McCarthy Asset Management, Inc.

Personalized Wealth Management

January 2024 Monthly Commentary

Feb 1, 2024

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Stock Market & Portfolio Performance

January, 2024: Large-cap U.S. and international stocks posted modest returns for January, while small-cap stocks posted small losses. Bond prices fell slightly as the yield on the 10-year Treasury rose in response to relatively strong economic reports.

	Jan 2024	FY 2023	Description:
Without Dividends:			
S&P 500	1.6%	24.2%	500 Largest Public U.S. Companies
Russell 2000	-3.9%	15.1%	2000 of the smallest U.S. stocks
MSCI EAFE	0.5%	15.0%	international stock index
U.S. Aggr Bond	-0.2%	5.6%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	0.6%	14.0%	non-very conservative MAM portfolios
MAM Consrv	0.5%	9.6%	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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Forecasts of Stock & Bond Returns over the next 7 to 10 Years

How will stocks perform in 2024? In reality, no one really knows. But we do have some idea how they might fare over the coming decade. This is an update to an article we wrote for our June 2020 Monthly Commentary. It’s an important topic, so we thought it warranted an update.

Forecasts of long-term returns for stocks and bonds are important because they can have a significant impact on an investor’s financial security in retirement. All long-term investment projections assume a certain annual rate of return. If the actual annual returns end up being short of the assumed returns by just 1% or 2%, the resulting impact can be very detrimental to the success of the financial plan.

Historical Returns: According to Vanguard, from 1926 through 2023, stocks earned an average annual return of 10.2%, while bonds provided a 5.4% return. For several reasons, we expect returns to be significantly below this over the next seven to ten years.

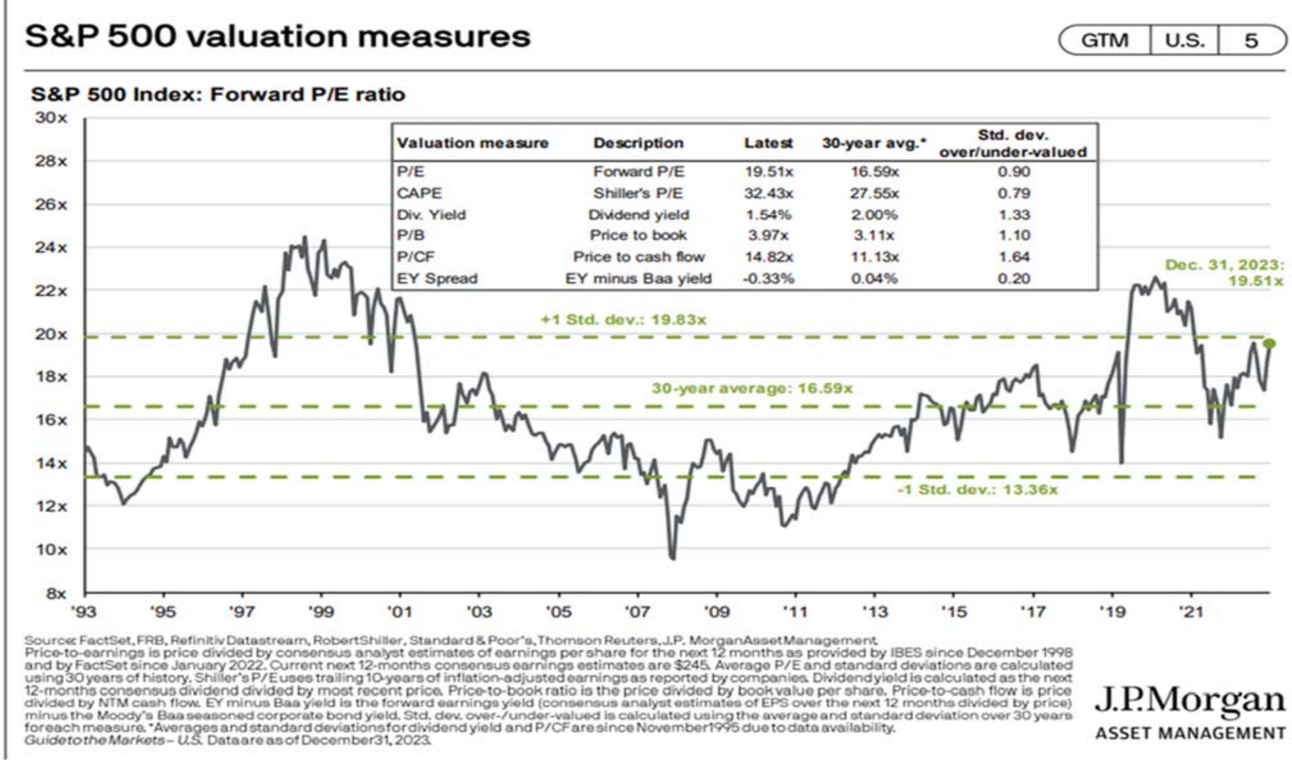
Assumed Annual Returns We Use: In the Retirement Analyses we prepare we currently assume an annual return of 4.99% for a diversified portfolio. We have seen retirement plans prepared by others that use annual returns as high as 7%, 8% or even 9%. We believe that assuming future returns at these high levels is likely to create a false sense of financial security, which can be very problematic for those looking to achieve a financially secure retirement.

