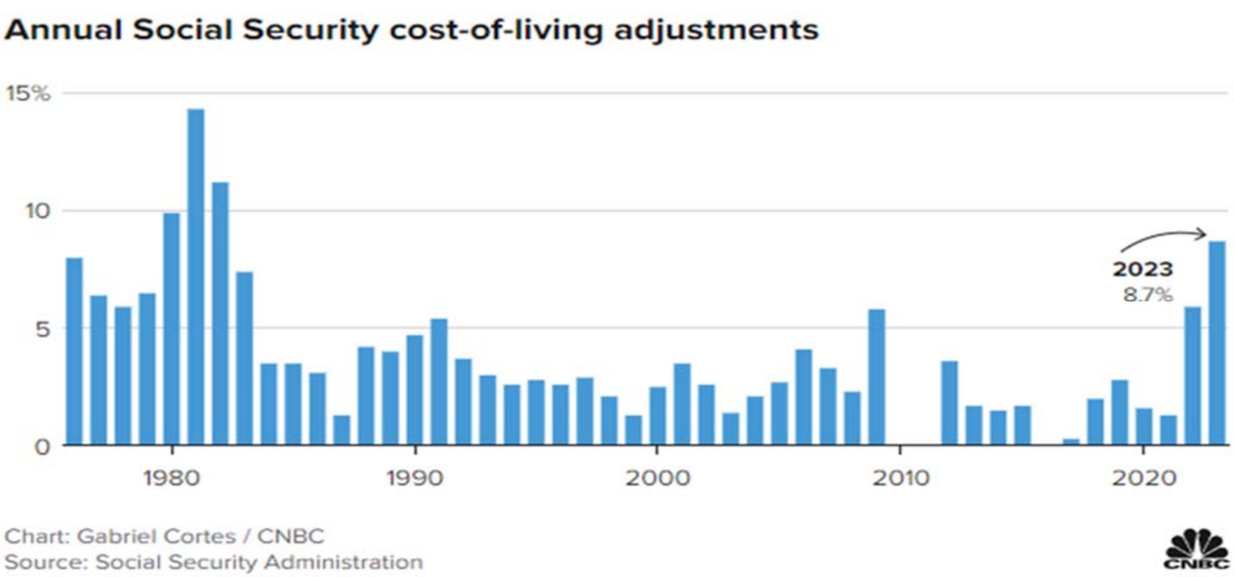
Please let Steve know if you would like to discuss your current portfolio positioning.

Social Security Cost-Of-Living Adjustment will be 8.7% in 2023

Amid recent high inflation, approximately 70 million Americans will see an 8.7% increase in their Social Security benefits and Supplemental Security Income (SSI) payments in 2023. This will represent the highest increase in 40 years and tops the 5.9% cost-of-living adjustment (COLA) for 2022.

The increase in payments is based on the Consumer Price Index for Urban Wage Earners and Clerical Workers, or CPI-W. The Social Security Administration (SSA) calculates the annual COLA by measuring the change in the CPI-W from the third quarter of the preceding year to the third quarter of the current year.

Benefits do not necessarily go up every year. For instance, as can be seen in the graph below from CNBC, there were no increases for years 2010 and 2011.



Social Security Cost-Of-Living Adjustment will be 8.7% in 2023– Con't

What the COLA means if you haven't claimed benefits yet: If you are currently receiving payments, you will benefit from the 8.7% COLA. But you will also benefit if you wait to start your benefits checks at a later date. This is because your future benefit is adjusted upward by every COLA.

Will Social Security be able to pay all Promised Benefits in the Future? In June, the Social Security and Medicare Trustees released their annual report indicating that the Social Security Old-Age, Survivors, and Disability Trust Fund will be exhausted in 2035, one year later than projected in last year's report. Social Security would still be able to pay out 80% of benefits at that time, declining to 74% of benefits by 2096.

The Trustees report further indicated that the trust fund would remain solvent through 2096 if the payroll tax were immediately raised by 3.24 percentage points (from its current 12.4% to 15.64%). In fact, there are many potential actions (payroll tax increase, increasing the retirement age, reducing benefits for certain people) that could be taken to improve the solvency of the Social Security system. It's really just a matter of when Congress will take action and what specific steps they will take before 2035 to address the projected Social Security deficits.

IRS Proposed Regulations Adds Complexity to Inherited IRAs

Earlier this year, the IRS released proposed regulations to clarify retirement account changes made by the SECURE Act. The SECURE Act, which was passed into law on December 20, 2019, contained numerous retirement account changes, including:

- Removing the age limitation for deductible IRA contributions;
- Increasing the required minimum distribution (RMD) age from 70½ to 72 years old for taxpayers born on or after July 1, 1949; and
- Fundamentally altering the rules for inherited retirement accounts by eliminating the "stretch IRA" provisions for most non-spousal beneficiaries.

Under the SECURE Act, for retirement accounts inherited from individuals who passed away after December 31, 2019, the entire amount in the IRA needs to be distributed no later than December 31 of the 10th year after the prior IRA owner's death. Most tax professionals interpreted the new 10-year rule to mean that these heirs could wait until the 10th year before taking any payouts. And the IRS said as much in a May 2021 revision to Publication 590-B, a 69-page guide to IRA distributions.

The IRS confused matters when it issued new guidelines in February of 2022. **In these proposed regulations, heirs are required to take annual RMDs during the first nine years in cases where the original owner died on or after their required beginning date for taking distributions.** These RMDs are based on a formula that takes into account the IRA balance and the age of the recipient. Taxpayers who fail to take a RMD are hit with a tax penalty that is equal to half the amount that should have been withdrawn.

Notably, a surviving spouse can avoid these rules by rolling over the IRA from the deceased spouse into their own IRA.

Tax professionals urged the IRS to withdraw these proposed regulations, or at least waive penalties for people who inherited money since 2019, but didn't take their RMD for 2021. The IRS responded last month with partial clarity by issuing Notice 2022-53. This Notice waives the excise tax (i.e., the 50% penalty for the missed RMDs) for missed 2021 and 2022 inherited IRA owners who are subject to the SECURE Act's 10-year rule. Unfortunately, the IRS did not clarify whether RMDs on these inherited accounts might be required starting in 2023**. At least for now, we know that RMDs for these inherited IRAs do not have to be taken for 2021 or 2022.**

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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

Year-End Tax Planning: Please let us know if you would like to have us do any tax planning, such as determining the amount of 4th quarter estimated payments or making a Roth IRA conversion.