Why Future Returns Are Likely to Be Lower: The annual return for the stock market is made up of four components:

- The dividend yield of stocks (currently 1.5% for the S&P 500) plus
- The annual real growth in corporate earnings (with 2.0% real GDP growth a good estimate of this) plus
- The annual rate of inflation (currently 3.0%) plus or minus
- The change in the price-earnings ratio for stocks.

The first three components total 6.5%. The fourth component, the change in the price-earnings ratio, is the wildcard that causes stocks to soar some years and plummet in other years. Historically, stocks sell for approximately 16 to 17 times their projected earnings for the next twelve months. As can be seen on the chart below from JP Morgan, as of December 31, 2023, the forward price-earnings ratio for the S&P 500 is 19.5. It is reasonable to assume the current price-earnings ratio for stocks will contract over time back to their historical level. If so, this would reduce the 6.5% estimate of S&P 500 annual returns.

Forecasts of Stock and Bond Returns over the next 7 to 10 Years– Con't



Valuation measure	Description	Latest	30-year avg.*	Std. dev. over/under-valued
P/E	Forward P/E	19.51x	16.59x	0.90
CAPE	Shiller's P/E	32.43x	27.55x	0.79
Div. Yield	Dividend yield	1.54%	2.00%	1.33
P/B	Price to book	3.97x	3.11x	1.10
P/CF	Price to cash flow	14.82x	11.13x	1.64
EY Spread	EY minus Baa yield	-0.33%	0.04%	0.20

<u>Next, let's look at 7 to 10-Year Annual Return Forecasts from Leading Investment Firms:</u>

J.P. Morgan:

7.0% U.S. Equities
8.0% European Equities
8.9% Emerging Market Equities
5.8% U.S. Investment Grade Bonds

Morningstar Investment Management:

4.6% U.S. Equities
7.4% Non-U.S. Developed-Market Equities
9.5% Emerging Market Equities
4.3% U.S. Bonds

Vanguard:

4.2% to 6.2% U.S. Equities
7.0% to 9.0% Non-U.S. Equities
4.8% to 5.8% U.S. Fixed Income

Forecasts of Stock and Bond Returns over the next 7 to 10 Years– Con't

MAM Comments: While there is some dispersion of the projected returns between the different investment firms, there is consensus:

- Expectations should be tempered for U.S. equities with average annual returns to be in the low to mid-single digit range over the next decade.
- Foreign equities are expected to outperform U.S. equities.
- Bond returns are likely to be higher than what they were in the last few years due to the Fed's interest rate hikes over the last two years.

Taking it all in, we feel it is reasonable that U.S. equities will return an average of 5% to 6% annually over the next 7 to 10 years. Due to their relative underperformance over the last ten years, we expect international stocks to earn a higher average return than this (perhaps 7% to 9%). As for bonds, the best estimate for future returns is the current level of interest rates. Currently, the aggregate bond index yields 4.1%.

For a diversified portfolio made up of equities and bonds, we are comfortable assuming an average annual return of 5.0%.

Tips for Preventing Fraud

FTC Data Show Consumers Reported Losing Nearly $8.8 Billion to Scams in 2022. Last February, the Federal Trade Commission released a report that consumers reported losing nearly $8.8 billion to fraud in 2022, an increase of more than 30 percent over the previous year. Consumers reported losing more money to investment scams—more than $3.8 billion—than any other category in 2022. This was more than double the amount reported lost in 2021. The second highest reported loss amount came from imposter scams, with losses of $2.6 billion reported, up from $2.4 billion in 2021.

Here are a couple incidents we personally know about:

- A MAM client, while on vacation in Europe, received a text indicating their Charles Schwab account had been locked due to unusual transactions/visits. The text provided a link that was clearly not from Schwab. Fortunately, the client reached out to us before responding to the text. It was clear to us this was phishing, and we told him so. Therefore, the client ignored the text.
- On a sadder note, a financial advisor we know had one of his clients defrauded $90,000 from their Schwab IRA account and $250,000 from the proceeds from a home mortgage. Here's what happened. The fraudster knew the investor had a Wells Fargo bank account and Schwab investment account. They called the investor claiming they were from Wells Fargo and that their account had been compromised. They said they had Schwab on the line, and they were going to set up a Bank of America account that would be linked to their Schwab account. The client authorized the movement of the $90,000 to the new B of A account. Of course, the new account was not actually at B of A. Once the funds were transferred, they were gone and could not be recovered. The fraudster also convinced the investor to take out a $250,000 line of credit at Wells Fargo. Those funds were also stolen.

Tips for Preventing Fraud– Con't

What to do? If you are unexpectedly being contacted by a Charles Schwab employee, **do not give them any information**. Let them know you will contact your advisor, McCarthy Asset Management, and they will take care of the issue. Hang up, and then contact us.

Additional recommendations: Attached to this Monthly Commentary is a 4-page document from Charles Schwab titled, "Tips for Preventing Fraud". Here are some excerpts from the document that we would like to highlight:

Follow general best practices:

- **Be suspicious** of unexpected or unsolicited phone calls, emails and texts asking you to send money or disclose personal information.
- **Be cautious** when sharing sensitive information and conducting personal or confidential business via email because it can be compromised.
- **Be cautious when receiving money movement instructions via email.** Call the sender at their known number (not a number provided in the email) to verbally validate all instruction details before following instructions or providing your approval.

Protect yourself from phishing attempts and malicious links (see additional details below).

Be strategic with your login credentials and passwords:

- **Create a unique password** for each financial institution with whom you do business; use passwords that are long and contain a combination of characters, numbers, and symbols.
- **Do not share your passwords.**
- **Use two-step verification** when possible.

Beware of Phishing. Phishing is the fraudulent practice of sending emails or text messages appearing to be from reputable companies or trusted individuals to get users to reveal personal information, such as passwords and credit card numbers. Here are some key points:

- **Do not click on links or attachments** in emails and text messages if you question the validity of the sender.
- **Hover over questionable** links to reveal the site's full URL and see where the link really goes. Do not click on links that don't match the sender or don't match what you expect to see.

MAM Comments: If you receive any suspicious phone calls, emails, or texts about your Schwab account(s), don't provide any information. Instead, please contact us and we will discuss the situation with you. You can also call Schwab Alliance at 800-515-2157.

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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 are able to utilize the income tax services provided through either the firm Stephen P. McCarthy, CPA or from the CPA firm of Lauren Be. 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.**